

Review of the Year

Financial and Economic Environment

Last fiscal year was an eventful one for the Japanese economy; the national policy of negative interest rates was replaced with positive ones for the first time in 17 years, inflation continued, and the Nikkei Stock Average reached a new high for the first time in 34 years. On the other hand, the outlook in overseas markets grew increasingly opaque, with factors such as continuing high prices and inflation, changes in the global economy resulting from a Chinese slowdown and Trump's changing policies on tariffs in the US, and geopolitical risks such as the war in Ukraine or the situation in the Middle East.

Back in Japan, meanwhile, the employment and salary environment is gradually improving, and there is grounds for positivity about a recovery with renewed demand among visitors to Japan and the opening of new facilities such as data centers and semiconductor factories.

That said, the problems of a shrinking population, low birthrates, and the aging of society is making rapid progress. Depopulation in rural areas, worker shortages, and the lack of business successors are making responding to these changes to the structure of society a pressing issue.

In our home of Osaka, expectations have been raised for the economic benefits that come with holding Expo 2025, as well as for announcements there about SMEs technologies and products. The area is also seeing infrastructure being gradually developed to prepare for the full opening of Grand Green Osaka and the opening of the new Naniwasuji Line.

On the financial front, the Bank of Japan has changed its financial policy to take us back into a world of positive interest rates. In addition to cash deposits, there are an increasingly diverse array of ways for individuals to manage their assets, such as new NISA accounts or investing in stocks. Additionally, we have been picking up the pace of our efforts to enhance operational efficiency through improved generative AI and digitalizing various tasks; in this way, we are pushing ahead with significant reforms.

For SMEs, as in the previous year, rocketing material and logistics prices are continuing, and they are feeling increasing pressure from cost rises, including personnel cost increases due to labor shortages. They have not been able to fully pass on these rises yet through price increases, and so the business environment is harsher than ever.

Financial institutions, therefore, are called on not just to support fundraising in order to address issues, they have to further strengthen their consulting functions for areas such as sales channel expansion, DX, management improvements, business succession, personnel placement, subsidy applications, mortgages, inheritance, and asset formation.

Operating Policies

Fiscal 2024 was the middle year of our medium-term management plan, Smart Shinkin Stock 2025. To achieve the plan's goal of becoming our customers' number one financial partner for problem resolution and for close ties to the region, we worked with a sense of urgency to solidify this position.

As well as efforts to enhance our problem-solving capabilities through the strategic implementation of

personnel training cycles and development of dedicated staff. We have also established and expanded a support office in the Business Support Department, and accelerated our support for resolving business partners' problems. In addition to running a community branch (a new kind of facility), we have started trials into generative AI, and paid back priority investments in their entirety. Through such efforts, we worked steadily on items from the medium-term management plan.

Moreover, to protect our customers, 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