



TOP MESSAGE



SPECIAL FEATURE



ABOUT SHIGA BANK



CHALLENGES FOR  
VALUE CREATION



CHALLENGES FOR  
FUTURE INNOVATION



POWER THAT SUPPORTS  
VALUE CREATION

# POWERS SUPPORTING VALUE CREATION

## POWERS SUPPORTING VALUE CREATION

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# Corporate Governance

## Basic views on corporate governance

As a regional bank headquartered in Shiga Prefecture, the Bank has a motto which carries on “Sampo yoshi” philosophy, a management philosophy embraced by Merchants in the Omi region of central Japan, which means to bring happiness to three sides: being good for the seller, the buyer, and society. The Bank made the motto “Be tough on ourselves, kind to others and serve society” the starting point for corporate social responsibility (CSR), making effort to realize mutual prosperity with the regional communities, all employees, and the environment as in the Bank’s Management Principles. For the purposes of ensuring sustainable growth and improvement in corporate value for the Bank over the mid- and long-term, we will expand and

constantly upgrade our corporate governance standards based on the following basic views.

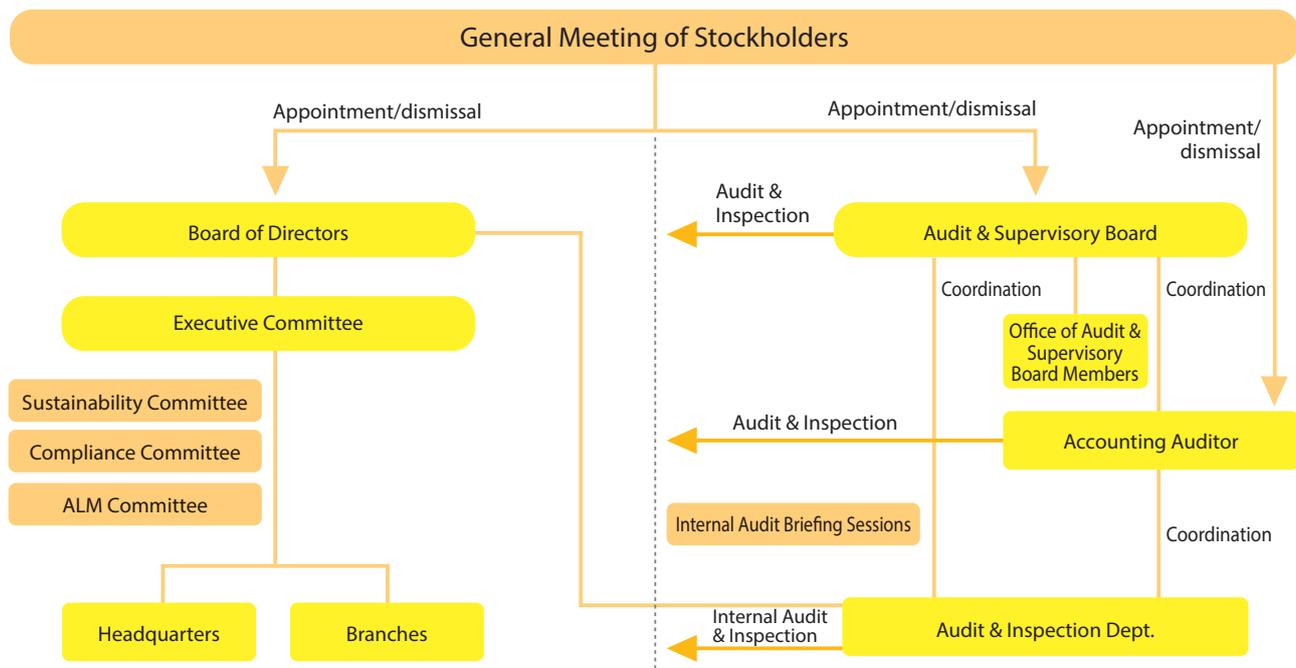
- Respect shareholder rights and safeguard shareholder equality
- Cooperate appropriately with stakeholders
- Duly disclose information, including non-financial data, and ensure transparency and fairness of decision-making
- Create an environment for allowing appropriate levels of risk-taking by management team members
- Contribute to sustainable growth and the mid- and long-term improvement in corporate value, by prioritizing dialogue with shareholders

## Overview of corporate governance system

The Bank has adopted the Audit & Supervisory Board system, under which the Board of Directors including Outside Directors supervise management and the Audit & Supervisory Board including Outside Audit & Supervisory Board Members checks the Board of Directors.

