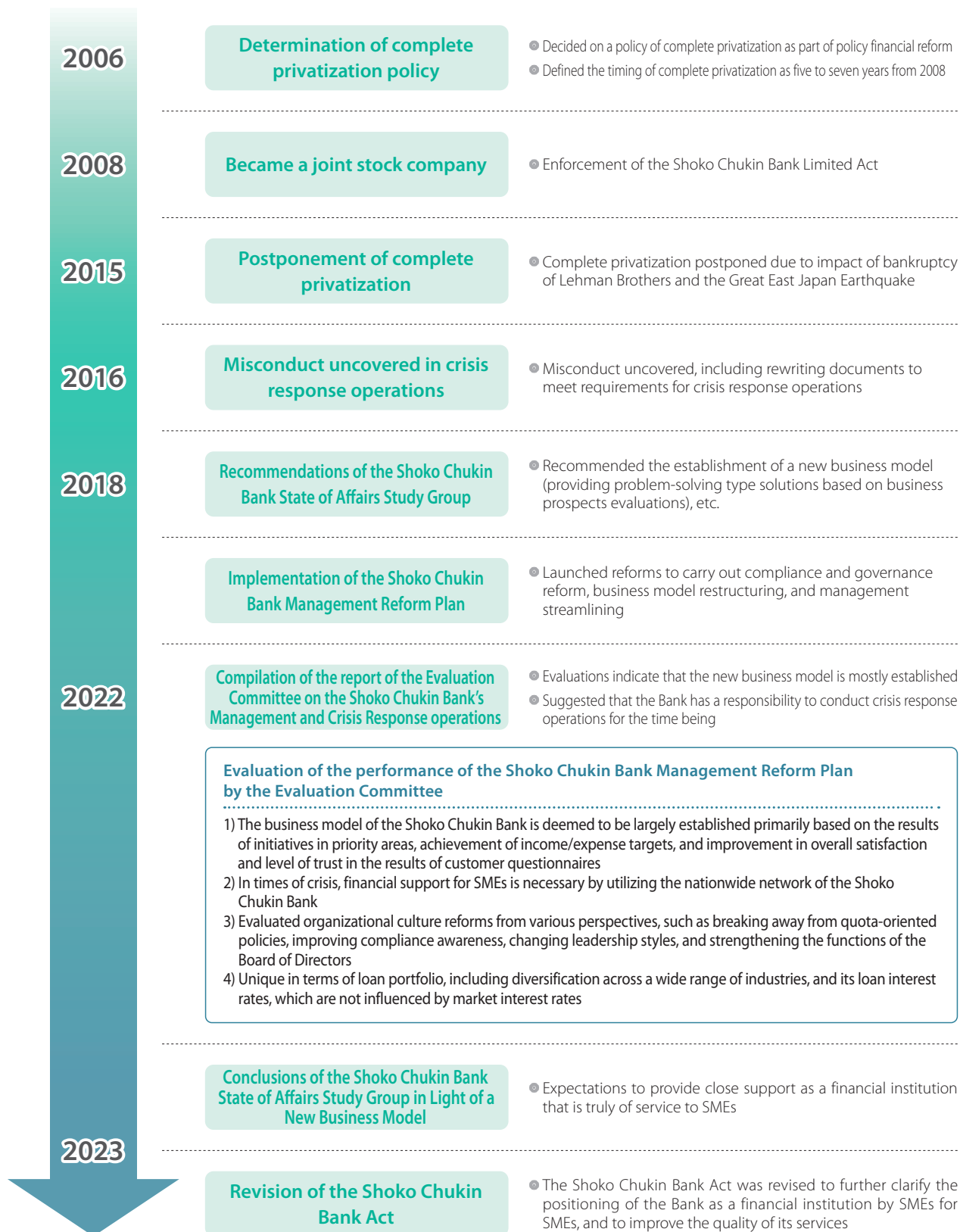


Background of Revisions to the Shoko Chukin Bank Act Aimed at Privatization

The background of the revision to the Act is as follows. Following this revision of the Act, government-owned shares will be disposed of going forward, and we will become a financial institution owned by only private shareholders. Through privatization, our position will be clarified as a financial institution by SMEs for SMEs. The Shoko Chukin Bank will continue to play its role as a specialized financial institution for SMEs.



