



Shojiro Takahashi

President

I would like to take this opportunity to thank you for your continued support of our operations.

In 2019, coinciding with the change in era name from Heisei to Reiwa, the Shiga Bank formulated the 7th Medium-Term Business Plan (from April 2019 to March 2024) and started a new chapter in April. As an enterprise headquartered near the shores of Lake Biwa, the Bank has long placed importance on “environmental management,” and its history corresponds to the vision of Sustainable Development Goals (SDGs) proposed by the United Nations. Upon publishing this integrated report, given the significance of the social impact brought by finance, we compiled our efforts for increasing corporate value which incorporate SDGs in management, and our policies for advancing problem-solution type businesses toward realizing a sustainable, recycling-oriented society. Our goal is to become a “Sustainability Design Company.” Going beyond the framework of a “Bank,” we are committed to becoming a “Company” indispensable to the region. Here I will discuss the Bank’s vision guided by that commitment.

We create a society where everyone can define their future and live happily

Taking on a period of business model transformation

With the rapid uptake of digital technologies, population decline coupled with a declining birthrate and an aging population, in addition to the spread of “SDGs perspective” intended to resolve social issues such as climate change risk and food loss, Japan is currently undergoing drastic changes in the concept of values. Competition in existing business models is becoming increasingly intensified and complex with entries from other sectors, and an unclear outlook is forcing industries to struggle for direction. However, the situation does not change if we just stand by and do nothing. To break the impasse, we anticipate the trends of time with the concept of “backcasting,” and confront the issues faced by society and the economy so as to establish a resilient foundation and take on the challenge of resolving social issues. I believe it is this approach that will spur sustainable development of the region and the Bank.

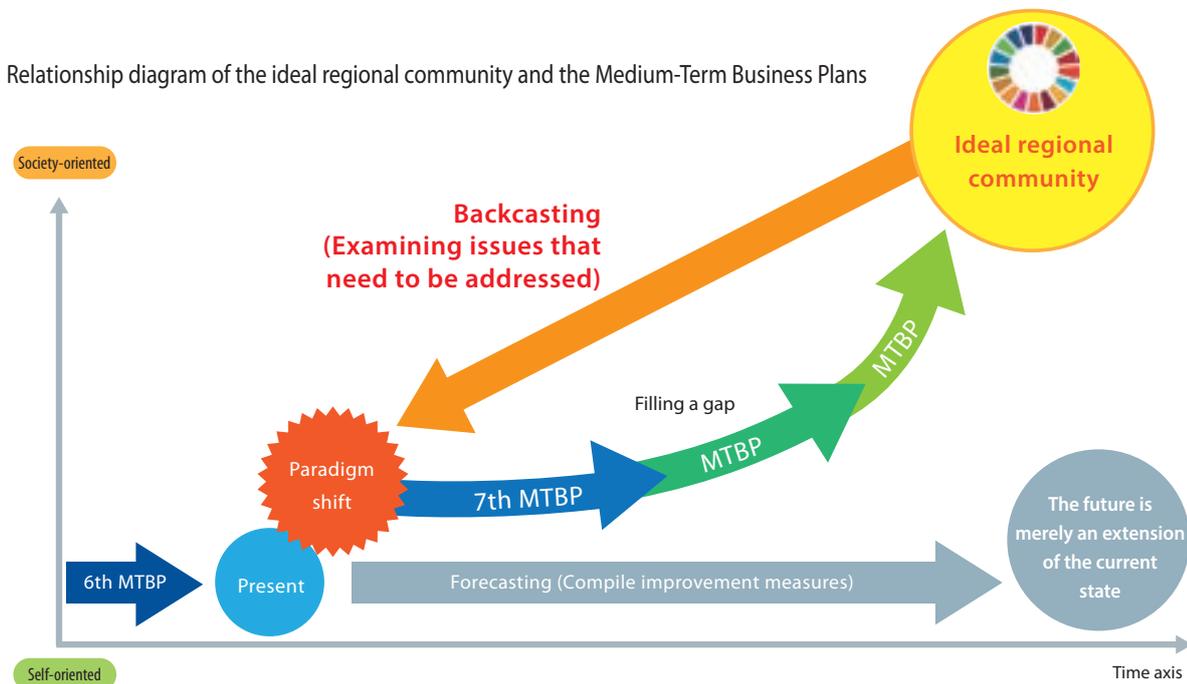
Long-term vision of the Bank

In an age of uncertainty, many people tend to feel a vague anxiety. Given this situation, we would like to uphold a vision that will remain unchanged now and into the future:

“A society where everyone can define their future and live happily.” It is a vision to realize a society where everyone is granted the right to have hope for the future and wish to live happily. Society should be a place where the generation of our children and grandchildren can also define their future. We must not only pursue a stable life for our generation, but also establish a society where coming generations can have hopes for their future and everyone on earth can continue living with peace of mind, and it is our duty to pass down such a society to succeeding generations.

