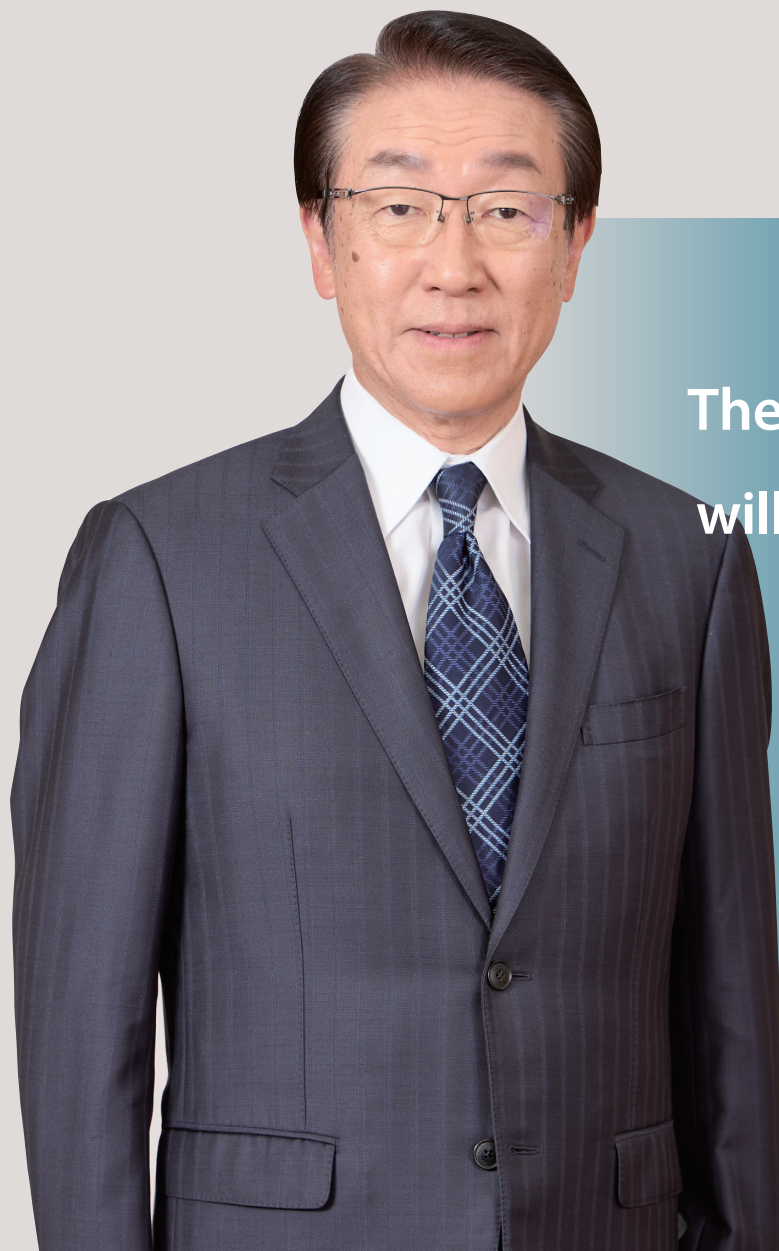


Message from the President



The Shoko Chukin Bank
will continue to change
as a specialized
financial institution
by SMEs for SMEs.

Masahiro Sekine

President (Representative Director)

Ensuring Customer-Oriented Business Operations

Message I have conveyed to employees since taking office in 2018

In Japan, SMEs account for 99% or more of the total number of companies, about 70% of employment, and about 50% of added value. The Shoko Chukin Bank's customers are the SMEs that form the backbone of the Japanese economy. In order to remain a financial institution by SMEs for SMEs, we have taken a sincere approach to our customers and continued to transform ourselves.