In terms of business operations, centered on the Executive Committee that is a decision-making body for business execution, the Compliance Committee and the ALM Committee have been established and the Audit & Supervisory Board Members monitor their operational status.

● Shiga Bank’s corporate governance system (as of June 30, 2021) is shown in the chart below.



## Organizational structure

### 1. Board of Directors

The Board of Directors, with nine members, including three from outside the Bank, meets once a month in principle. At the meetings, decisions are made on important business matters to conduct business. Audit & Supervisory Board Members attend all such meetings to monitor the performance of Directors.

### 2. Audit & Supervisory Board

The Audit & Supervisory Board, composed of four Audit & Supervisory Board Members including two from outside of the Bank, holds a meeting monthly in principle to resolve, discuss and report the important audit matters such as audit policies, audit plans, audit methods and division of audit duties.

### 3. Executive Committee

The Executive Committee consists of the Chairman, President, Deputy President, Senior Managing Directors, and Managing Directors. It meets as necessary to make swift decisions about overall operations, including investment plans, new product development, business structural changes, and monitoring the risk environment. Important items related to the execution of business are submitted to the Board of Directors.

\*The positions of Chairman and Deputy President are currently vacant.

### 4. Internal Audit System

Seeking to conduct its business in a sound and appropriate manner, the Bank established the Audit & Inspection Department to undertake internal audits. The Department performs audits of the Bank's branches to ensure that their internal control systems are functioning properly, in accordance with annual internal audit plans approved each year by the Board of Directors.

The internal Audit briefings are held as a rule once a month with the attendance of the management team including the President of the Bank, and hold discussions on reported audit findings and on the

status, problem points and issues of departments and branches subject to auditing. This ensures that risk is minimized, administrative duties are carried out reliably and business management is appropriate. In addition to continuous internal quality evaluations, the Audit & Inspection Department also receives external quality evaluations from third-party organizations to maintain and enhance the quality of internal audits.

### 5. Sustainability Committee

Chaired by the President, the Sustainability Committee discusses ESG (environment, social, governance) priorities and addresses social challenges for Shiga Bank Group from the medium to long term perspective to design the program to enhance sustainability of our communities, customers and the Group.

### 6. Compliance Committee

The Compliance Committee chaired by a Senior Managing Director and including the Audit & Supervisory Board Members as counselors considers various issues concerning compliance to social norms, laws and regulations, and the Bank's internal rules comprehensively for the purpose of contributing to execution of sincere and fair corporate activities.

### 7. ALM Committee

The ALM Committee chaired by the President conducts reporting, analysis and discussion on risks and promotes response to comprehensive asset liability management (ALM) for the purpose of contributing to an increase in stable earnings through the improvement of risk management.

### 8. Accounting Auditor

Deloitte Touche Tohmatsu LLC, with which the Bank concluded an audit agreement conducts audit as an accounting auditor.

## Policies on executive compensation, etc.

The compensation of the Bank's officers is determined in accordance with the following policies and procedures.

### Basic policy

The basic policy on executive compensation of the Bank is to function as an incentive to improve the corporate value consistently. When determining each executive compensation, it shall be appropriate level based on the individual responsibilities.

More specifically, Director compensation (excluding Outside Directors) comprises of Fixed-amount compensation, basic remuneration; Performance-linked compensation, which is linked to company's financial results; Stock acquisition rights as share-based compensation stock options, non-monetary compensation.

Compensation for Outside Directors and Audit & Supervisory Board Members responsibilities of which are to supervise the management is composed of Fixed-amount compensation only. Fixed-amount compensation for Audit & Supervisory Board Members are determined based on the deliberation among the Members in reference to the actual payment.

The above basic policy has been prepared, referring to Outside Directors and Outside Audit & Supervisory Board Members, and then resolved at the Board of Directors meeting.

Please refer to the securities report for the details including the policy for determining executive compensation.



