

Creating a future for
regional communities through
problem-solution type businesses

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President

Creation of “shared values”

On October 1, 2018, Shiga Bank will celebrate its 85th anniversary. I would like to offer my deep gratitude to our stakeholders for their support over many years.

The Shiga Bank was born in 1933 through the merger of the 133rd National Bank (Hyakusanjusan Bank), which prided itself on “sound management,” and the Hachiman Bank, which emphasized a culture of “enterprise.” “Being tough on ourselves, kind to others and serving society,” the motto of the Shiga Bank, upholds the spirit of “Sampo yoshi” management philosophy, embraced by merchants in the Omi region of central Japan, which means to bring happiness to three sides: the seller, the buyer and society. This motto guides all employees of the Group. We work hard to ensure mutual prosperity with the regional community, all employees and the environment, under the banner of the CSR Charter (Management Principles), on which the motto is based.

In November 2017, the Bank made public internally and externally the Shigagin SDGs Declaration, the first for Japanese regional bank. In the spirit of the CSR Charter (Management Principles), this declaration uses Sustainable Development Goals (SDGs) as tools for further embedding CSR management at the Shiga Bank, and commits the Bank to working to ensure a sustainable society. We are transforming our business model from conventional financial services to “comprehensive financial and information services” which deliver targeted, high-quality solutions to the various issues of our customers and solve these issues. We are committed to building a sustainable society through creation of shared values, that is, resolving social issues (social value) and enhancing our client’s corporate competitiveness (economic value) at the same time.

“Backcasting”

At the moment, explosive global population growth is causing shortages of food, water, and energy resources, and worsening environmental degradation. At the same time, the population of Japan continues an unabated decline. In the regions, depopulation, high numbers of aged and shortages of labor have become major social issues. The business environment surrounding financial institutions is likewise growing increasingly harsh. In addition to the historically prolonged low interest rate environment, development of digital technologies including AI and the IoT has exacerbated competition between financial institutions and also with financial service providers from other sectors.

However, no good will result if we take a negative view of this situation. Based on an accurate understanding of changes in the environment, I believe that we can actually generate growth opportunities from these various issues and threats, by adopting a flexible strategy. In this connection, the important thing is not “forecasting” in which we try to work out what improvements can be made from the current situation and compile improvement

measures, but trying the idea of “backcasting:” imagining an ideal future destination point and working out the issues that need to be addressed to get there. Typical examples of “backcasting” success are electric vehicles and the sharing economy, which involve imagining the various constraints of the future and considering in what way current business practices should change.

For example, in March 2018, as part of preparations looking beyond the coming cashless society, the Bank launched operations of “Pay B for Shiga Bank,” a settlement application created in partnership with a FinTech company, contributing to greater convenience for customers and a reduced back-office burden at the Bank.

With AI and other technologies set to continue to evolve, we can expect to see alliances that go beyond the traditional framework of the banking sector, with business opportunities still steadily increasing. I believe that the Bank will be able to contribute to the concept of “backcasting,” without getting hung up on conventional thinking, and develop a regional community with a future orientation.

Earnings results for the fiscal year ended March 31, 2018: Both loans and deposits increased.

Here follows a progress report on earnings for the fiscal year ended March 31, 2018 and the 6th Medium-Term Business Plan.

Net income (non-consolidated) in the fiscal year ended March 31, 2018 decreased by ¥1.4 billion year-on-year to ¥12.4 billion due primarily to the impact of negative interest rate policies. However, deposits and loans both performed well, with deposits (the average balance of deposits during the period including negotiable certificates of deposits) increasing by ¥163.3 billion year-on-year to

¥4,630.4 billion and loans (the average balance of loans and bills discounted during the period) increasing by ¥200.4 billion year-on-year to ¥3,532.1 billion. The total capital ratio (consolidated) increased by 0.31% year-on-year to 16.98%, greatly exceeding the international standards. The parent-only total of risk-monitored loans decreased by ¥5.4 billion year-on-year to ¥52.1 billion, and accounted for 1.43% of total loans and bills discounted, a decrease of 0.23%.