Concurrent with the formulation of the 7th Medium-Term Business Plan that started in April 2019, we made this belief a Sustainability Vision of the Bank. This is the first long-term vision established from the viewpoint of backcasting, and is supported by the theme of “realizing a sustainable society through co-creation with the region,” which serves as the backbone of the vision.

In regional communities, there exist many issues to be addressed, including economic contraction due to depopulation combined with a declining birthrate and aging population, rapid uptake of digital technologies accompanying digital divide issues, and diversification in needs due to lifestyle changes. The environment is severe, but there will be hope if we at the Bank are close to the communities to resolve their issues by helping children



realize their dreams, or people pursue their careers or ideal lives. Such hopes should motivate people to live in this region, and the settlement of people will vitalize the community and foster cultures, attracting more people and expanding business horizons. We will devote the utmost effort to establish a mechanism to create such a virtuous cycle in the region and to define the future of the region and realize its dreams. I believe this is a social mission that gives meaning to our existence as a regional financial institution.

Clearly, it will take time to realize such a society, but nonetheless, in order to strive for sustainable development of the region, I believe it is vital to remain true to the policy over the long-term without being swayed by near-term changes in the environment. Amending our time axis that tends to be short term, we will commit ourselves to creating an environment where sustainable development of the region can be pursued while striking a balance with a long-term perspective toward realizing the vision.

A milestone toward accomplishing the mission

Realizing sustainable development of the region is the mission that the Bank undertakes. To that end, we have set a milestone for the year 2030, a behavioral indicator that corresponds to the three areas for priority action upheld in the Shigagin SDGs Declaration: (1) Establishing the regional

economy; (2) Sustainability of the global environment; and (3) Training a diversified workforce.

In “Establishing the regional economy,” we will concentrate our management resources in resolving issues facing the region and create new, outside-in business models so as to create a sustainable regional economy.

For “Sustainability of the global environment,” the Bank will work to decarbonize the region and formulate a recycling-oriented society with the introduction of renewable energy utilizing local resources.

Toward “Training a diversified workforce,” we will foster human resources capable of design-oriented thinking and with literacy required for resolving regional issues, along with expertise in AI and IoT. Also, we will take measures to publicize and promote the SDGs concepts and financial literacy. Pressing forward with these three initiatives in an integrated manner, we will create and enhance economic value and social value at the same time, and thereby spur development of regional communities.

Change of viewpoints From bank-oriented to customer- and society-oriented

As with existing borders breaking down in the field of business, banks also need to change themselves with creativity that goes beyond prior frameworks. In the



7th Medium-Term Business Plan, we set out “Change of viewpoints” as a fundamental concept. Business targets and initiatives were traditionally formulated from the standpoint of the Bank, but we changed to primarily focus on customers and regional communities. Targets were then determined in light of our understanding of customers’ goals and issues facing the region, along with how we contribute to addressing them.

In addition, in order for us to aim for sustainable development of the region, we extended the plan period from three years to five years to enable ourselves to steadily work on major reforms from a long-range perspective. To make a profound shift to a business model and internal systems designed to achieve sustainable development, it is essential to invest in ICT systems including the introduction of tablet devices, implement productivity improvement measures, and develop “problem-solution type human resources.” We will have these established in the first half of the plan period, and move into a growth trajectory in the second half.

What the Bank should aim for Sustainability Design Company

The measures under the 7th Medium-Term Business Plan, which are to be mentioned later, were set up to help develop multiple co-creation initiatives involving all stakeholders. In the course of formulation, all employees considered regional issues and thought through what should be done

to moderate the economic contraction of the region. Based on the Sustainability Vision, we defined the ideal figure of the Bank as a “Sustainability Design Company,” which manifests our resolve to “become a company that plans and creates sustainable development for customers and regional communities by going beyond the ideas and framework of traditional banks.” The main theme is “Define a future and realize a dream.”

