



The Shoko Chukin Bank will continue to change to achieve our unchanging mission, even following privatization.

Masahiro Sekine, President (Representative Director)

1. Toward a Society That Is Resilient to Change

In June 2023, the Diet passed a bill to revise the Shoko Chukin Bank Limited Act (hereinafter, the “Shoko Chukin Bank Act”). Let me first discuss this revision.

The Shoko Chukin Bank was established under a special law called the Shoko Chukin Bank Act, and became a joint stock company in October 2008. Article 1 of the Act clearly states that the purpose of the Act is to achieve complete privatization, and to facilitate the financing of SMEs.

However, since 2008, the disposal of government-held shares has been postponed several times in anticipation of the Bank’s demonstration of its safety net function, following the bankruptcy of Lehman Brothers and the Great East Japan Earthquake.

Against this backdrop, a misconduct related to crisis response operations occurred in 2016, after which the very nature of the Shoko Chukin Bank itself was discussed. Subsequently, we worked on the Shoko Chukin Bank Management Reform Plan, which was formulated to revitalize the organization. In light of the evaluation by the Evaluation Committee of Management and Crisis response operations composed of experts based on the results of the Plan, and the subsequent conclusions of The Consulting Commission of Business Model, the revision of the Act was implemented.



At the beginning of the meeting, the State of Affairs Study Group stated that, “The operating environment for SMEs is extremely difficult. Given this, reform of the Shoko Chukin Bank, which supports SMEs, is long overdue. This reform aims to create the future by strengthening the functions of the Shoko Chukin Bank, thereby driving the growth of SMEs in this period of change.”

As a result of these considerations, the Shoko Chukin Bank Act remained in place, maintaining the safety net function as its responsibility, and measures to enhance capital and funding for risk-taking without being affected by changes in the external environment. Thus, the mission of the Shoko Chukin Bank to support SMEs remained unchanged.

On the other hand, in this era of a rapidly changing business environment, customer needs and challenges are not limited to securing funds, but have become more diverse, encompassing major changes in industrial structure, and responses to green transformation (GX) and digital transformation (DX), among other matters. Under these circumstances, business models to support SMEs must evolve and develop further, accordingly. We also must face changes. It is precisely in the context of the privatization of the Shoko Chukin Bank, which will result from the disposal of government-owned shares in accordance with the revision of the Shoko Chukin Bank Act, that all officers and employees will reaffirm their commitment to this idea and implement future-oriented structural reforms.

I believe that this revision of the Act is the starting point for the new Shoko Chukin Bank, which will realize a vision of the Shoko Chukin Bank that is truly of service to its SME customers.

By continuing to change, the Shoko Chukin Bank will respond to the various aspirations imbued in the revised Act, and realize the creation of an organization that is dedicated to SMEs.

2. For Carrying on Our Corporate Philosophy: Purpose and Mission

I would like to talk about our new corporate philosophy, Purpose and Mission, which was formulated in March 2022.

For more than 85 years, the Shoko Chukin Bank has served its customers with an unwavering desire to support SMEs. I remember that when I visited our branch offices throughout Japan after assuming the position of President in 2018 and spoke with staff members, each and every one of them expressed this desire unanimously, and I felt firsthand the DNA that has been passed down through the organization.

The Purpose and Mission is our future commitment to this unchanging desire, namely the embodiment of our organization's DNA. At the same time, it is positioned as an important compass that points to the starting point and the path that each and every officer and employee should always return to. With this in mind, we have been working to disseminate this corporate philosophy over the past year.

I hope that each of our officers and employees will enrich their future lives by taking the initiative to think about what we can do for society based on the values they hold dear, and by acting with ambition.

To this end, we held a My-Purpose Workshop for all officers and employees, asking each of them to create their own My Purpose, as a vision of what they would like to achieve by working at the Shoko Chukin Bank. I myself participated in the workshop and shared my own My Purpose with all officers and employees.

In terms of penetration of the corporate philosophy, we have only just begun and it is still not sufficient. We want to continue with our activities until the PURPOSE becomes the basis for all actions when employees are unsure of their decisions in the course of their work.

Going forward, in order to further deepen our business model in which the corporate value improvement of our customers leads to an improvement of the value of the Shoko Chukin Bank, I believe it is important for us to pursue Purpose-driven management, and for each and every officer and employee to act based on the Purpose and to work with our customers to solve their ever-changing issues.