Three Promises to Our Customers

We will uphold the following three promises so that our customers can continue to engage in business with us with the same peace of mind while maintaining the characteristics of the Shoko Chukin Bank after the privatization.

(1) Our fundamental principle of being a financial institution for SMEs will not change.

- In the revised Shoko Chukin Bank Act, the fundamental principle of the existing Act remains unchanged, which aims to facilitate financing for SME cooperatives and SMEs.
- The revised Act ensures that the above objectives are fulfilled by:
 - 1) Maintaining shareholder qualification restrictions (Financial institution for SME cooperatives and SMEs)
 - 2) Maintaining systems related to the financial base (special reserves) and the procurement base (financial bond issues)

(2) We will continue to implement crisis response operations.

- Provisions are established to make the implementation of crisis response operations a responsibility in order to ensure that the Bank will continue to fulfill its safety net function.

(3) We will strive to provide complex services that go beyond traditional finance.

- The expanded scope of operations will enable the Shoko Chukin Bank to provide a wider range of services, not only through the Shoko Chukin Bank itself, but also through its subsidiaries. We will work to provide core business support beyond finance, including investment operations to support business revitalization and succession, as well as DX support and support for human resource shortages.

TOPIC Amendments to the Articles of Incorporation

In order to establish our future commitment to support SME cooperatives and SMEs, partial amendments to the Articles of Incorporation were resolved at the General Meeting of Shareholders in June 2023, which stipulated our corporate philosophy and responsibilities for crisis response operations in the Articles of Incorporation.

(Objectives, etc.)

Amended parts are underlined.

Article 2 1. The objective of the Bank is to conduct the following businesses to facilitate smooth financing for SME cooperatives, other organizations that primarily consist of SMEs and their members (hereinafter, "SMEs, etc.):

- (1) Acceptance of deposits or time deposits, lending of funds to organizations eligible for loans, etc., or discounting of bills and exchange transactions
- (2) Guarantee of debts or underwriting of bills, and other business incidental to the preceding item
- (3) Underwriting, offering, handling of secondary offering, trading and other business relating to Japanese government bonds, local government bonds, government-backed bonds and other securities
- (4) Trust business
- (5) Businesses other than those listed in each of the preceding items that may be conducted under the Shoko Chukin Bank Limited Act, the Secured Bond Trust Act, or other laws
- (6) Other businesses incidental or related to each of the preceding items

2. The Bank shall define its Purpose (what the Bank aspires to achieve; hereinafter the same shall apply) and Mission (the Mission that the Bank should fulfill in order to realize the Purpose; hereinafter the same shall apply) as described in each of the following items, deepen and develop its functions and roles as a specialized financial institution for SMEs, and contribute to the future of many SMEs, etc. and local communities by solving their issues as a partner who takes on challenges together with SMEs, etc.

- (1) Purpose: Supporting the future of companies. Making Japan more resilient to change.
- (2) Mission: We will continue to think together, create together, and change together, as a partner in creating security and prosperity.

3. The Bank shall be responsible for crisis response operations to ensure the smooth provision of funds to those who need such funds in order to respond to damages resulting from events such as disruption of domestic or foreign financial order or large-scale disasters, terrorism, or infectious diseases.