In the banking industry, moves for reorganization and integration for survival are expected to be more active. Companies would fail if they are engaged in short-term measures merely to cope with immediate issues. In the 6th Medium-Term Business Plan (from April 2016 to March 2019), the Bank defined its ideal self as “the Regional Bank that innovates the future ‘The Regional Bank’” by differentiating itself from megabanks and representing its commitment to become the “very best regional bank” that is close to its customers. And the future vision that will lead us to a higher stage is the “Sustainability Design Company,” which is the ultimate goal of pursuing “the Regional Bank that innovates the future ‘The Regional Bank.’” To express our strong determination to go beyond the concept in the previous vision, and to seek our domain (meaning of existence) with a more flexible mindset, we replaced the word “Bank” with “Company.” Further evolving our initiatives, we will design the future of regional communities together with customers, give serious thought, and stay close to customers so as to become a “Company” indispensable to the region.

Initiatives to improve corporate value

Evolve into a problem-solution type financial information service provider

The value of our business lies in the promotion of integrated development that links economies, environments and people in the regional communities, aiming to realize sustainable development of the region. This requires “collaborative creation,” or close coordination and

cooperation, with stakeholders. The Bank’s development is unattainable without development of the region. To fulfill this mission, we will strive to evolve from a “financial information service provider” that utilizes information and networks into a “problem-solution type financial information service provider” and thereby better fit in with the regional communities, achieving a brighter future together and taking concrete actions to this end.

The Bank has operated environmental management under the motto of “protecting the global environment through the circulation of money.” Going one step further, we will take measures in the spirit of “changing society through the circulation of money” and “transforming society into sustainable one through the circulation of money.” Finance has the power to change society, and we are aware that the Bank bears that responsibility. We would like to see regions forming independent and dispersed communities by making the best use of their respective local resources, and complementing each other according to their characteristics. In realizing such “Regional Circular and Ecological Sphere,” regional financial institutions need to serve as a driving force to establish a network for “collaborative creation.”

Promotion digitalization

Digital technologies have become essential to businesses today. The Bank has introduced a smartphone settlement app in partnership with a FinTech company, and also joined J-Coin Pay and other services to enhance the level of customer service. Moreover, with participation in the TSUBASA Alliance in May 2019, we established a framework under which information is shared with other banks, namely, The Chiba Bank, The Daishi Bank, Chugoku Bank, The Iyo Bank, The Toho Bank, North Pacific Bank, The Hokuetsu Bank and The Musashino Bank. This collaboration is expected to involve research and study in the areas of cutting-edge ICT, and sophistication of financial systems. Exchanging information closely, we will jointly tackle new issues under the alliance. With further utilization of ICT, the Bank promotes digitalization to achieve greater convenience for customers, while boosting productivity through introducing ICT in operations. Supporting the response to the shift to ICT and cashless services not only at the Bank but also in the region, we will contribute to increasing productivity in regional communities.

With the advancement of digital technologies including AI and IoT, the significance of digital transformation is increasing, among which is the idea to rebuild management methods and business processes with the use of technologies. This idea is expected to form new markets and create new value, and may even change the shape of society. Every company must have its own strategies for digital transformation, and the Bank likewise plans to devise it gradually.

Turning SDGs into business

In order to combat climate change and prevent global warming, there are calls for decarbonization of society. As can be seen by plastic marine pollution demanding immediate response, actions in line with SDGs are spreading on a global scale. Thus, the concept of “sustainability” is becoming a starting point for people’s values and activities. Companies have come to be aware that areas that were previously regarded as costs may eventually generate economic losses over the long-term without taking measures in advance, and such measures are now being widely considered as investment in the future. Against this backdrop, in the financial sector, management is required to attach importance to social impact. The Bank will implement such management, and at the same time wish to let customers also turn SDGs into business, and to develop mechanisms in each region to resolve problems together. The TSUBASA Alliance jointly formulated the TSUBASA Declaration on SDGs. Through the nationwide network, we share information on issues facing each region with the participating banks and work to resolve them.

The Bank is also stepping up its activities to enhance SDGs and financial literacy targeted at the region, customers and human resources responsible for the next generation, in addition to those at the Group. In particular, understanding of SDGs is of primary importance, without which we may be left behind by the profound changes of time. Said differently, if we gain a thorough understanding of its essence, I believe that we can seize significant, unprecedented opportunities.