Returns to shareholders

With “mutual prosperity with the regional community” as a pillar, the Bank works to secure the health and transparency of management while aiming to enrich internal reserves and strengthen the financial structure in preparation for a management environment that will be increasingly harsh and future investment. The Bank also has a basic policy of providing stable dividends to shareholders as great as possible according to performance trends.

For fiscal year 2017, to respond to the support of our shareholders, the Bank added special dividends, as it did in fiscal year 2016, of ¥1 to ordinary dividends of ¥7 for a total amount of dividends for the full year of ¥8 per share.

Earnings forecasts for the year ending March 31, 2019

Given that we can expect the harsh interest rate environment to continue, we aim to keep earnings on the same level as the year ending March 31, 2018 by reinforcing non-interest rate income such as problem-solution type consulting services. We are grateful to stakeholders for their support over many years; as far as the dividend is concerned, we plan a total payment of ¥8.50, up from the regular ¥7.00, including ¥0.50 to mark the 85th anniversary of the Bank and on top of that a special ¥1.00 dividend.

(Millions of yen)

	Non-consolidated			Consolidated		
	Forecast for the year ending March 31, 2019	Results for the year ended March 31, 2018	Year-on-year difference	Forecast for the year ending March 31, 2019	Results for the year ended March 31, 2018	Year-on-year difference
Ordinary income	18,000	17,633	367	19,000	19,640	(640)
Net income*	12,500	12,459	41	13,000	13,884	(884)

* Net income attributable to owners of parent for columns under “Consolidated.”

Progress in the 6th Medium-Term Business Plan—Achievement of 3 benchmarks out of 4

Of the benchmark challenges in the 6th Medium-Term Business Plan, we achieved three—total deposit assets (end of year balance) of ¥5,000.0 billion, total loans (end of year balance) of ¥3,500.0 billion, and 30% reduction in greenhouse gas emissions—a year ahead of schedule. We regard the meeting the remaining benchmark challenge of a 50% share of loans made within Shiga Prefecture as an important barometer of support from our customers, and are striving as a Group to achieve this target.

In long-term strategic benchmarks, we met our target for return

on equity (ROE), but the overhead ratio (OHR) deteriorated by 2.8 points, compared with the year ended March 31, 2017. Although we had some success in policies aimed at streamlining operations, including reduction in costs, the discouraging earnings environment was a reason for the decline of the top line. However, there were signs of improvement, with the yield on loans and bills discounted rising again in certain areas. We continue to take measures to increase high quality lending and steadily improve the situation.

Numerical targets for the 6th Medium-Term Business Plan and the results as of March 31, 2018

Items	Targets for the year ending March 31, 2019	Results for the year ended March 31, 2018
Total deposit assets (end of year balance) (total deposits + investment trust + public bond + financial instruments intermediary)	¥5,000.0 billion	¥5,003.0 billion
Total loans (end of year balance)	¥3,500.0 billion	¥3,631.4 billion
Share of loans made within Shiga Prefecture (excluding Shoko Chukin Bank and some other financial institutions)	50%	48.35%
Reduction in greenhouse gas emissions (an average 30% reduction compared to fiscal year 2006 over the three years from fiscal year 2016 to fiscal year 2018)	30%	33.54%

Long-term benchmark challenges (long-term benchmarks in a time-frame unrelated to the 6th Medium-Term Business Plan)

Items	Long-term benchmark challenges	Results for the year ended March 31, 2018
Return on equity ROE	5.0% or more	5.27%
OHR	Less than 65%	75.19%

“Shigagin SDGs Declaration”—Contributing to an improved society

Society faces many issues today that jeopardize the sustainability of economic activities, including climate change and environmental destruction. Many of these issues have arisen as by-products of the broadening of the scope of corporate business activities. Those companies that have developed by using valuable resources inherited from distant forefathers have a responsibility to pass on their legacy to future generations in a sustainable way. Now we see increased opportunities for achieving a sustainable society through SDGs. This is precisely the moment when corporations all over the world must join

hands and take measures to resolve issues facing society.

