

# Message from the Outside Director

We will remain an indispensable bank for the region amid changes in society and time



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Director

**Q** What do you have in mind toward sustainable growth and mid- to long-term enhancement of corporate value of the Shiga Bank?

**A** As an Outside Director, I must: (1) outline direction such as corporate strategies and contribute to creation of an environment which supports appropriate risk-taking; and (2) supervise the executives in an effective manner. Regarding the former, I provide the executives with useful information that I gather by using my network. Through this way, I would like to narrow in on an “unexpected range” for the executives and create an environment where stable management is easily ensured over the mid- to long-term. Also for the latter, I am collecting information about what is going on in the Bank.

What I think is important for the Bank’s sustainable growth is to change “the best in the past but not now” immediately to the best at present, amid significant changes in the environment surrounding the regional bank management. The executives should already know this through meetings with the relevant authorities and discussion at Board of Directors meetings. In order to enhance customer value, it will be important for employees working in the field to review whether their work practices are

rational, not just “sticking to old customs” amid the advancement of digitalization and ongoing ultra-low interest rates, in light of the purpose of the Medium-Term Business Plan and messages from meetings of the branch managers, etc., to present problems proactively to their superiors, and to diligently work on their duties with confidence. I believe this is the meaning of “Mindset-Work reforms” in the Medium-Term Business Plan.

**Q** What are the strength of the Shiga Bank?

**A** I mention three points. Firstly, its corporate identity has been established and a sound corporate culture seems to have taken root. The Bank’s motto (being tough on ourselves, kind to others and serving society) had been already adopted when current officers and employees joined the Bank. Therefore, I feel that the officers and employees share the common image of the Bank’s ideal vision as they have been taught to live up to this motto repeatedly on various occasions. Particularly, when officers and employees face an unprecedented situation, the motto will be something to fall back on. I believe that this greatly helps to maintain the high reputation of the Bank.

Secondly, the Bank utilizes the achievements of its sophisticated credit risk management for business activities, etc. The Bank has worked for sophistication of credit risk management before others and based on the data, conducted "ratings communication" with nearly 4,600 customer companies to share their recognition of their current situations and have discussions about, for example, how customer companies can grow sustainably in the future. This has greatly contributed to expansion of the Bank's business base. Furthermore, the Bank also utilizes the achievements of its sophisticated credit risk management practically for business management, such as management of branches and criteria for timing and size of risk-taking, which is a go-ahead attempt.

Finally, the Bank has positioned Sustainable Development Goals (SDGs) adopted by the United Nations in 2015 as a pillar of its management. SDGs are an approach of contributing to society through companies' business operations. The Bank understands this as the ideal vision of a regional bank and announced the Shigagin SDGs Declaration in November 2017, the first as a regional bank. Regional banks can never grow without development of local companies which support regional economies and as young people are more aware of social contribution, positioning SDGs as the core of management will motivate employees and help support the Bank's sustainable value creation.

Q

**How were the Outside Directors involved in developing the new Medium-Term Business Plan that started in April? Also, what is your evaluation about the new Medium-Term Business Plan?**

A

The Board of Directors had six discussions about the current Medium-Term Business Plan. Currently, regional banks are facing a difficult business environment such as a decreasing population, continued ultra-low interest rates, and accelerating digitalization. It may be said that sustainability of regional banks themselves are being tested. However, financial functions are essential for regional economy and this will never change. I thought a key for the current business plan is to create foundations such that the Bank will be able to meet such financial needs into the future.

Executive members initially presented two approaches: (1) the Bank should help in slowing down the pace of shrinking of the regional economy with decreasing population even a little bit; and (2) a direction for the coming five years should be presented, counted back from the ideal vision for fiscal 2030, which is the last year of the SDGs. I thought that this indicates materialization of "The Regional Bank" set out in the previous Medium-Term Business

Plan and supported this direction strongly. The Bank showed its ideal vision as a "Sustainability Design Company," using the word "Company" instead of "Bank." I view this highly because it responds to future prospects that "financial functions will be positioned as a part of the service industry" with further digitalization. Many employees must have joined the Bank as they were attracted by the phrase "design the regional society" on the recruitment brochure. I hope that they promote "Mindset-Work reforms" so that such motivation will be realized in the current Medium-Term Business Plan and as a result, the Bank will become indispensable for the region.

Q

**What is governance a regional bank should aim for?**

A

Recent governance reforms have been conducted to boost sustainable value creation of listed companies. Japan's Corporate Governance Code adopts the "comply or explain" rule and therefore, the Bank, as a listed company, needs to consider requirements of the Code deeply and take a stance that if a code is reasonably inappropriate given a regional bank's mission of facilitation of regional finance, the Bank should not adopt it and show a clear reason, while necessary codes should be adopted. For example, increasing ROE, on which the Code focuses, may decrease capital adequacy which indicates soundness and so striking an optimal balance needs serious consideration.

No matter how the Bank takes governance measures, what's important is, as the business environment surrounding regional banks is becoming increasingly severe, to prepare for any upcoming situations through open discussions about, for example, any potential risk that the executives may have overlooked and adequacy of the speed of business model reforming, utilizing the eyes and networks of Outside Officers.

