

TOP MESSAGE

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Striving to achieve a decarbonized society

The society in which we live and structure of the economy are undergoing dramatic changes. For over a year now the novel coronavirus pandemic has enveloped the world. With restrictions on social and economic activities put in place worldwide to prevent the spread of the virus, the real economy has deteriorated rapidly and the trend of transformation has dramatically accelerated. In Japan, the switch to remote methods is moving forward in people's activities, lifestyles, and businesses, and digitalization of society and the economy is progressing. Digital transformation (DX), i.e., using digital technology to reconstruct corporate management and business processes, has accelerated structural changes even further.

Companies face an environment with a wide range of issues—from the advent of digital society, to the pandemic and geopolitical risks—and the transition to a decarbonized society is another pressing matter. Financial institutions are involved in all aspects of the economy, so the risk of climate change that will lead to extensive natural disasters

will require them to take appropriate action as well. Society and the economy will not be able to recover after the pandemic without decarbonization, in other words reducing greenhouse gas emissions to virtually zero. Hopes are high for technological innovations in new energy sources such as hydrogen and renewable energy like solar and wind. And the new trend of green transformation (GX), which seeks to transform business from an environmental perspective, is poised to greatly change society and the economy along with digitalization.

In order to take action based on identifying risks and opportunities with a focus on the transformation into a decarbonized society, last September we announced that we would strive to achieve sustainability for the Shiga Bank Group and regional communities through digital technology by formulating a Sustainability Policy and implementing organizational reforms. Below I will explain the Group's initiatives to co-create a sustainable society with the regional community.

Co-creating a sustainable society

Society can maintain stability when the earth's environment is sustainable, and companies can continue when society is stable. Companies are kept moving by society and keep society moving. A company cannot exist on its own. And because companies are connected with so many external parties, they have a social responsibility. In order to be able to fulfill that responsibility, they must have a sound business. Companies must differentiate themselves from rivals, build competitive advantage, improve capabilities that underpin their business day by day, and switch to a style of management that strives to achieve a sustainable society, environment, and economy. From this point on corporate management will need to pursue a business portfolio that ensures that "the more the company grows the closer we come to achieving a sustainable society." The Shiga Bank wants to spread a style of management that takes on that responsibility and will be passed on to the next generation together with the regional community we are a part of.

Establishing a sustainable system

We formulated a Sustainability Policy to establish a foundation for steering the Bank in the future (see Page 12). The policy consists of five items: 1) Identification

of materiality areas and solutions to local problems through business activities, 2) Corporate management that emphasizes the social impact of business activities, 3) Establishment of a business model that contributes to the conservation and restoration of the environment, 4) Respecting human rights and building a relationship of trust with communities, and 5) Developing talent that can think and act independently and establishing a work environment that facilitates this.

Besides formulating this policy, we also revised our Environmental Policy to put greater consideration into initiatives for climate risk response and biodiversity preservation. The entire Shiga Bank Group is firmly committed to the following five points and is engaging in environmental management under the mindset of "protecting the global environment through the circulation of money": 1) Environmental conservation through business activities, 2) Initiatives to mitigate environmental impact, 3) Compliance with relevant environmental laws, 4) Governance and management systems, and 5) Full participation and information disclosure.

We also established a Sustainability Strategy Office in the General Planning Department and changed the CSR Committee into the Sustainability Committee in order to



discuss and deliberate future courses of action and other issues. It will cross-organizationally deliberate on policies and initiatives to contribute to the regional economy and the realization of a sustainable society, share the results throughout the entire Group, and translate that into action.

Leveraging digital technology

The pandemic has brought a variety of business issues to the forefront, but I do not think there will be much of a future for Japan unless we confront and resolve the country's delay in digitalization. Digitalization is essential for companies, local public agencies, and other organizations to increase operational efficiency and productivity, improve sales capabilities, and enhance customer response. Last October we established the Digital Promotion Office in the Business Promotion Department, and assigned a Digital Promotion Supporter, Digital Promotion Leader, and Digital Promotion Officer to each branch and area. We also enhanced our system to support digitalization of customers and business partners. The Shiga Bank will accelerate initiatives to promote regional digitalization by focusing efforts on IT consulting for customers and local governments, in which different departments and staff members of the Bank work together to provide advice starting by interviewing them on issues.