### 1. Compensation for Directors

#### (1) Directors (excluding Outside Directors)

The compensation for Directors consists of the following three components:

1. Fixed-amount compensation

Paid according to the role and responsibility based on the position.

Compensation limit: Up to 225 million yen per year

2. Performance-linked compensation

Paid based on net income attributable to owners of parent in order to increase the incentive to improve performance.

Compensation limit: Up to 0.45% of net income attributable to owners of parent for the relevant fiscal year, with an annual limit of 75 million yen

3. Stock options as share-based compensation

Paid to increase the incentive to enhance the mid- to long-term corporate value and share price growth.

Compensation limit: Up to 100 million yen per year

#### (2) Outside Directors

Fixed-amount compensation is paid in light of the management supervisory function.

Compensation limit: Up to 35 million yen per year

### 2. Compensation for Audit & Supervisory Board Members

Fixed-amount compensation is paid to ensure neutrality and independence.

Compensation limit: Up to 84 million yen per year

### 3. Procedure for determining compensation

#### (1) Directors

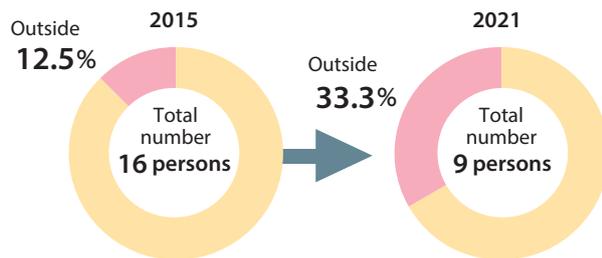
Determined by resolution of the Board of Directors, within the limits of the amount of compensation set by the General Meeting of Stockholders.

#### (2) Audit & Supervisory Board Members

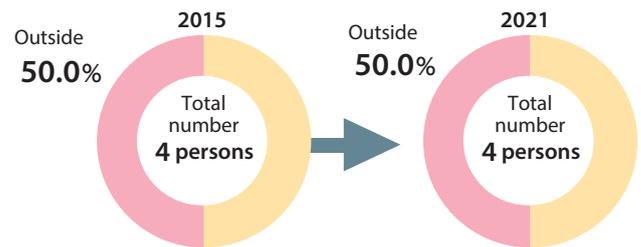
Determined by discussions by Audit & Supervisory Board Members, within the limits of the amount of compensation set by the General Meeting of Stockholders.

## Changes in Number of Officers and Ratio of Outside Officers

### Directors



### Audit & Supervisory Board Member



Increased ratio of Outside Directors

## Independent Outside Officers

Name	Position	Reason for appointment	The rate of attendance at meetings of Board of Directors in fiscal 2020
Minako Takeuchi	Outside Director	She has a wealth of experience and a wide range of insight into overall management as a Representative Director at TM Future Corporation and an Outside Director at Nihon M&A Center Inc. The Bank expects that she will utilize her experience and insight to supervise the management of the Bank from the independent viewpoint, while contributing to the sustainable growth of the Bank and higher corporate value.	● 12 out of 12 regular meetings of the Board of Directors (attendance ratio: 100%)
Rikiya Hattori	Outside Director	He has a wealth of experience and a wide range of insight into finance and corporate management as a Deputy President and a Deputy Chairman at Sumitomo Mitsui Trust Bank, Limited. The Bank expects that he will utilize his experience and insight to supervise the management of the Bank from the independent viewpoint, while contributing to the sustainable growth of the Bank and higher corporate value.	● 10 out of 10 regular meetings of the Board of Directors (attendance ratio: 100%)
Sawaichiro Kamata	Outside Director	He has a wealth of experience and a wide range of insight into finance accumulated at the Bank of Japan and the Japan Securities Dealers Association. The Bank expects that he will utilize his experience and insight to supervise the management of the Bank from the independent viewpoint, while contributing to the sustainable growth of the Bank and higher corporate value.	● Newly elected in June 2021
Yasuhito Matsui	Outside Audit & Supervisory Board Member	The Bank expects that he will reflect in auditing the Bank his professional expertise and a wealth of experience as a lawyer involved in corporate legal affairs.	● 12 out of 12 regular meetings of the Board of Directors (attendance ratio: 100%)
Kazukiyo Onishi	Outside Audit & Supervisory Board Member	The Bank expects that he will reflect in auditing the Bank a wealth of experience at the Ministry of Finance and other corporations, as well as high insight gained through public finance and administration.	● 10 out of 10 regular meetings of the Board of Directors (attendance ratio: 100%)