The fiscal year ended March 31, 2024 marked the sixth year following my appointment as President. Over the past six years, the Shoko Chukin Bank has been carrying out the Shoko Chukin Bank Management Reform Plan to revitalize the organization in the wake of misconduct uncovered in crisis response operations. Following on from this, we have also been implementing the current Medium-Term Business Plan (fiscal 2022 - fiscal 2024). The message I have been conveying to our employees during this time is simple: "Let's carry out customer-oriented business operations."



Making steady progress with the Medium-Term Business Plan

At the time of the misconduct discovered in 2016, the Shoko Chukin Bank had a top-down organizational culture with a less open atmosphere, through which management was focused on business performance. When I visited our branch offices around the country and talked to employees, everyone had a desire to support SMEs, but they were spending their energy not for the sake of customers, but on meeting strict quotas. In order to fundamentally change this, I have been working to abolish quotas and cancel the allocation of numerical targets from the headquarters to branch offices. I repeatedly reminded employees to use the energy that had been internally spent on meeting quotas or reporting on communicating with customers, and to focus on listening to them and building trust. That way, employees will be able to understand customers' fundamental needs and issues. If we are able to provide solutions based on these needs and issues, earnings growth will naturally follow. I was also convinced that establishing a new business model that can utilize the Shoko Chukin Bank's strengths, such as our branch network spanning all prefectures and the high level of expertise in SMEs built up over the years, would bring about change.

As a result of our corporate transformation and business model transformation, we were able to make steady progress in both the first and second years of the current Medium-Term Business Plan. I believe the various measures that I have been working on together with employees over the past six years have started to steadily show results.

The Shoko Chukin Bank Will Change through Business Model Transformation and Corporate Transformation

Business model transformation starts with business prospects evaluations

The establishment of differentiated fields is one of the key strategies set forth in the Medium-Term Business Plan (fiscal 2022 - fiscal 2024). In addition to financial support, the basis of our customer support, we focused on core business support, through which we got deeply involved in customers' actual operations. This initiative focuses on management issues at each stage of a company's life, and provides solutions by splitting them into three categories: startup support, sustainable management support, and business revitalization support. In each category, the Shoko Chukin Bank is highly regarded by customers as these are fields that leverage the characteristics of the Shoko Chukin Bank.

The starting point of these solutions is the business prospects evaluation capabilities that the Shoko Chukin has cultivated. In business prospects evaluations, we examine not only the use of collateral and financial statements, but also non-financial elements such as customer technologies and services, management stance, and business management systems, after which we support cash flow and growth investments. Whether or not we can properly evaluate business prospects depends on how each member of the Shoko Chukin Bank can extract information from dialogue with customers to understand and analyze their business. The Shoko Chukin Bank has a strong track record of demonstrating our expertise in the fields of business revitalization and management improvement support in particular, including Japan's first DDS* and our nationwide involvement in rehabilitation projects following the global financial crisis. Systematically, we have also worked to develop specialized personnel and reskill each employee, as well as implement measures such as the formulation of a Human Resources Value Creation Model and the opening of the in-house university "Hitozukuri College." In order to make use of our abundant experience and know-how to engage in close dialogue with SME customers and conduct a detailed analysis, in human resource development we have established systems and programs that allow employees to acquire both business skills (hard skills) and human skills (soft skills). We are also working on DX (digital transformation) with the aim of providing fast services and improving the customer experience value, with three DX projects underway, including the advanced utilization of data.