Revision of the Shoko Chukin Bank Limited Act

In June 2023, a bill to revise the Shoko Chukin Bank Limited Act (hereinafter, the “Shoko Chukin Bank Act”) was enacted. The revised Act implements the disposal of all government-owned shares and revises the scope of the Shoko Chukin Bank’s operations, while maintaining various necessary measures, such as limiting shareholder qualifications, maintaining special reserves, and making crisis response operations its responsibility. The mission of the Shoko Chukin Bank (namely, the legal objective of facilitating financing for SME cooperatives and SMEs) will remain unchanged going forward.

Outline of the revision to the Shoko Chukin Bank Act

(1) Maintained position as a financial institution for SMEs [during normal operations]

- Maintained restrictions on qualifications for shareholders with voting rights and the system of special reserves (¥400.8 billion)

(2) Reviewed scope of operations, etc. for local economic revitalization from the COVID-19 pandemic [during normal operations]

- Reviewed the restrictions on the scope of operations within the scope of the objective of facilitating financing for cooperatives.
 - Eased the upper limit of investment from the Shoko Chukin Bank itself in revitalized companies from the current 10% to 100%, the same as banks.
 - Added companies with revitalization plans involving third parties to the eligible scope for investment in revitalization companies through a subsidiary specializing in investment.
 - Allowed to hold regional trading companies that support supply chain restructuring (business matching) as subsidiaries, etc.
- Also introduced regulations at the same level as those for banks (financial ADR (alternative dispute resolution) system, etc.).

(3) Strengthened cooperation and collaboration with regional financial institutions [during normal operations]

- Also specified in laws that the Bank shall cooperate with regional financial institutions in conducting business.
- Retained the provision for avoidance of oppression of the private sector (special consideration is given so as not to impede appropriate competitive relations).

(4) Measures to ensure appropriate implementation of crisis responses [during a crisis]

- Imposed responsibility for crisis response operations even after all government-owned shares are sold.
- The use of the Shoko Chukin Bank’s crisis-related guarantee is not permitted if crisis response operations and a crisis-related guarantee are in effect for the same crisis event. [Small and Medium-sized Enterprise Credit Insurance Act]

(5) Sale of government-owned shares, etc.

- Since the financial condition of the Shoko Chukin Bank has greatly improved and its creditworthiness has been enhanced, the Bank sold all of its government-owned shares which have declined in significance, and removed the government from eligibility for shareholders with voting rights.

*Shareholder eligibility: limited to SME cooperatives and their members, extended to National Federation of Small Business Associations and other SME-related organizations

- Measures to be taken in conjunction with the sale of government-owned shares (abolition of ministerial approval at the time of new share issuance and selection of Representative Directors*).

*Shift from ministerial approval and dismissal order at the time of illegal acts to notification and dismissal order

(6) Factors to be taken into consideration for future complete privatization

- Decided to implement complete privatization (abolition of the Shoko Chukin Bank Act) in consideration of the status of capital, including the status of special reserves, the status of establishment of business models, and the nature of crisis response operations, among other factors.

Source: The Small and Medium Enterprise Agency, “Summary of the Draft Act Amending the Small and Medium-sized Enterprise Credit Insurance Act and the Shoko Chukin Bank Limited Act”



Future schedule

Matters to be considered/ government involvement

Disposal of government-owned shares

- Government-owned shares ⇒ Disposal of all shares
- Authorization to issue new shares ⇒ Abolished

Verification of the status of the Shoko Chukin Bank's business after the revision of the Act

- Verification of the Shoko Chukin Bank's business status
- Approval of election and dismissal of the Representative Director, dismissal order in case of illegal acts ⇒ Notification, dismissal order

Timing of review

Within two years after promulgation

Within two years after disposal of government-owned shares
(Within four years after promulgation)

Points for consideration

1. Disposal of all shares as soon as possible
2. Disposal at a fair price in a fair manner

Verification of the status of the business of the Shoko Chukin Bank, taking into account changes in socioeconomic conditions, etc.

1. Status of governance solely by private shareholders
2. Status of establishment of business model
3. Status of cooperation and collaboration with regional financial institutions