# Directors and Executive Officers

(as of June 25, 2021)

## Directors

### President & CEO Shojiro Takahashi

April 1979 Joined the Bank  
 June 2006 General Manager of Business Promotion Dept.  
 June 2008 Director and General Manager of Business Promotion Dept.  
 June 2009 Director and General Manager of Kyoto Branch  
 June 2011 Managing Director  
 June 2014 Senior Managing Director  
 June 2015 Deputy President  
 April 2016 President (current position)



### Senior Managing Director Motohiro Nishi

April 1982 Joined the Bank  
 June 2011 General Manager of Business Promotion Dept.  
 June 2013 Director and General Manager of Osaka Branch  
 April 2016 Director and General Manager of Kyoto Branch  
 June 2016 Managing Director and General Manager of Kyoto Branch  
 June 2019 Managing Director  
 June 2020 Senior Managing Director (current position)



### Senior Managing Director & CIO Shinya Kubota

April 1986 Joined the Bank  
 June 2015 General Manager of General Planning Dept.  
 June 2017 Director and General Manager of General Planning Dept.  
 June 2018 Managing Director  
 June 2020 Senior Managing Director (current position)



### Managing Director & CFO Takahiro Saito

April 1983 Joined the Bank  
 February 2014 General Manager of Credit Supervision Dept.  
 June 2014 Director and General Manager of Credit Supervision Dept.  
 June 2017 Managing Director (current position)



### Managing Director and General Manager of Financial Markets & International Dept. Katsuyoshi Horiuchi

April 1987 Joined the Bank  
 June 2014 General Manager of Assets & Liabilities Managing Dept.  
 June 2017 Executive Officer, General Manager of Business Promotion Dept.  
 June 2019 Director and General Manager of Kyoto Branch  
 June 2021 Managing Director and General Manager of Financial Markets & International Dept. (current position)



### Director and General Manager of Audit & Inspection Dept. Katsuyuki Nishikawa

April 1987 Joined the Bank  
 June 2016 General Manager of Audit & Inspection Dept.  
 June 2018 Executive Officer and General Manager of Audit & Inspection Dept.  
 June 2020 Director and General Manager of Audit & Inspection Dept. (current position)



### Outside Director Minako Takeuchi

April 1983 Joined NEC Corporation  
 December 2002 Retired from NEC Corporation  
 January 2003 Joined STANTON CHASE INTERNATIONAL  
 June 2013 Retired from STANTON CHASE INTERNATIONAL  
 August 2013 Representative Director, TM Future Corporation (current position)  
 June 2019 Outside Director, the Bank (current position)  
 June 2020 Outside Director, Nihon M&A Center Inc. (current position)



### Outside Director Rikiya Hattori

April 1978 Joined Sumitomo Trust & Banking Co. Ltd. (currently Sumitomo Mitsui Trust Bank, Limited)  
 April 2012 Director, Senior Managing Executive Officer, Sumitomo Mitsui Trust Bank, Limited  
 April 2013 Deputy President Executive Officer, Sumitomo Mitsui Trust Holdings, Inc. Deputy President, Sumitomo Mitsui Trust Bank, Limited  
 June 2015 Deputy President, Sumitomo Mitsui Trust Holdings, Inc.  
 April 2017 Director, Sumitomo Mitsui Trust Holdings, Inc. Deputy Chairman, Sumitomo Mitsui Trust Bank, Limited  
 June 2017 Retired as Director, Sumitomo Mitsui Trust Holdings, Inc.  
 April 2018 Executive Advisor, Sumitomo Mitsui Trust Bank, Limited Chairman, Sumitomo Mitsui Trust Panasonic Finance Co., Ltd.  
 June 2018 Corporate Auditor, SUMITOMO DENSETSU CO., LTD. (current position)  
 March 2020 Retired as Executive Advisor, Sumitomo Mitsui Trust Bank, Limited  
 June 2020 Outside Director, the Bank (current position)  
 February 2021 Retired as Chairman, Sumitomo Mitsui Trust Panasonic Finance Co., Ltd.