I believe we can make a contribution, however small, to social change through our Shigagin SDGs Declaration, by making these goals known among companies in the region and by expanding measures to resolve issues facing society. We have set three aims in the Declaration: (1) establishing the regional economy (2) a sustainable global environment, and (3) fostering diversified human resources. These have been set as Target 2030 areas for priority action by the Bank.

“Establishing the regional economy”

The sustainability of the regions faces threats such as the onset of full-scale population decline, with the declining birthrate and an aging population and more people moving out into the cities. As a result, in fiscal 2015, Shiga Prefecture led the country in indicators such as number of companies going out of business, and its effect surfaced. If this trend continues, it is clear that there will be a fall in the number of companies, the providers of regional employment, and a vicious circle will develop as population decline is expedited. We must boost the earnings power of the regions, enriching daily life and spurring formation of vigorous communities. In this endeavor, the Bank supports entrepreneurs addressing the challenge of creation of new businesses that base their operations on resolution of issues facing local society.

For example, our New Business Support Loan (SDGs Plan), launched in March 2018, is a financial product that supports new businesses that contribute to the achievement of SDGs. The first recipient was a company addressing the resolution of issues facing society through an independently developed water purification system. The company technology is not only involved in projects such as the famous moat around the Imperial Palace in Tokyo, but can also be adapted to the challenges of land-based blowfish-farming, raising expectations that it can also help protect marine resources.

We will also support the creation of new businesses that serve as platforms for resolving social issues, by incorporating elements of SDGs into our annual Saturday School for Entrepreneurship and Eco Business Matching Fair.

Likewise, through opportunities created by, for example, the Ratings Communication Service (page 26), we develop dialogue and proposals for solutions to issues arising at the different development stages of customer businesses. In M&A support, one of our services, we helped arrange deals involving 10 pairings (20 companies) in the previous fiscal year, and our deeply experienced experts actively support business customers facing issues such as lack of successors. As a result, we won the Bank of the Year top award in the 6th M&A Bank of the Year competition (hosted by Nihon M&A Center Inc.), in recognition of our contribution to the ongoing viability of companies underpinning the regional economy and to keeping up employment levels.

Looking ahead, we plan to further develop our role as a comprehensive financial and information services provider, through corporate strategy proposals rooted in climate change and productivity-boosting policies using ICT and big data. Through these measures, we are strengthening our consultancy role for businesses that base their operations on meeting problem-solving needs.

“Sustainability of the global environment”

Deeply affecting all parts of the earth, the impact of climate change has already become an urgent topic. It is essential to go beyond the 2°C target agreed in the Paris Agreement for carbon reduction and decarbonization. As an enterprise headquartered near the shores of Lake Biwa, the Bank considers its mission to be early recognition of environmental problems, and carrying out environmental management centered on protection of the environment and biodiversity. As the only “Eco-First Enterprise” in the banking industry in Japan, we will further deepen and expand these initiatives.

The 6th Medium-Term Business Plan of the Bank contains the

numerical target of a 30% reduction in greenhouse gas emissions compared with fiscal 2006. In the belief that it is necessary to take on more ambitious long-term challenges to achieve the 2°C target, we are compiling our next Business Plan. We are further deepening our commitment to reducing greenhouse gases, promoting the rate of introduction of renewable energy and installing energy-saving equipment at Bank branches.

In addition to arranging the Eco Business Matching Fair, to support the environment-related businesses of our customers, we are stepping up measures in close partnership with our customers.

For example, in the case of a company addressing the challenge of processing daily wastewater discharge in India, we are contributing to smooth completion of the research stage by sending a member of the Bank staff to join the project study team, in cooperation with Japan International Cooperation Agency (JICA).

The Bank is also buying into the Low Carbon Equity Fund, which invests in companies engaged in JICA bonds and carbon reduction initiatives. Amid mounting social pressure for ESG investment that takes account of environmental and societal impact, we aim, as a bank committed to protecting the global environment through the

circulation of money, to further step up our focus on environmental and social impact.

Measures to improve the social environment are also important, given the spread of special fraud, money laundering and other cyber crimes, of which the threat is growing due to advances in information technology. The issue of asset formation planning has arisen as life-spans of over 100 years become normal. We shall also focus on raising standards of financial literacy at the regional level, given concerns of an increase in special fraud victims among younger people, as the age of majority is brought down.