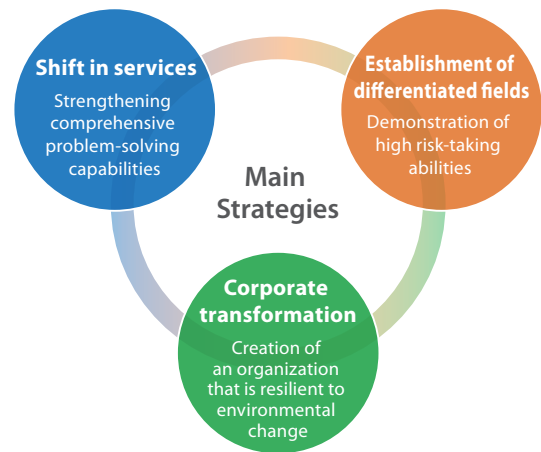
3. Reflections on the Year as a Starting Point for Change

As described above, our Purpose and Mission is universal. However, the challenges and needs of our customers vary according to industry, region, scale, and stage of growth, and the environment is constantly changing.

As stated in our Medium-Term Business Plan, the basic approach is to understand our customers' management issues and needs that are backcast from the vision of Japanese society and economy in 2030, and to work together with them to develop countermeasures, provide necessary management resources, and create the future together.

Fiscal 2022 was a year of heightened uncertainty in terms of the domestic and international economic outlook. While the impact of behavioral restrictions due to the spread of COVID-19 gradually eased, raw material prices soared, in addition to changes in the situation in Ukraine and drastic fluctuations in the exchange rate. The Shoko Chukin Bank positioned the year, which was the first year of its Medium-Term Business Plan, as a year for renewing its corporate philosophy and business plan, and as a starting point for change. Accordingly, we worked to establish the necessary framework and move into the implementation phase of our strategies.

Looking back on the past year, I would like to explain the progress of the main strategies of our Medium-Term Business Plan: 1) shift in services, 2) establishment of differentiated fields, and 3) corporate transformation.



1) Shift in services

The shift in services is intended to work with customers to solve issues by shifting our services to the areas of information, human resources, and advanced finance, in which customers are likely to have insufficiencies when trying to solve their business issues in the future.

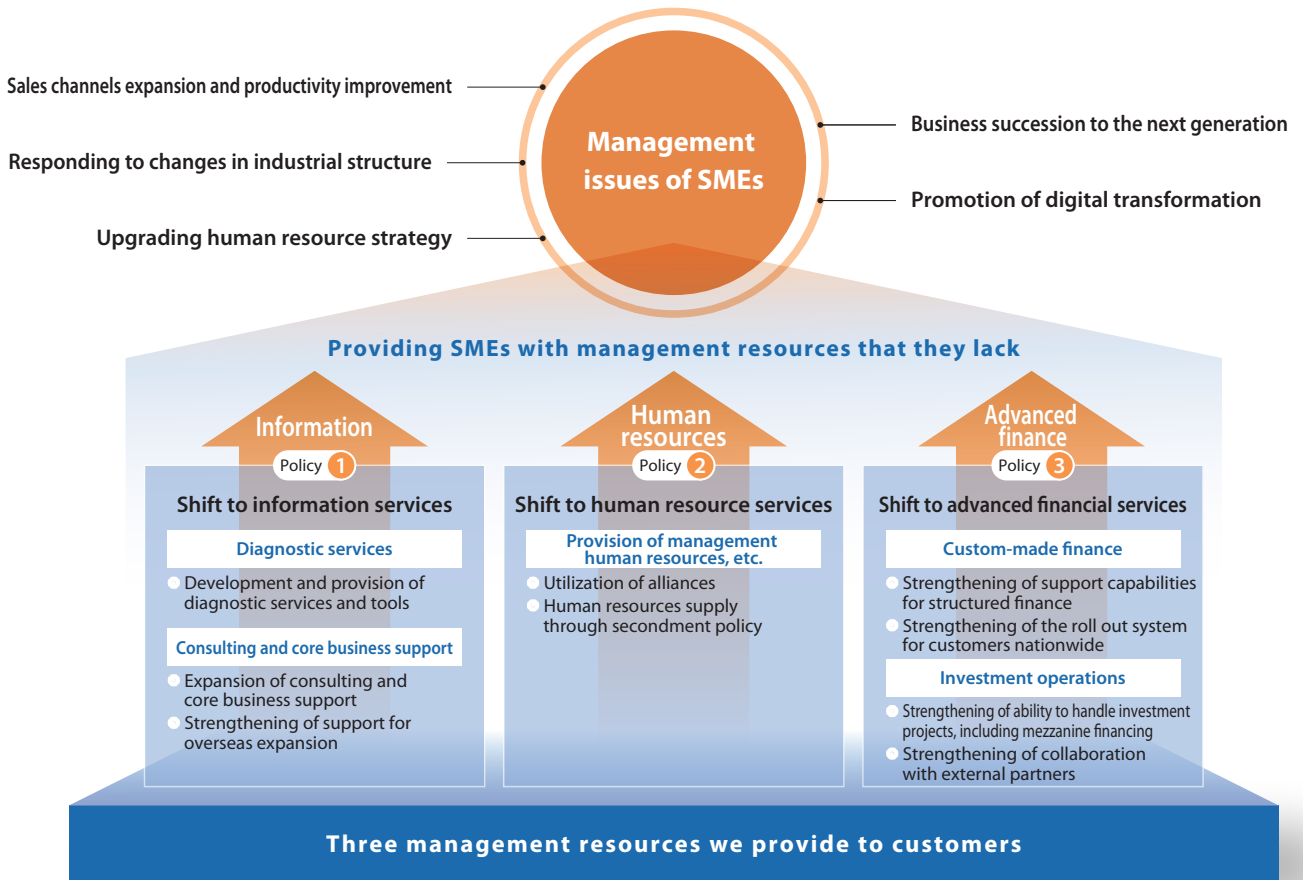
In information services, we expanded services to visualize and share issues such as financial diagnosis, ESG diagnosis, the happiness design survey that visualizes employee happiness, and the DX and IT surveys.