### Outside Director Sawaichiro Kamata

April 1984 Joined Bank of Japan  
 July 2012 General Manager of Kyoto Branch, Bank of Japan  
 June 2015 Retired from Bank of Japan  
 July 2015 Senior Advisor of Policy Making Headquarters, Japan Securities Dealers Association  
 July 2017 Joint General Manager of Administration Headquarters (Chief Information Officer and Chief Risk Officer), Japan Securities Dealers Association  
 June 2021 Retired from Japan Securities Dealers Association  
 June 2021 Outside Director, the Bank (current position)



## Audit & Supervisory Board Member

### Audit & Supervisory Board Member Kazuyoshi Hayashi

April 1980 Joined the Bank  
June 2010 General Manager of Assets & Liabilities Managing Dept.  
June 2011 Director and General Manager of Assets & Liabilities Managing Dept.  
June 2014 Managing Director  
June 2018 Audit & Supervisory Board Member (current position)



### Audit & Supervisory Board Member Yasunaga Ono

April 1983 Joined the Bank  
June 2013 General Manager of Business Promotion Dept.  
June 2014 Director and General Manager of Business Promotion Dept.  
June 2015 Managing Director  
June 2020 Audit & Supervisory Board Member (current position)



### Outside Audit & Supervisory Board Member Yasuhiro Matsui

April 2000 Registered as a Lawyer  
April 2000 Joined Karasuma Law Office  
January 2005 Registered as a lawyer in New York State  
April 2005 Resigned from Karasuma Law Office  
May 2005 Joined Miyake & Partners  
May 2009 Appointed Partner, Miyake & Partners  
May 2012 Registered as a Patent Attorney  
June 2017 Outside Audit & Supervisory Board Member, the Bank (current position)  
January 2019 Retired from Miyake & Partners  
February 2019 Partner, NISHIKIBASHI PARTNERS LPC (current position)



### Outside Audit & Supervisory Board Member Kazukiyo Onishi

April 1980 Joined the Ministry of Finance  
July 2014 Director-General of Yokohama Customs, Ministry of Finance  
July 2015 Retired from the Ministry of Finance  
October 2015 Advisor, Aioi Nissay Dowa Insurance Co., Ltd.  
June 2016 Retired as Advisor, Aioi Nissay Dowa Insurance Co., Ltd.  
June 2016 Audit & Supervisory Board Member, TAKASAGO INTERNATIONAL CORPORATION  
June 2020 Retired as Audit & Supervisory Board Member, TAKASAGO INTERNATIONAL CORPORATION  
June 2020 Outside Audit & Supervisory Board Member, the Bank (current position)



## Executive Officers

### Nobuyuki Tanaka

Managing Executive Officer and General Manager of Credit Supervision Dept.



### Hidekazu Toda

Managing Executive Officer and General Manager of Administration Dept.



### Akihisa Hida

Managing Executive Officer and General Manager of General Planning Dept.



### Yoshinori Endo

Managing Executive Officer and General Manager of Kyoto Branch



### Toshihiro Fukuda

Executive Officer and General Manager of Personnel Affairs Dept.



### Hiroyoshi Inoue

Executive Officer and General Manager of Head Office Business Dept.



### Yasuhiko Nakamura

Executive Officer, General Manager of Tokyo Branch and Advisor to Financial Markets & International Dept.



### Kazuaki Kataoka

Executive Officer and General Manager of General Affairs Dept.



### Isokazu Yamamoto

Executive Officer, General Manager of Osaka Branch and General Manager of Umeda Branch



## Message from Outside Directors



Outside Director

**Minako Takeuchi**

### Evaluation of the effectiveness of the Bank's Board of Directors and my roles and challenges

(Establishment of a governance system to enhance corporate value)

The Bank's Board of Director has taken various measures to deepen discussions about important management topics and medium to long term strategies. Last year, we introduced third-party evaluation to assess the effectiveness of the Board of Directors. Against this backdrop, I recognize that my role is to: (1) make suggestions to improve the effectiveness of the Board of Directors through monitoring; (2) provide external expertise, information, and different perspectives that enable benchmarking against peers from a broader viewpoint; and (3) make members of the Board of Directors realize the potential problems behind the apparent problems related to human resources and organization or corporate culture issues inherent in the agenda items raised at the Board of Directors meetings.

