

## Review of the Year

### Financial and Economic Environment

Last fiscal year, the situation remained unstable both inside and outside Japan. This can largely be put down to the price of raw materials rocketing due to rising goods prices and the weak yen, higher geopolitical risks, rising interest rates and inflation in Europe and North America, and a slowdown in the Chinese economy.

On the other hand, in Japan movement toward a recovery following the prolonged pandemic conditions is gradually growing in strength, and the weak yen has led to an increase in exports and inbound tourism demand. Other trends that point to economic recovery include a bounce back in demand post-pandemic, the successful tempting of semiconductor manufacturers to set up factories here, and rising stock prices.

In our hometown of Osaka, there is only about a year to go until Expo 2025 Osaka, Kansai. Excitement associated with its opening is growing, and expectations are rising for a resulting increase in demand and chances for SMEs to advertise their technologies and products.

The financial environment, meanwhile, is entering a new phase as interest rates rise due to a major correction to monetary policy by the Bank of Japan.

Initiatives in the fields of IT and DX promotion are progressing rapidly to improve task efficiency and develop new financial services, due to the expanded use of technologies like generative AI, the best-known example being ChatGPT.

Additionally, to promote stable asset formation, this year we are starting to offer the new NISA system to our customers, and are expanding services to allow small-amount remittances between individuals, and developing digital payments and new services.

For SMEs, circumstances are normalizing but the business and management environment they face is still very harsh. Factors include rocketing raw material prices, inflation concerns, increases in labor costs associated with securing personnel due to labor shortages, and an increased burden that has come with a new invoice system and revisions to electronic bookkeeping laws.

As a result, in order to resolve these problems, we are called upon to offer management improvement support that includes problem-resolution measures for a range of issues, including new business creation, sales channel expansion, business succession, M&A, personnel support, applications for grants, and DX support. In this way, our job as a financial institution is to contribute to the sustainable development of the regional economy.

### Operating Policies

Fiscal 2023 was the first year of our medium-term management plan, Smart Shinkin Stock 2025, and to put us on the path to being our customers' number one financial partner for problem resolution and for close ties to the region—the aim of the plan—all executives and other employees worked together and in due haste.

Over the course of the year, we strove to improve the speed at which we can make problem-resolution proposals by constructing personnel training cycles and establishing support sites. We also endeavored to discover new growth industries through our opening of Soar, a co-working and

shared office facility, and to enhance measures to support business creation.

Furthermore, as the first year of the medium-term management plan, we were able to verify the measures we plan to work on for the full three years—including efforts to understand customer needs using AI and action to improve operational efficiency by using electronic means to announce loan decisions—and adopt that approach.

Last year, we also worked to further strengthen our internal management framework, by enhancing the effectiveness of our money laundering and cyber-security countermeasures, preventing financial crimes like sophisticated fraud schemes, and reinforcing our crisis management approach.

### Internal Control Systems

In accordance with the following Basic Policy on Internal Control Systems adopted by the board of directors based on Article 36, Paragraph 5, Item 5 of the Shinkin Bank Act and the provisions in Article 23 of the Ordinance for Enforcement of the Shinkin Bank Act, our Bank has continued working to develop a system for internal control.

- (1) Provide a system to ensure that all directors and personnel of the Bank execute all duties of the Bank in accordance with the law and the articles of incorporation of the Bank.
- (2) Provide a system to store and manage information with respect to the execution of the duties of each director of the Bank.
- (3) Provide rules and other systems for risk management against losses by the Bank.
- (4) Provide a system to ensure that each director of the Bank executes their duties efficiently.
- (5) Provide a system to ensure propriety of the following systems and other operations in the Bank group.
  - Provide a system to ensure that all directors and employees of subsidiaries of the Bank execute all duties of the Bank in accordance with the law and the articles of incorporation of the Bank.
  - Provide a system for reporting matters relating to the execution of duties by directors of the Bank's subsidiaries.
  - Provide rules and other systems for controlling the risk of losses by Bank subsidiaries.
  - Provide systems for ensuring efficient discharge of duties by senior management of Bank subsidiaries.
- (6) Establish provisions regarding personnel when requested to be assigned to assist auditors of the Bank in performing their duties.
- (7) Establish provisions to ensure the independence from directors' influence of personnel assigned to assist auditors of the Bank and the effectiveness of auditors' instructions with respect to said personnel.
- (8) Provide a system by which directors and personnel of the Bank and directors and employees of subsidiaries, or persons who have received reports from said persons, can report to auditors, and other systems for reporting to auditors.
- (9) Provide a system to ensure that persons who make reports described in the previous item are not subject to unfair treatment as a result of making such a report.