

# Governance system and vision for the future that the Shoko Chukin Bank should have going forward



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At this turning point in its privatization, the Board of Directors of the Shoko Chukin Bank has been holding various discussions, including on the formulation of a long-term strategy. One year after transitioning to a company with an audit and supervisory committee in June 2024, three of our external directors discussed current challenges and future prospects.

## Evaluating initiatives to strengthen the governance system

### The necessary governance system for the privatized Shoko Chukin Bank

**Ishikawa** In June 2025, all government-owned shares in the Shoko Chukin Bank were sold. At this turning point in our privatization, we received opinions from SMEs and other stakeholders, such as their expectations and concerns. Some were concerned that the transition to private capital only would lead to profit being prioritized, resulting in an end to the generous support provided to SMEs as before, and that reduced government involvement would cause a decline in our governance functions.

I served as Chairperson of the Compliance Committee from 2017, and through a series of corporate transformation initiatives geared toward privatization we have implemented since 2017, the Shoko Chukin Bank has been working to strengthen our compliance systems to realize its vision of being a financial institution by SMEs for SMEs. We position internal audits as our most important audit function, and are working to strengthen our personnel systems and improve audit quality. As we continue to receive supervision from the relevant authorities, including the Ministry of Economy, Trade and Industry, the Ministry of Finance, and the Financial Services Agency, I believe that the Shoko Chukin Bank's post-privatization governance system has been appropriately established.

**Kawamura** In terms of strengthening compliance, the transition to a company with an audit and supervisory committee in 2024 was an extremely significant event. The significance of the Shoko Chukin Bank's transition to a company with an audit and supervisory committee has roughly two points. First, we have made substantial progress with delegating authority to executive divisions. The Board of Directors has been shifting from being a meeting body primarily focused on business reports to a forum for in-depth discussion of management strategies. I believe that executive divisions are now better equipped to carry out their operations with greater agility.

Secondly, with more members and a more robust system than when we had the Audit & Supervisory Board, we are now able to work with the department in charge of compliance to conduct more in-depth legality and validity audits. The coordination between the Audit & Supervisory Committee, internal auditing divisions, and Independent Auditor is functioning well, and I also find my day-to-day work as an Audit & Supervisory Committee Member very rewarding.

**Arima** The functions of the Management Advisory Committee, one of the important advisory bodies to the Shoko Chukin Bank's Board of Directors, have also been significantly

strengthened based on the new shareholder composition after privatization. Specifically, to ensure that the voices of private shareholders, mainly SME owners across the country, are reflected in our future management, we appointed not only business owners familiar with the local economy, but also young and female business owners, as well as new shareholders from the Japan Chamber of Commerce and Industry and the National Federation of Small Business Associations. I also attended the meeting in fiscal 2025, and when I reported on the details of discussions from Board of Directors meetings, the committee members directly told me about their expectations for the Shoko Chukin Bank Group's vision and new long-term strategy. I feel that it was a meaningful forum for discussion.

**Kawamura** We have been working diligently to strengthen our governance system thus far, but I believe we must now adapt to a new stage. Now that the Shoko Chukin Bank has been privatized, we will be required to implement management that is conscious of cost of capital and to increase our profitability. We must also continue crisis response operations,

and there are also high expectations for our safety net function. As our management system differs from those of other private financial institutions and government-affiliated financial institutions, we recognize that we will need to demonstrate unique creativity and ingenuity to refine our governance going forward.

**Ishikawa** I can feel from the current management that they place great importance on the opinions of us external officers. They make great efforts to hold pre-meeting briefing sessions for external directors so that we can be more deeply involved in the agenda of Board of Directors meetings, and we also have a lot of interaction with officers and employees on the front lines. All officers and employees have a stance to maximize the function of external directors, who are in a position to represent the interests of shareholders. Since I am in an environment where I can easily demonstrate my expertise as an external director, through this close relationship, I want to continue exploring the ideal governance system the Shoko Chukin Bank should have in place.

## Expectations for further corporate transformation

### Introduction of a Group Chief Officer system to accelerate our corporate transformation

**Arima** In July 2025, we introduced a Group Chief Officer system as part of our new corporate transformation initiatives. Under the overall supervision of President Sekine, Chief Executive Officer, we have appointed a Chief Transformation Officer and a Chief Digital & Information Innovation Officer, who are responsible for corporate and digital transformation, a Chief Compliance Officer and a Chief Risk Officer, who are responsible for compliance and risk management, which are prerequisites for the steady implementation of these reforms. We also plan to appoint Chief Officers for other business areas going forward, but for now, the current themes we need to address are DX and compliance and risk management.