In human resource services, we leveraged alliances with external institutions and other organizations to secure and develop human resources who are capable of meeting the management needs of our customers.

In advanced financial services, the number of cases of structured finance increased, and the number of cases in which our clients consulted us regarding investment operations, including mezzanine financing, also increased.

The Shoko Chukin Bank has been conducting customer questionnaires on a regular basis since the misconduct. Our customers' overall satisfaction and trust has increased year after year, with an NPS® (net promoter score) of (2.9) in the most recent survey, which represents a significant improvement from (21.7) in the fiscal 2018 questionnaires. In this questionnaire, customers also expressed high expectations for information, human resource, and advanced financial services. We will continue to shift our services beyond traditional financial services to provide value that meets and even exceeds these expectations.





2) Establishment of differentiated fields

The Shoko Chukin Bank focused on management issues at each stage of a company's life in order to strengthen its efforts beyond finance. We have positioned start-up support, sustainable management support, and business revitalization support as our three areas of differentiation and are supporting our customers in both financial support and core business support, while leveraging the characteristics of the Shoko Chukin Bank.

Regarding start-up support, we established a new Startup Support Department, and have been actively engaged in business matching as well as financial support.

Regarding sustainable management support, we have been engaged in positive impact financing to address various issues that challenge the sustainability of society as a whole, such as inequality and human rights, in addition to climate change.

Positive impact financing evaluates the impact produced by the business based on a business prospects evaluation through dialogue, shares the customer's strengths, challenges, and goals (KPI) while taking into account third-party opinions, and finances the funds necessary for corporate value improvement. Through these initiatives, we will contribute to the sustainable improvement of our customers' corporate value and the realization of a sustainable society.

In business revitalization support, we established a new Consulting Department, and worked to visualize information on customers for whom we will provide focused hands-on support. We are also working on new business cooperation with regional financial institutions.