“Training a diversified workforce”

It is essential to create organizations and communities that can foster change in approaches to work, promote diversity and create workplaces where anybody can give free rein to their individuality in a healthy environment, for ensuring corporate and regional sustainability.

In our operational overhaul project that is one of the initiatives for boosting productivity, the Bank has been repeating trials at five branches currently with a view to extending the program to all branches from fiscal 2019.

Backed by digital technologies, the project seeks to greatly reduce back-office work volumes through a fundamental review of administrative workflow, and aims to shift the Bank to next-generation branches that emphasize value-adding proposals through closer contact with the customer. We aim to further strengthen our banking operations putting the customer first by shifting from a traditional “baseball approach” with a clear division of labor, to a “soccer approach” in which all (branch) staff members respond to customer needs. We are proceeding with creation of

systems that make proposals based on joint consideration by all (branch) staff members of customer life plans, so as to increase the efficiency of operational reforms. The Bank employed 172 Financial Planners with grade 1 qualifications as of March 31, 2018. We are committed to further developing our consulting capabilities, and will strengthen systems.

Looking ahead, with the labor shortage expected to further deepen, it is also important to launch initiatives that promote staff retention, such as creating workplaces that give broader scope to women, maintaining employee health, and offering care and recuperation facilities. We believe that it is precisely workplaces where a wide range of people including the aged, the physically impaired, and foreigners can work enthusiastically that will ensure a vigorous regional community. The Bank will contribute through its principal business to establishment of regional communities that ensure participation of a wide variety of human resources.

Aiming to ensure a sustainable society through “creation of shared values”

Looking 10 or 20 years into the future, how should regional banks position themselves? Through the evolution of digitization and financial technology, banking is entering a period of unprecedented reorientation. Against this background, it will not be possible for regional banks to survive if they get wrapped up in conventional business models. Under the “backcasting” concept, we need to develop a new posture for bringing about the reforms that will enable us to realize the vision of Shiga Bank that circumstances require.

In the belief that without development of the regional community, we cannot develop ourselves either, the Bank has taken pioneering measures in CSR management. In other words, shaping a vision for our region is the mission that gives meaning to our existence as a regional bank. To ensure the future prosperity of the region, we must rack our brains to find approaches to issues facing the region and resolve them in partnership with our customers and other stakeholders. It is precisely the shared values that this will generate that will form the cornerstone of development of the Bank.