**Ishikawa** There are no divisions within the Bank that are not involved in DX or compliance and risk management. Having the Chief Officers act as a group-wide coordinator will help facilitate collaboration between divisions and prevent inconsistencies and omissions in detailed strategies. We also expect the clarification of responsibility to make it easier for the Bank to earn the trust of stakeholders.

**Kawamura** When introducing this system, we took on board the opinions of other financial institutions that have already taken the lead in establishing such a system as we explored our options. The Shoko Chukin Bank is currently formulating a long-term strategy while also reviewing and expanding its various businesses. Now that horizontal connections between businesses are expanding, I believe that the introduction of the Group Chief Officer system, which helped establish a structure that enables Responsible Officers with professional expertise to make quick decisions and implement integrated management, will provide significant benefits.

**Arima** I believe this system is also effective in terms of recruiting talented human resources from outside the Bank. I think that going forward, the Shoko Chukin Bank will need to not only spend a long time developing homegrown all-rounders, but also adopt the idea of strategically recruiting external specialists when needed based on business decisions.

## Discussions on formulating succession plans

**Arima** In addition to the Management Advisory Committee mentioned earlier, the Shoko Chukin Bank has also established a Nomination Committee and a Compensation Committee as advisory bodies to the Board of Directors. In fiscal 2024, the Nomination Committee discussed matters such as the formulation of a major policy for succession plans. With regard to succession plans for the President (Representative Director), we established human resource requirements, criteria for appointment, reappointment, and dismissal, and have formulated a talent pool and its selection and appointment process, with an eye toward the business environment of the next generation.

**Kawamura** The series of reforms that President Sekine has undertaken so far is highly regarded in the financial industry as the "Sekine Reforms." It is important to carry on this track record and, with an eye to the business environment of the next generation, clarify the ideal leader profile and selection process for the President. We need to look broadly at talent both inside

and outside the Bank, and put in place a system that enables us to select outstanding personnel.

**Arima** Since becoming an external director in June 2024, I have been utilizing my professional expertise in sustainability and DE&I to offer recommendations to further deepen our human capital management. We are no longer in the era of organizations being driven by a single charismatic leader demonstrating leadership. Now, corporate management is a team effort involving the combination of diverse competencies. I believe that going forward, we will need to formulate succession plans for a variety of positions, not just the President (Representative Director).

**Ishikawa** As financial institutions operate in a variety of fields, the management must also possess a wide range of expertise. It is important to discuss what next-generation management will entail, while considering what kind of collective management is best for the Shoko Chukin Bank and what kind of structure will allow it to function at its best.

## The Shoko Chukin Bank's management policy going forward

### The SME economic sphere, a new concept

**Kawamura** Having previously served as Chair of the Shoko Chukin Bank State of Affairs Study Group established by the government, as well as in other related positions from 2017, I closely observed the Bank's progress through more than 30 discussions over nearly six years. If we compare the progress of the Shoko Chukin Bank's privatization to the launch of a space rocket, we are currently at a critical juncture, where we must detach the second stage rocket and launch the spacecraft into satellite orbit. The first stage rocket would be the efforts from the launch of the Shoko Chukin Bank State of Affairs Study Group, which was triggered by the misconduct that occurred in 2016, through to the revision to the Shoko Chukin Bank Limited Act in 2023. The second stage rocket is the formulation of a new Medium-Term Business Plan ahead of privatization, and efforts to shift our services and carry out corporate transformation initiatives. If it were a space rocket project, the final mission would be to launch the spacecraft into the desired orbit. When we compare this to the Shoko Chukin Bank's journey, we can



say that the long-term strategy we are currently formulating is an important strategy for putting the Shoko Chukin Bank on a desirable track.

To formulate this long-term strategy, the Board of Directors held discussions focused on a new "SME economic sphere" concept. Simply put, the SME economic sphere would be positioned like a platform. It embodies our passion to form a platform that collects, connects, and creates value for diverse stakeholders, and to formulate a comprehensive business model that is useful to SMEs, with the conventional financial operations that the Shoko Chukin Bank has been engaged in for many years at its core.

**Ishikawa** Of the five focus areas listed in the SME economic sphere, my focus is on Industry (Industry issue resolution solutions). When I talk about establishing an SME economic sphere, I do not mean that the Shoko Chukin Bank will create some kind of industrial group within it, but rather that the Shoko Chukin Bank will provide various functions to SMEs based on the characteristics of each industry, thereby increasing the value of SMEs as a whole. To help SMEs, we are envisioning a system that will provide necessary services while maintaining a deep understanding of each industry and monitoring industry-wide trends. Going forward, we will continue to provide SMEs with conventional financial functions, namely, the financial intermediation and safety net functions we have provided to our customer companies, while also aiming to provide necessary functions with an eye to the future of SMEs and the Japanese economy.