Further deepen CSR management

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

As the social mission of a corporation whose headquarter is located next to Lake Biwa, an “asset to be held in custody for future generations,” the Bank has operated environmental management in the spirit of “protecting the global environment through the circulation of money.” The underlying basis of the new Sustainability Vision is the motto of the Shiga Bank that upholds the spirit of the “Sampo yoshi” management philosophy embraced by merchants in the Omi region of central Japan, and the unchanging spirit of

“ensuring mutual prosperity with the regional communities, all employees and the environment” upheld in the CSR Charter (Management Principles).

Under the SDGs principles that should further embed CSR management at the Shiga Bank, and as a commitment to working to ensure a sustainable society, the Bank published internally and externally the Shigagin SDGs Declaration, the first for a Japanese regional bank, in November 2017. This was followed by the launch of the New Business Support Loan (SDGs Plan), a financial product that supports clients taking on new businesses that contribute to the achievement of SDGs. We then redesigned our CSR private placement bonds as SDGs private placement bonds. In addition, as joint guarantors under housing loans, we added same-sex partners to the definition of “spouse” so as to make loans more convenient to LGBT couple customers. Aside from these measures, under the Shigagin Nonohana Prize program, we established the SDGs Prize as a special prize, and also incorporated elements of SDGs into our

Eco Business Matching Fair. In this manner, we support the creation of new businesses that serve as platforms for resolving social issues. From fiscal 2019, the Eco Business Matching Fair was renamed as the SDGs Business Matching Fair by expanding its scope.

In recognition of these initiatives, the Bank received the special award “SDGs Partnership Award” at the 2nd Japan SDGs Award hosted by the government’s SDGs Promotion Division, in December 2018. We were the first financial institution in the nation that received a prize at the award. In addition to the above, our efforts have been acclaimed by various sectors. One such example is the Minister of the Environment Award (Regional department) for excellent efforts during fiscal 2018, which was awarded by the Principles for Financial Action for the 21st Century. It provides great encouragement to the Bank to have received high commendations for its measures to support the creation of new business models that serve as platforms for resolving social issues.

Results of the 6th Medium-Term Business Plan and issues

Earnings results for the fiscal year ended March 31, 2019

Thus far, I have explained mainly our aspirations, and now I present a progress report on earnings for the fiscal year ended March 31, 2019.

The Bank posted net income attributable to owners of parent of ¥14.6 billion, up ¥0.7 billion year-on-year. Deposits and loans both performed well, with deposits (the average balance of deposits during the period including negotiable certificates of deposits) increasing by ¥173.4 billion year-on-year to ¥4,803.9 billion and loans (the average balance of loans and bills discounted during the period) increasing by ¥164.6 billion year-on-year to ¥3,696.7 billion, both on a non-consolidated basis. The capital ratio (consolidated) was 15.68%, and the total of risk-monitored loans was ¥52.6 billion, accounting for 1.39% of total loans and bills discounted. We expect net income (consolidated) of ¥12.3 billion in the fiscal year ending March 31, 2020.

Results of the Change & Challenge

In the 6th Medium-Term Business Plan (from April 2016 to March 2019), under the main theme of Change & Challenge, we took measures with “The Regional Bank that innovates the future ‘The Regional Bank’” as the vision. Further deepening “community-based finance based on the spirit of mutual prosperity,” and aiming to become the very best regional bank close to its customers, we set total deposit assets of ¥5,000.0 billion (end of year balance), total loans of ¥3,500.0 billion (end of year balance), share of loans made within Shiga Prefecture of 50%, and a 30% reduction in greenhouse gas emissions, as benchmark challenges. As a result, we achieved the targets of total deposit assets and total loans a year ahead of schedule. The share of loans made within Shiga Prefecture came to 49.42%, falling just one step short of the target; however, during the three years of the plan, the share increased by 2.1% and I believe that we achieved certain results. Our initiative for reductions in greenhouse gas

emissions achieved the benchmark and ultimately we greatly exceeded targets in three numerical targets.