*DDS (debt-debt swaps): a revitalization method in which a portion of existing debt held by a financial institution is exchanged for subordinated loans



Message from the President

Corporate Transformation Serves as the Foundation for Business Model Transformation

The pressures felt by employees

The other day, we received an interesting result from a questionnaire survey of branch office employees conducted to gain insight into the status of internal controls at branch offices. We have been consistently conducting this questionnaire since fiscal 2018. In response to the question “What kind of pressure do you feel in your day-to-day work?” in the fiscal 2023 survey, nearly 70% of employees answered “whether or not it leads to personal growth.” How they want grow, and what they are interested in. Employees feel pressure because they think so seriously about this, which I think is a good sign. The goal of corporate transformation, one of the main strategies of the Medium-Term Business Plan, is to foster new challenges beyond the conventional boundaries of financial institutions. Personnel changes at the Bank are currently carried out on a voluntary basis, in principle. In April this year, approximately 80% of employees relocated to the headquarters were transferred to the departments as they themselves requested. As a general rule, in-house training programs and courses, such as the “Hitozukuri College” mentioned above, are also voluntary. Anyone would be serious about something they had volunteered for, and be motivated to grow. We will continue to focus on creating systems that encourage employees to take on challenges and learn.

Employees should work to achieve their own growth through independence and autonomy, not to meet quotas

Turning back to the 2016 misconduct, no employees personally benefitted from said misconduct. We recognize that the root cause of the misconduct was a lack of internal control systems and excessive performance pressure in crisis response operations. In other words, earnest and highly capable employees, in their respective positions, were under pressure to achieve their quotas, which caused them to commit misconduct. Through dialogue with employees, I knew very well that the Shoko Chukin Bank’s human resources had solid potential. In that case, there was only one thing to do. Create a corporate culture that enables employees to work for the sake of customers, not quotas.

We needed to clarify our purpose as a means of maintaining motivation as an alternative to achieving quotas. In 2022, we established our Purpose and Mission in order for all employees to once again share what the Shoko Chukin Bank exists for. At the heart of this establishment was a team of young employees from both the headquarters and branch offices selected through open recruitment. It took more than a year to reach a final decision, during which numerous discussions were held at Management Meetings and Board of Directors meetings, where external directors also participated as advisors. I think the meaning of the Shoko Chukin Bank’s existence, which has not changed since its establishment, is accurately reflected in our Purpose, “Supporting the future of companies. Making Japan more resilient to change,” and Mission “We will continue to think together, create together, and change together, as a partner in creating security and prosperity.”

In order to foster values based on our Purpose and Mission, we are implementing initiatives on an ongoing basis as we hold My Purpose Workshops for all officers and employees, and have them formulate their own My Purpose, which embodies how they can grow independently and autonomously, contribute to customers, and lead their own enriched lives. Many of the employees who are active on the front lines at branch offices joined the Bank after the misconduct. I make an effort to keep asking the question “What is the purpose of our existence?” through the President’s blog.



How the Shoko Chukin Bank will Change through Privatization

Future plans regarding privatization

In June 2023, a bill to revise the Shoko Chukin Bank Limited Act was passed in the Diet, and in April 2024, the Ministry of Finance announced the schedule for the general competitive bidding of government-owned shares. All shares are to be sold by the end of fiscal 2024.

I would like to explain once again how the Shoko Chukin Bank will change once it is privatized. There are two main initiatives: (1) Expand the scope of our operations, and (2) Enhance and strengthen governance with an eye to independent and autonomous management.

Expanding the scope of our operations

The revision to the Act enabled expansion in the scope of the Shoko Chukin Bank's operations. In the case of the Shoko Chukin Bank itself, this amendment lifted the ban on regional revitalization and other operations, and enabled the expansion of equity operations. In terms of subsidiaries, the Bank will be allowed to expand its equity operations through subsidiaries specializing in investment, as well as own companies with more sophisticated banking operations. The Shoko Chukin Bank is currently examining and preparing the following with the aim of appropriately responding to the urgent issues and needs of SMEs.

① Strengthening investment operations

In August 2023, we established Shoko Chukin Capital as a subsidiary specializing in investment. In business revitalization, the upper limit of investment from the Shoko Chukin Bank itself will be eased. In this field, many SMEs require in-depth support over a long period of time. We believe that equity financing is an extremely effective method of doing so, and as such we are developing business operations including the establishment of a business revitalization fund.