**Arima** We are currently formulating specific KPIs geared toward the establishment of the SME economic sphere. In light of the Bank's privatization, rather than reinstating quotas, we are currently discussing what indicators would show how we are contributing to SMEs.

### Deepening our human capital management

**Arima** To enhance our human capital, we revised our personnel system during our previous Medium-Term Business Plan and focused on expanding our human resource development and career support programs. The core of the Shoko Chukin Bank's human capital management is to recruit and develop human resources who continue to transform to enhance corporate value for our customers. In our new personnel system, the NEXT PLAN, introduced in April 2024, we clarified the expected roles and expertise of employees and disclosed them as new evaluation guidelines. We upgraded and visualized our previous rigid evaluation system, which was based on seniority and quotas, to a system that allows for more flexible and qualitative evaluations. In addition to developing the SME economic sphere concept, the Board of Directors is also discussing reforms to our personnel evaluation system to realize this economic sphere.



We measure the outcome of human capital investment through the results of employee engagement surveys. Although there were declines for some scores due to an increased sense of workload resulting from the transitional period of internal



reforms and concerns about the post-privatization outlook, the eNPS<sup>SM</sup> score continued to improve over the long term, boosted by the many positive evaluations regarding the expansion of training opportunities and personnel system reforms.

**Kawamura** While this is not something specific to the Shoko Chukin Bank, I feel that the complacency of just steadily completing the tasks assigned to them is still heavily entrenched among employees. I hope that Shoko Chukin Bank employees start to adopt a strong mindset of creating their own work. Furthermore, employees in larger organizations tend to be trapped in the mindset of “we can’t do this because it’s against the rules” or “we can’t change things that are already decided.” Rules change with the times. I also plan to make a personal effort to encourage employees to abide by the correct rules, but to also have the determination to proactively change the rules themselves if there are any regulations that are behind the times or systems in place that impede growth.

**Arima** Since mindsets formed within an organization do not change quickly, it is difficult to completely eliminate values such as a focus on business performance and following precedent. That said, when I see young employees actively volunteering to participate in internal projects launched for corporate transformation and work style reform, I can see the first signs of definite change beginning to emerge. I get the impression that there are many employees at the Shoko Chukin Bank who are truly committed to helping our SME customers. Although we are expanding nationwide, our size of approximately 4,000

## Message to stakeholders

### Future aspirations as an external director of the Shoko Chukin Bank

**Ishikawa** As a financial institution truly necessary for SMEs, I believe that the Shoko Chukin Bank should not only provide support from a short-term perspective, but also provide proactive support with a long-term view of the business environment surrounding SMEs. In these highly uncertain times, it is difficult for anyone to predict the future. However, I believe that if we carry out our business based on a long-term strategy, while repeatedly conducting meticulous verification and revision, the Shoko Chukin Bank we should be and the ideal state of SMEs will begin to emerge. I plan to contribute as an external director by providing appropriate advice to help refine strategies in a positive direction.

**Arima** Although the Shoko Chukin Bank is constantly changing, the “joy of serving SMEs, who are both our customers and our shareholders,” mentioned by many officers and employees in the inspiring stories we solicited when formulating the CHUKIN Way, is an asset that other financial institutions lack, and something we must never give up. To this



employees gives us the strength to truly come together to serve our customers. I hope that our employees will not shy away from change and will adopt an agile approach of trial and error.

**Ishikawa** I agree. With the business environment changing at an accelerating pace, corporate transformation initiatives will not be truly successful unless they repeat a cycle of challenge, verification, and improvement at the front lines at an extremely rapid pace. However, I believe that as a financial institution responsible for financial infrastructure, there are areas where a certain degree of failure is acceptable, and areas where failure is unacceptable. As an external director, I intend to offer advice with these two points in mind.

end, I will ask our employees from an objective standpoint, “Is this really valuable to our customers?” and “Is this work something that will bring them genuine joy?” and will work hard to deepen our human capital management.

**Kawamura** To put it somewhat casually, I think of external directors as being like the henchmen you see in old movies. I imagine them as someone who stays in the background watching over the executive divisions when a company’s management is going well, and who is the first to rush in when the company needs to make important decisions, protecting a wide range of stakeholders. I started my career at a securities company, gained experience as a university professor and at a think tank, and then served as an external director at several operating companies, where I worked closely with a variety of people. Using the knowledge I’ve gained from that expertise, I intend to step up when I’m needed to contribute to the Shoko Chukin Bank’s growth.

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