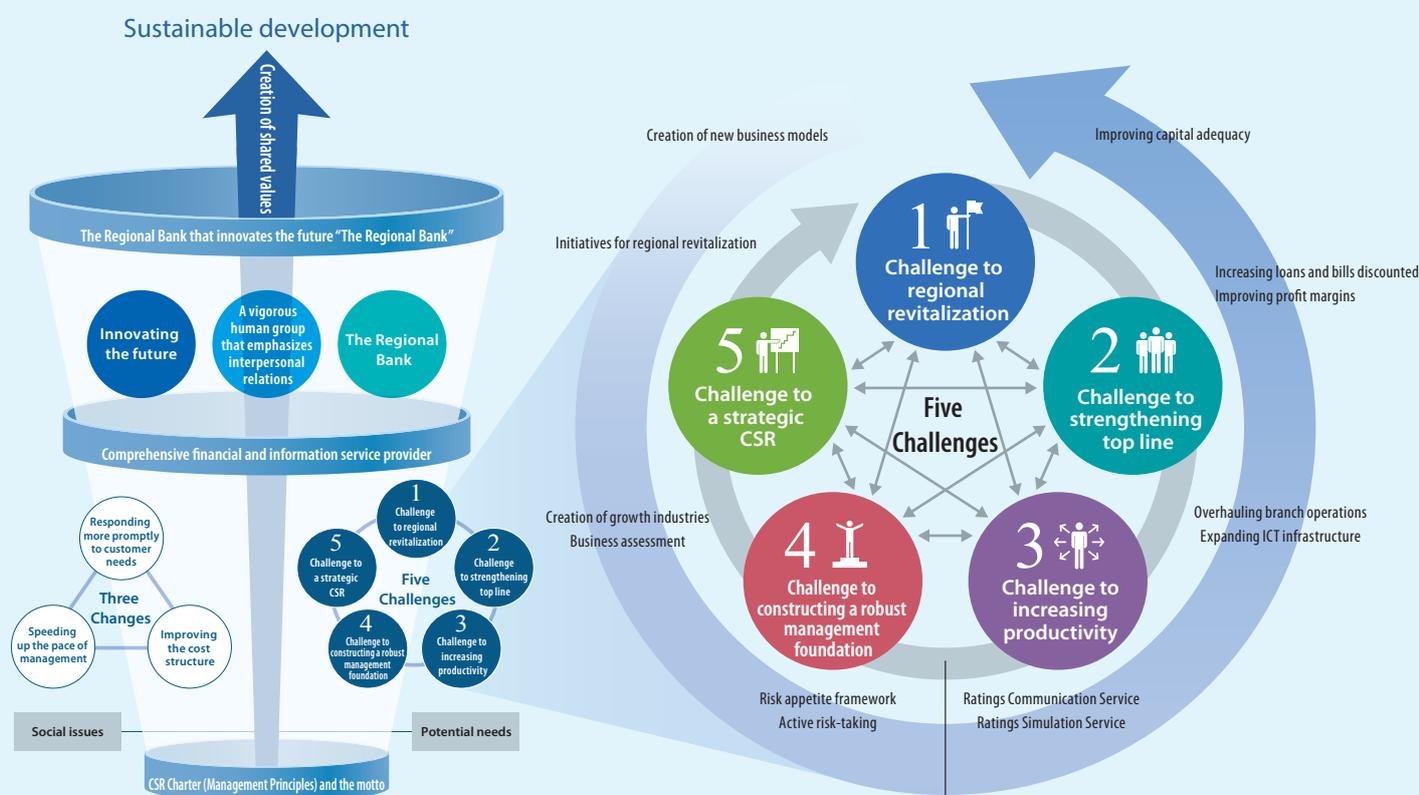
Shiga Bank aims to ensure a sustainable society through the

sharing of values with regional communities, customers, shareholders, employees and all other stakeholders.

I look forward for the continued understanding and support of all stakeholders in this endeavor.



Outline of the 6th Medium-Term Business Plan



Business strategies through five challenges

<p>Challenge to regional revitalization</p>	<ol style="list-style-type: none"> 1. Maximize the potential of the region and create a virtuous circle propelling its economy 2. Tailor measures to the client company's stage of development 3. Contribute to the development of the regional economy by providing financing and solutions based on the Bank's business assessment service 	<p>Page 24</p>
<p>Challenge to strengthening top line</p>	<ol style="list-style-type: none"> 1. Strategies for corporate customers (1) Sound and proactive risk-taking 2. Strategies for corporate customers (2) Establishment of a profitability model that is not governed by the financial environment 3. Strategies for individual customers (1) Strengthen our consulting system for assets under custody through a strategy that integrates corporate and individual needs 4. Strategies for individual customers (2) Deep-digging strategy that mobilizes regional markets to overcome declining population 5. Strategies for individual customers (3) Evolution of direct marketing based on call centers and ICT platforms 6. International financial strategy Spread Asia expertise overseas 7. Market investment strategy Challenge of maximizing profitability 	<p>Page 32</p>
<p>Challenge to increasing productivity</p>	<ol style="list-style-type: none"> 1. Reform of branch operations to strengthen relationships with the customer, review of roles of branches in light of market characteristics and trends 2. Creation of new financial services through partnerships with FinTech companies and expansion of customer contact points through non-face-to-face channels 	<p>Page 40</p>
<p>Challenge to constructing a robust management foundation</p>	<ol style="list-style-type: none"> 1. Expansion of ICT platforms supporting the strengthening top line and improvement of productivity 2. Strengthening of risk and governance systems, training of Bank employees in good citizenship and sense of professionalism, measures to promote positive action 	<p>Page 44</p>
<p>Challenge to a strategic CSR</p>	<p>Creation of shared value through conventional CSR+α (strategy-making)</p>	<p>Page 52</p>