In long-term strategic benchmarks, we met our target for return on equity (ROE) of 5.0% or more, and for the fiscal year ended March 31, 2019, it came to 5.77%, a year-on-year increase of 0.50 points. But the overhead ratio (OHR) was 76.80% compared to the target of less than 65%, a deterioration by 1.61 points year-on-year. Although we had some success in cost reductions, a decline in the top line due to the effect of low interest rates was a reason for decline.

Despite a harsh business environment, implementation of the three changes (responding more promptly to

customer needs, speeding up the pace of management, and improving the cost structure) resulted in the favorable financial performance above. At the same time, there were some issues. The first one is that it is difficult to improve profitability if we depend only on previous business models. We must work harder to resolve issues facing customers in the region and build up service revenue. The second issue is reconciliation of greater convenience for customers and improvement in the Bank's productivity. It is necessary to accelerate measures utilizing FinTech.

Numerical targets for the 6th Medium-Term Business Plan and the results as of March 31, 2019

| Items | Targets for the year ended March 31, 2019 | Results for the year ended March 31, 2019 |
|--|---|---|
| Total deposit assets (end of year balance) (total deposits + investment trust + public bonds + financial instruments intermediary) | ¥5,000.0 billion | ¥5,188.6 billion |
| Total loans (end of year balance) | ¥3,500.0 billion | ¥3,795.8 billion |
| Share of loans made within Shiga Prefecture (excluding Shoko Chukin Bank and some other financial institutions) | 50% | 49.42% |
| 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% | 35.62% |

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, 2019 |
|----------------------|--------------------------------|---|
| Return on equity ROE | 5.0% or more | 5.77% |
| OHR | Less than 65% | 76.80% |

Toward the accomplishment of the 7th Medium-Term Business Plan

Sustainable Development targets (SD targets)

Allow me to add some explanation about the 7th Medium-Term Business Plan.

As benchmark challenges under the 7th Medium-Term Business Plan, we have set five SD targets, which

are indicators that visualize and quantify progress in our measures to achieve sustainable development of customers, regional communities, and the Bank. Our belief is that meeting these indicators will eventually raise the corporate value of the Bank. If no action is taken, it is probable that the economic scale of the region will continue to shrink. The Bank helps boost "SD" of the regional communities, exerting

its utmost efforts to contribute to the development of the regional economy.

Indicator 1: Investment and financing to promote SD (Sustainable Development)

We will grant new loans to customers based on business assessment, make new investments and financing through problem-solution type products such as SDGs, and execute SD promotion investments such as green bonds and ESG funds, for a cumulative total of ¥500.0 billion in five years. The Bank will engage in problem resolution and growth support through substantial and deep dialogue with customers and regions.

Indicator 2: Value improvement support for regional customers

Our target is to raise the number of consultations per year to 1,000 cases in the final year of the plan from the current 700. Through having empathetic dialogue with more customers, we provide consultation that leads to value improvement, and aim to support the sustainable development of customers' economic activities.

Indicator 3: Asset formation support for regional customers

We pursue the goal of accumulating customers' balance of assets under custody (investment trusts + financial products intermediary) of ¥300.0 billion. With life-spans of over 100 years, issues have arisen such as national pension issues accompanying a low birthrate and aging population, and those indicated by financial gerontology. Through addressing these problems and supporting customers in their asset formation planning, we will contribute to realizing a prosperous regional society.

Indicator 4: Reduction in greenhouse gas emissions

The Bank will reduce greenhouse gas emissions by 25% (compared with fiscal 2013). We will also encourage the introduction of renewable energy in the region. Utilization of local resources and increased use of renewable energy will not only serve as measures to combat global warming but also relieve dependence on imported energy and strengthen the foundation of the regional economy.



Indicator 5: Activities for promotion and improvement of SDGs and financial literacy / Training of next-generation workforce

The Bank is stepping up activities to enhance SDGs and financial literacy targeted at the region and customers, in addition to those at the Group. We will also deepen our expertise in AI and IoT which are requisite for the age to come, and train human resources essential for resolving social issues. Our target is to provide training programs to 5,000 persons.

Sales promotion strategy

The fundamental concept of the 7th Medium-Term Business Plan "Change of viewpoints," which serves as a basic stance to achieve these targets, contains three "viewpoints to be changed": From the Bank-oriented perspective to the customer-oriented perspective (market-in); from the short-term perspective to the long-term perspective; and from the

past-oriented perspective to the future-oriented perspective (backcasting). By changing our viewpoint as a bank to the viewpoint of customers, we will get close to the dreams (goals) of the region and customers and engage in sales promotion to realize these dreams (goal-based support).