Promoting ESG finance

Combining E (Environment), S (Social), and G (Governance) produces a new type of economic rationality that isn't based only on immediate profit and efficiency. It helps businesses advance to the next growth stage and provides opportunities to generate sustainable value. The essence of ESG is to consider externalities in business. Companies must think about how to generate profit while incorporating these externalities in their business. Transitioning to a decarbonized society will require companies to become sustainable companies.

In order to drive ESG finance efforts, we established a team of ESG finance specialists in the Business Promotion Department. Last August we became the first regional bank to offer sustainability linked loan (SLL) products, and in September we made our first loan to a quarrying company in Shiga Prefecture. SLL is a type of loan in which a company sets SDG- and ESG-related targets, and the level of achievement of those targets is linked to the terms and conditions of the loan such as interest. SLLs are mainly used

by major corporations, but we offer plans with low initial costs (with loan amounts starting at ¥50 million) and more choices in assessment and rating agencies to make it easier for our SME customers to use them. This last fiscal year we executed a total of six loans to customers including a major shipping company in Tokyo.

The SLL product developed out of our SDG consulting service, in which we provide advice to SME customers that view SDGs as opportunities for growth on matters such as leveraging SDGs to improve corporate value and setting KPIs (key performance indicators). As of the end of March 2021 we have been contracted for a total 90 SDG consulting projects.

We have also underwritten a private placement type green bond (GB) issued by a tourism company that runs a ski slope in Shiga Prefecture. The GB was used for funds to construct a hydroelectric generator, contributing to the spread of clean energy using the local resource of water.

The Bank has also built up knowledge and experience in ESG finance through other means besides independent initiatives. For example, we actively practice positive impact finance endorsed by major banks.

Collaborating with regional communities

Fighting global warming is the most important issue in sustainability, but it will take more than the efforts of one company to achieve a decarbonized society. Shiga Bank developed a system in partnership with the Shiga prefectural government to tackle this very issue, which launched this March.

Surrounding Lake Biwa, Shiga Prefecture has a high awareness of environmental issues. In January 2020 it announced the kickoff of the "Shiga CO₂ Net Zero" Movement. The movement is a joint initiative by citizens, businesses, and government to strive to achieve net zero CO₂ emissions within the prefecture by 2050, and is endorsed by the Shiga Bank Group. In alignment with the initiative, in March we started offering the "Shigagin" Sustainability Linked Loan "Shiga Net-zero CO₂ Emissions" Plan and executed the first loan to a customer in the prefecture.

Not many SMEs engage in corporate decarbonization yet, but I believe that encouraging companies to address implementation of carbon tax and engage in decarbonization efforts that include the entire supply chain as quickly as possible is important also in terms of boosting regional earning power.

Supporting new business

Economic activities are energized by ambitious companies. In July 2020, the Bank established the Shigagin Regional Revitalization SD Fund (see Page 52) with Quantum Leaps Capital Partners and Shigagin Lease & Capital Co., Ltd. for companies striving to grow based on innovative business

models. Last December we made our first investment in a company from Hyogo Prefecture that provides support for remote medical care. We also invested in a fund that utilizes research results of Kyoto University and Osaka University to encourage the creation of new businesses with potential for further growth.

Review of 7th Medium-Term Business Plan and pandemic response

While the above explanation focused on initiatives of the last fiscal year, now I would like to present a progress report on earnings for the fiscal year ended March 31, 2021, which was the second year of the 7th Medium-Term Business Plan (ending March 31, 2024). The Bank posted net income attributable to owners of parent of ¥11.4 billion, down ¥0.9 billion year-on-year. Deposits (the average balance of deposits during the period including negotiable certificates of deposits) increased

by ¥345.7 billion year-on-year to ¥5,277.2 billion and loans (the average balance of loans and bills discounted during the period) increased by ¥194.5 billion year-on-year to ¥3,994.7 billion, both on a non-consolidated basis. The capital ratio (consolidated) was 17.19%, and the total of risk-monitored loans was ¥71.4 billion, accounting for 1.78% of total loans and bills discounted.