② Human resource services

In a customer questionnaire conducted by the Shoko Chukin Bank, we discovered that approximately 70% of respondents face issues related to human resources. Currently, the biggest management issue for SMEs is securing and developing human resources. We are already working on the provision of human resource services in our Medium-Term Business Plan. Specifically, we are eyeing the establishment of a human resource service subsidiary.

③ DX support

Issues faced by SMEs include outdated procedures for receiving or placing orders and the insufficient use of data. As a form of DX support that will help solve these issues, we plan to launch a Digital Business Platform Projects, and build an order receipt and placement platform for SMEs using cloud-based SaaS. In the future, we will work to realize data-driven management for SMEs, including collaboration with partner companies.

Enhancing and strengthening governance for independent and autonomous management

In order to continue to change as a specialized financial institution for SMEs, we need a governance structure that enables us to respond swiftly to changes in the business environment. As part of our efforts to enhance and strengthen governance, we transitioned to a company with an Audit & Supervisory Committee in June 2024. In doing so, we aim to strengthen the supervisory function of the Board of Directors and speed up decision-making.



Message from the President

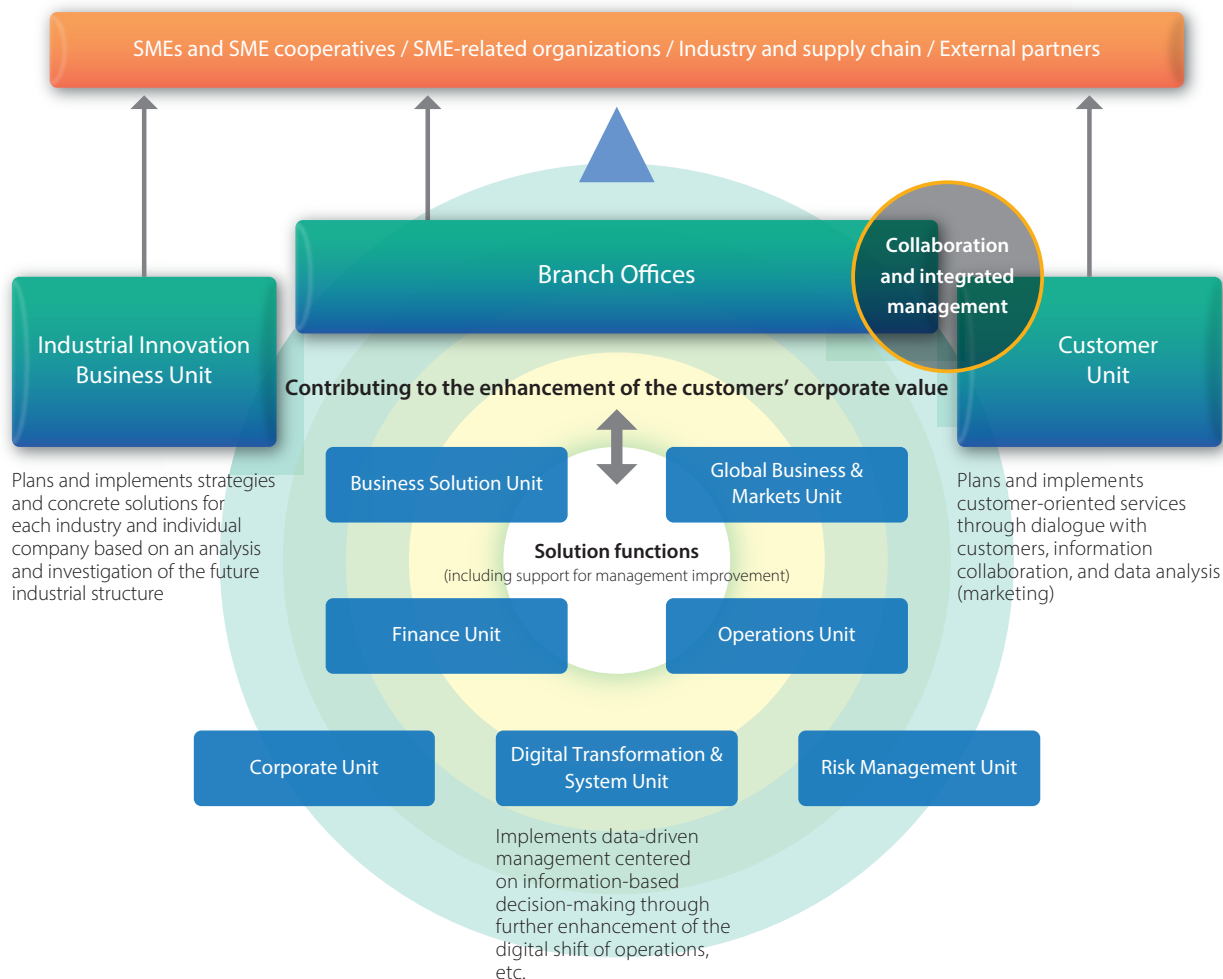
Maximize and Multiply the Potential of SMEs and the Shoko Chukin Bank