To achieve this, we made the following three changes to our sales promotion strategy.

1) Change performance evaluation period

The period subject to internal performance evaluation has been changed from a six-month period to a full fiscal year period. This change suppresses from falling into the pursuit of short-term results from the Bank-oriented perspective and enables long-term assistance that helps resolve issues facing customers and the region.

2) Establish a process department

To link our consulting capabilities cultivated thus far to market-in problem resolution, we established a process department for performance evaluation. In addition, without distinguishing corporate customers from individual customers, consultation will be provided as a one-stop service. With the introduction of a new system that evaluates such initiatives, we will strive to enhance sophistication of our solutions from the perspective of customers.

3) Introduce behavioral evaluation

Behavioral evaluations made by area managers, who bridge headquarters and branches, has been incorporated in the process department. Area managers will evaluate whether the activities of branches are based on the market-in approach according to behavioral standards and behavioral indicators, while providing support as needed.

In addition to the above, to promote problem-solving measures that go beyond the traditional framework of a regional bank, the Bank kicked off the regional trading company project. Under the project, a system is now being developed to explore local resources and support tourism promotion and ICT introduction in the region and by customers.

Training “problem-solution type human resources”

With a greater emphasis on market-in business activities, we will refine our business literacy so as to create “customer delight (CD)” that goes beyond “customer satisfaction (CS).”

Specifically, we are stepping up efforts to foster “problem-solution type human resources” capable of listening to customers’ goals (vision, targets, dreams, etc.), putting themselves in customers’ shoes, standing by the customers and having an accurate understanding of their thoughts and ideas, and demonstrating solutions by proposing the best ways to help them reach their goals.

Additionally, with a view to nurturing employees with broad knowledge that can be used for problem solving without distinction between corporate and individual customers, we have started property planners development and a corporate customers consultation trainee program. The purpose of these programs is to provide to business owners more sophisticated solutions in a one-stop manner, given that consultations for corporate customers and those for individual business owners are inherently inseparable. The Bank has 188 staff members with Financial Planning Grade 1 qualification (as of March 31, 2019). To further raise its consulting capability, in the 7th Medium-Term Business Plan, we aim to increase this number to 300 as early as possible.

While working to train “problem-solution type human resources,” we will further foster a corporate culture that encourages heartfelt communication both inside and outside the Bank, and further promote measures for raising “employee satisfaction (ES).”

Measures for increasing productivity

In the 6th Medium-Term Business Plan, we strove to increase productivity through branch integration and shifting of branches to agents. We will continue to further raise productivity in the 7th Medium-Term Business Plan without exception. In February 2019, the “Block-system” was introduced on a trial basis. Under the system, we aim to increase information density and, with an aim to swiftly respond to customers, consolidate personnel at member branches who are in charge of funding to a leader branch while streamlining branch clerical work.

In addition, we started the extension of the operational overhaul project to all branches in April 2019. The project seeks to greatly reduce back-office work volume through fundamental reviews of administrative workflows and digital technologies, and aims to shift the Bank to next-generation branches that emphasize value-adding proposals through closer contact with customers. The project has been gradually developed by area and is expected to be complete in fiscal 2021.

In partnership with all stakeholders Aiming to realize a sustainable regional society

Actions based on the SDGs concept are expanding on a global scale, including response to poverty, diversity, and climate change. In order to develop the world into a better place for the future, we must strive for sustainable development built upon a virtuous circle propelling the economy, environment and society.

In the business sector, operations are now transcending traditional industry boundaries. In the age of drastic change in each and every field, "changing" merely through an extension of existing frameworks would not be sufficient to survive; upon changing, we must "evolve" so as to generate something new.

Our belief is that developing businesses in line with the SDGs concept will create "shared value (evolution)" that reconciles the twin imperatives of economic value and social value, and eventually drive development of regional

communities. To create "shared value," however, the power of finance alone is not sufficient. What it takes to realize a sustainable society is co-creation with various stakeholders that share the same aspirations, such as our customers, regional communities, shareholders, local governments, employees and their families.

"A society where everyone can define their future and live happily"

Having this value shared with our stakeholders and making the SDGs into a power for change, the Shiga Bank continues to make contributions to the sustainable development of regional communities.

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