We expect a net income (consolidated) of ¥13.8 billion in the fiscal year ending March 31, 2022.

● Results of fiscal year ended March 31, 2021 and forecast of fiscal year ending March 31, 2022

(in million yen)

	Non-consolidated			Consolidated		
	Results of fiscal year ended March 31, 2021	Forecast of fiscal year ending March 31, 2022	Compared to fiscal year ended March 31, 2021	Results of fiscal year ended March 31, 2021	Forecast of fiscal year ending March 31, 2022	Compared to fiscal year ended March 31, 2021
Ordinary profit	10,375	21,500	11,125	11,070	22,500	11,430
Net income	11,331	13,500	2,169	11,448	13,800	2,352

Note: Consolidated data indicates net income attributable to owners of parent

The Bank strives to ensure transparency and soundness of corporate management. Furthermore, we continuously pay stable dividends to shareholders and make every effort to provide as much shareholder return as possible by making preparations to address an ever-increasing adverse environment and invest for the future, enhancing internal reserves, and strengthening financial health.

We are also taking on challenge to achieve five Sustainable Development Targets ("SD targets," see Pages 30 - 31) in five years as part of the 7th Medium-Term Business Plan. Some targets have already been achieved in the second year, and we greatly increased four of them: "Investment and financing to promote sustainable development," "Support for value improvement of regional customers," "Reduction in greenhouse gas emissions," and "Activities for promotion and improvement of SDGs and financial literacy, training of next-generation workforce." The new targets reflect our revised understanding and commitment to address sustainable development in response to strengthened regulations on

greenhouse gases worldwide and the rapidly changing circumstances surrounding decarbonization.

As the pandemic has impacted customers in many industries, the Bank has focused efforts on providing support through fund-raising and other means. Currently we are transitioning to the stage of business support and revitalization support, and working to stabilize the regional economy by increasing the sophistication of business assessments we have developed over the years and providing attentive service. We also increased personnel in the Corporate Business Support Office of the Credit Supervision Department and expanded support eligibility, and invested in the Kinki Central Area Recovery Support Fund as a measure to assist recovery from the pandemic. Furthermore, we waived the loan modification fee for customers with home loans until the end of March 2022. It is unclear when the pandemic will be completely under control, but the Shiga Bank Group will provide even more solid support than before with due consideration to the safety and security of our customers and business partners.

Status of initiatives to address identified issues

In our 2020 integrated report, we identified three issues we must overcome: “reorganize our branch network and streamline branch operations,” “promotion of digitalization,” and “build a value-added network.” Allow me to explain the status of initiatives to address these issues.

The first issue, “reorganize our branch network and streamline branch operations,” is progressing according to the 7th Medium-Term Business Plan. We have carried out efficient reallocation of personnel through measures such as integrating branches within branches and grouping multiple branches in the vicinity into one block. These measures have led to improving productivity of the Bank as a whole.

I discussed the second issue, “promotion of digitalization,” above, but we will continue to view this as a priority issue and strengthen initiatives to address it even further.

In regard to the third issue, “build a value-added network,” last November we held the SDGs Business Succession and M&A Conference 2020 in partnership with Nihon M&A Center Inc. The conference was live streamed and reached a large number of viewers across a wide area (see Page 55).

The fact that it was streamed from our own Shiga Prefecture and not a major city is a prime example of maximizing the convenience of digitalization. The event was very productive, with highlights such as participants seeking to be listed on the Tokyo Pro Market asking for advice.

In addition, last fiscal year two more banks, Bank of The Ryukyus and the Gunma Bank, joined the TSUBASA Alliance of which we are a member, expanding the network of partnerships between regional banks not based on business integrations while maintaining the independence of members. The Alliance cooperates in a wide range of fields including FinTech and jointly arranged syndicated loans, and we will continue to consider new products and services that leverage the advantages of the partnership.