Efforts to provide further value

As I have mentioned thus far, the Shoko Chukin Bank has had success with reforming itself. However, our Mission states that “We will continue to think together, create together, and change together, as a partner in creating security and prosperity.” As such, it is our responsibility to constantly change with our customers and the times. There is no end goal for this initiative. SMEs face various challenges, such as changes in industrial structure. If we look at the current situation, there are many challenges that need to be addressed, such as sharp rises in the price of imported materials and energy due to yen depreciation, the “2024 problem” faced by the transportation and construction industries in which overtime caps for truck drivers have come into effect, the promotion of DX to improve productivity, and carbon neutrality. As a financial institution that serves SMEs, the Shoko Chukin Bank will continue our efforts to change in order to fulfill our unwavering mission of paving the way toward a society resilient to change.

In April 2024, we fundamentally rearranged the entire headquarters organization in order to provide even higher quality services and solutions to our customers. By changing the vertically divided organization that has existed thus far, and placing functions with a high degree of affinity under each business unit, we are aiming to further enhance human capital management, improve management efficiency, and speed up decision-making.

■ Fundamental rearrangement of the headquarters organization aimed at strengthening customer support





All of the nine business units have been organized so that they can precisely respond to the issues faced by SMEs. For example, under the Customer Unit, we established a new Marketing Division that conducts strategic planning through dialogue with customers. The Industrial Innovation Business Unit, which deals with issues related to industrial structural reform and environmental and social sustainability, and the Digital Transformation & System Unit, which supports information-based decision-making, are organized so that they can directly contribute to the medium- to long-term change and growth of SMEs.

We also discontinued the performance evaluations of our branch offices. Performance evaluations are a method of promoting sales, but they can also have the negative effect of placing focus on the items being evaluated. The headquarters must also devote a considerable amount of effort in order to carry out evaluations. I think that energy should be devoted to supporting our customers. We will review the relationship between the headquarters, which conduct the evaluations, and the branch offices, the ones being evaluated, and have them work together to conduct customer-oriented business operations.

Top management's role is to develop employees so that they can think for and change themselves

I believe that the role of the Shoko Chukin Bank's top management is to persistently show our future vision. My own role is to express our Purpose and Mission, thereby sharing with and instilling these values in our employees. While this is still a work in progress, I feel that we are making decent headway. If a corporate culture in which each employee acts independently and autonomously becomes firmly rooted, positive results will naturally follow. I feel that my conviction six years ago was correct when I look at the steady progress of the Medium-Term Business Plan.

Even after privatization, we will continue to change so that we can keep being a financial institution that customers can do business with peace of mind. I would like to lay a solid foundation for such an organization, and pass it on to the next generation. We thank you for your continuing support of the Shoko Chukin Bank.

July 2024

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