Message from the President

3) The Shoko Chukin Bank's corporate transformation

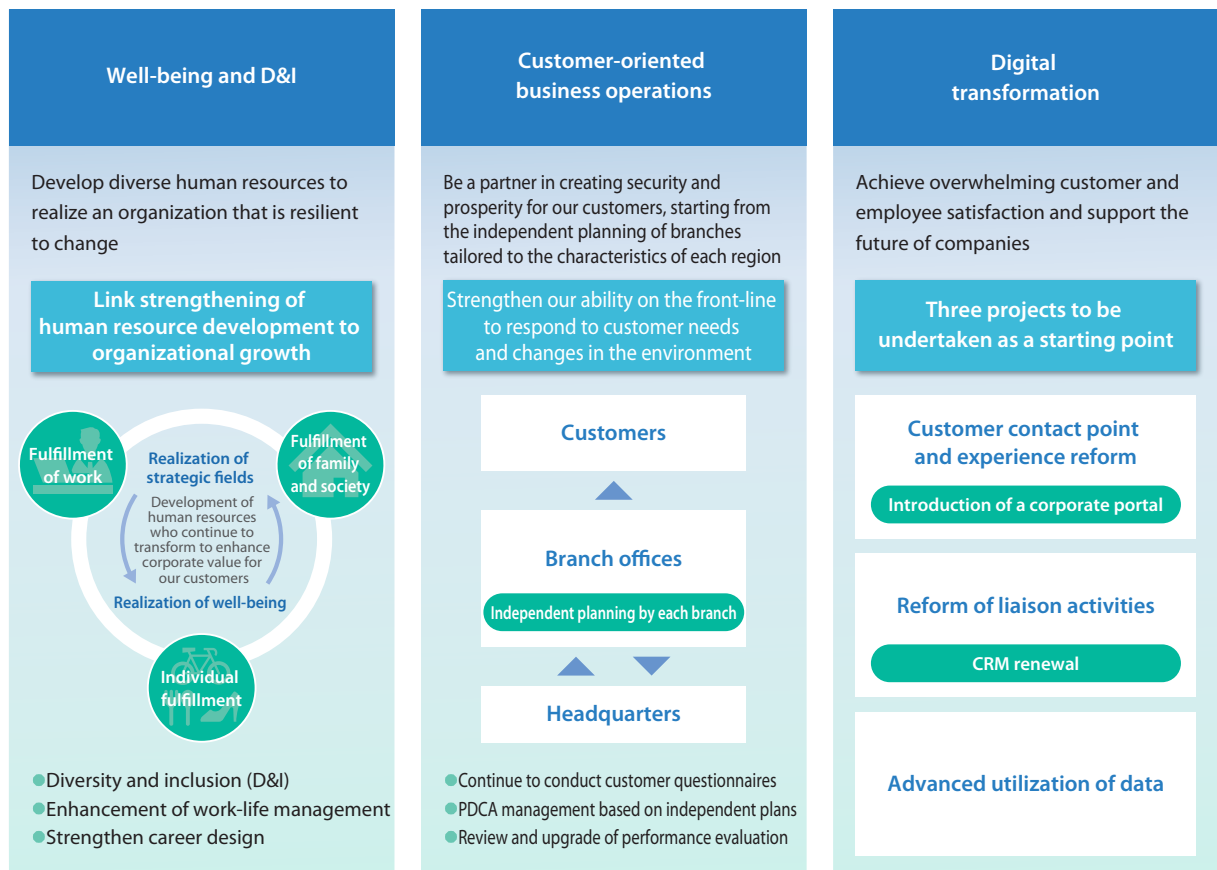
Corporate transformation is an initiative in which the Shoko Chukin Bank will foster many new challenges by continuing to change itself, in order to sustain the support it provides to its customers. Specifically, to conduct customer-oriented business operations, each branch office will continue to formulate and implement its own independent plan, based on its own customers and local conditions. In addition, we will make the necessary investments for the future from the ground up, in terms of establishing a personnel system that enables our employees to maximize their abilities from the perspective of human capital management, well-being, D&I, and DX, and make firm efforts to transform the Shoko Chukin Bank itself.

For more information on human capital management and DX, please also refer to the roundtable discussion by our officers and employees. (Please refer to pages 36 and 44 for details.)

Here we present one case study of our human capital development efforts in human capital management.

Opening of the Human Resource Development College

In April 2023, through a restructuring of our training system, we opened an in-house university, the Human Resource Development College, and I have been appointed to serve as its President. The concept is self-directed, voluntary learning by each participant. By expanding content for improving various skills, including business and human skills, and by providing employees with opportunities for self-directed learning, we will develop human resources who continue to transform to enhance corporate value for our customers. We want our employees to take on new challenges, while reforming themselves proactively and independently.



In Closing: As a Financial Institution by SMEs for SMEs

SMEs account for 99% or more of the companies in Japan by number, and approximately 70% of employment and 50% of added value, and it is said that SMEs form the basis of the Japanese economy.

Accordingly, in order to achieve our goal of realizing a society that is resilient to change, it is essential for the management of SMEs to be resilient to change, and we believe that the recent revision to the Shoko Chukin Bank Act will support this goal.

The Shoko Chukin Bank has decided to incorporate the Purpose and Mission into its Articles of Incorporation upon the revision of the Act. After all government-owned shares are disposed of, SME cooperatives, their members, and SME organizations will be responsible for our governance as shareholders. Even after this change, we will continue to work toward the realization of a society that is resilient to change, using the Purpose and Mission as a compass.

“To realize a society that is resilient to change as a financial institution that is truly of service to everyone.” The Shoko Chukin Bank will continue to change in pursuit of this unchanging mission. We will continue to support our customers with the following three promises, so that they 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.

We thank you for your continuing support of the Shoko Chukin Bank.

July 2023

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Three promises

- 1 **Our fundamental principle of being a financial institution for SMEs will not change.**
- 2 **We will continue to implement crisis response operations.**
- 3 **We will strive to provide complex services that go beyond traditional finance.**