We also utilize services of multiple FinTech companies, and will continue working to enhance convenience for customers and improve the corporate value of our business partners by partnering with more companies and banks to expand our network and provide added value.

Evolution into a problem-solution type financial information services provider

We worked to boost our consulting capabilities in order to evolve into a problem-solution type financial information services provider, and joint initiatives between headquarters and branches led to an increase of balance of assets under custody. Last April the Bank began offering trust services,

further expanding the scope of consulting. And we will continue to focus efforts on our M&A and IT consulting business in response to customer needs for support in areas such as addressing longer lifespans, business succession, recovery from the pandemic, and facilitating digitalization.





Flexsus Project to support sustainable systems

With an eye towards a digital society of the next generation, we are moving forward with the Flexsus Project (see Page 49) — a project to build a new core system to mitigate future risks in bank management — and plan to launch in January 2024. We will migrate from our current mainframe to an open system that enables flexible and agile response. The new system will be highly flexible and easily connectable to external systems, enabling digitalization to be achieved both internally and for customers and the regional community quickly and at low cost.

Such an immense system upgrade would be difficult without people that have expert knowledge in the inner workings of the current system, so we aim to upgrade the system while such experts remain and pass their knowledge and skills on to the younger generation. We made the decision to migrate to the new system based on the realization that, looking 10 to 20 years ahead, we could not afford to delay upgrading. Investments will need to be made until the new system goes online, but we are working to improve the overhead ratio to reduce system development costs as much as possible once it is online.

Improving effectiveness of governance

The Corporate Governance Code of Japan establishes principles for action of listed companies. This year it was revised. Companies that move to the Prime Market now are expected to disclose information such as the status of initiatives in accordance with the Task Force on Climate-related Financial Disclosures (TCFD), an international framework on disclosure related to climate change. The Bank announced its support of the TCFD in July 2018, making us the first regional bank in Japan to do so, and we have been disclosing the status of our initiatives since the 2020 integrated report. We have been selected for the “TCFD Scenario Analysis Support Project” by

the Ministry of the Environment and preparations are moving forward. An explanation of the current status is provided later in this report (see Page 36).

The Bank is also engaging in other efforts in line with the revision. For example, we are working to enhance the functions of the board of directors and engage in more constructive dialogue with our shareholders. We are also working to achieve sustainable growth for the Bank and regional communities and improve corporate value over the mid- to long-term by increasing the effectiveness of governance.



Our purpose is “to bring happiness to people in regional communities”

As society undergoes changes due to the pandemic, there is urgent need to address several issues that have been around since even before it began. In order to address Japan’s declining birthrate and increasing aged population, digitalization needs to move forward, but we must also engage in initiatives such as expanding services for the elderly who do not use digital technology and ensuring smooth business succession. Through our efforts to achieve green transformation, we have realized the importance of recognizing the speed in which modern issues change. When the speed of change continues to accelerate and something changes past a certain point, there is a risk that before you know it a major change has occurred and the world has been transformed. But it is difficult to predict the direction of increasingly complex changes and decisions need to be made based on determining the current circumstances at a faster pace.

Whether such changes move in a positive or negative direction depends on the ability of those of us living in the

present to act. As a guideline for such actions, the Shiga Bank Group laid out its vision — to become a Sustainability Design Company — in the Medium-Term Business Plan. Our commitment is to go beyond the framework of a “Bank” and become a “Company” that is indispensable to the region by designing the sustainable development of our customers and regional communities. This is a necessary evolution to achieve our purpose, “to bring happiness to people in regional communities through the circulation of money.” And at the heart of this purpose lies our motto: “Be tough on ourselves, kind to others and service society.”

The Shiga Bank Group will work to co-create a sustainable society with regional communities based on these guidelines. Thank you for your continued understanding and support.

July 2021

Shojiro Takahashi, President, Shiga Bank



To bring happiness to people in regional communities

Happiness means different things to different people.

Let the Shiga Bank Group help you

“define the future and realize your dream.”

Living in harmony with the region, the Shiga Bank Group will facilitate
the circulation of money to bring happiness to people in regional communities.