Through this, I want to contribute to developing a flexible and solid corporate culture in the true sense of the word that will create the Bank's future, and to the improvement of corporate value as a company that continues to be an indispensable partner to our customers where diverse human resources take active part in operations.

### Assessment of the Bank's sustainability and digitalization initiatives

#### Impact of climate change and other environmental issues on management and our response

Fulfilling our purpose as a company and achieving sustainability both internally and externally through ESG management and our commitment to the SDGs is our key mission. Decarbonization is not the only environmental issue. We, as a company rooted in Shiga, deem it important to protect water resources and biodiversity; therefore, we are working on this issue in a progressive and comprehensive manner. I think that the essence of sustainability isn't just about the environment (E); it is to do with the "Sampo yoshi" corporate approach as described in our CSR Charter.

That is why this also involves governance (G) and social (S) aspects such as the promotion of diversity and inclusion, including the empowerment of female workers. Led by the Sustainability Strategy Office established last year, we are working to implement the Sustainability Policy, which is the Bank's DNA, with a sense of mission. We hope to continue to be a company that has the support of various stakeholders and improve our corporate value as a result of our sincere management efforts in these endeavors.

## Promoting the digitalization of the regional communities

I believe that digital transformation (DX) is not about digitizing information and business processes, but rather about how we transform our business model into what we seek to be by using the potential of digital technology. We should accumulate our own experience before accelerating the digitalization of the communities and our customers. The spread of COVID-19 has drastically changed our communication style and how we connect with each other internally and externally including our customers. Amid such environment, we have put new creative ideas into practice by trial and error. We will make maximum use of DX to reconstruct the business model, the way of using information and how we work, irrespective of the precedent. It is also important to constantly accumulate experience through the challenge each of us faces, making it our own knowledge, and then quickly structuring and abstracting it into organizational knowledge. The Digital Strategy Group and the Digital Promotion Office were established and put into operation as the pillar of the activities. In today's uncertain world where there is no single right answer, we believe that those who try before others, learn from their successes and failures, and quickly turn them into value which we can offer to our customers will be able to take the lead. We, thus, work to make such behavior pervasive among the first-line employees.

## Evaluation and advice on human resource development to ensure diversity

(Increase and use of human capital)

The human resource strategy should be changed and evolved constantly. Recently, people appear to be more motivated to work at a company which contributes to society, and they think more highly of whether they can empathize with the purpose of the company, in short, they can have intrinsic motivation. People have various motivations, and their skills and careers are diverse as well. Creating a place where diverse people can exhibit each ability is crucial. The idea forms the base of purpose-driven management and wellbeing driven management. I believe that 60-70% of the role of middle management is to motivate young employees to work enthusiastically with eagerness to grow while developing such young people and creating the place to allow it.

To do so, communication with juniors is key; therefore, we implemented a "system for discussion" across the board. Moreover, a goal-setting ability is required for middle management so that they, together with their subordinates, can establish a goal worthy of challenge. The process of moving toward a goal will lead to the growth of people, which in turn will result in the performance and growth of the organization collectively. Then, transparent and compelling evaluations and feedback are required to help the growth of employees. Middle management and human resource department are required to improve such PDCA cycle where the growth of employees leads to a better company.

Such process brings about a corporate culture where employees are incentivized to try and the management itself backs them up and praises a good try. In addition, we urgently need to create an environment which truly welcomes the active participation of women and people with diverse background.

## What Shiga Bank should do for a sustainable community growth

We can play various roles for the local customers to protect our community environment and vitalize the local economy. Not only the provision of the products and services such as Sustainability Linked Loan (SLL), we need to listen to the opinions from the local stakeholders to provide advisory services catering to our customers in light of the desirable sustainable future. For example, we can arrange a partnership between our customers and counterparts with whom they can co-create value or structure the co-working scheme for them. We also hope to think together with our customers about what is the most appropriate DX for them, and offer quality advice for DX and management from the viewpoint of the customer's business to facilitate co-creating and co-working.

To do so, promoting a corporate culture that encourages each employee to learn from external sources, "Mindset-Work reforms," and "go for it" mindset to support them is all the more important.



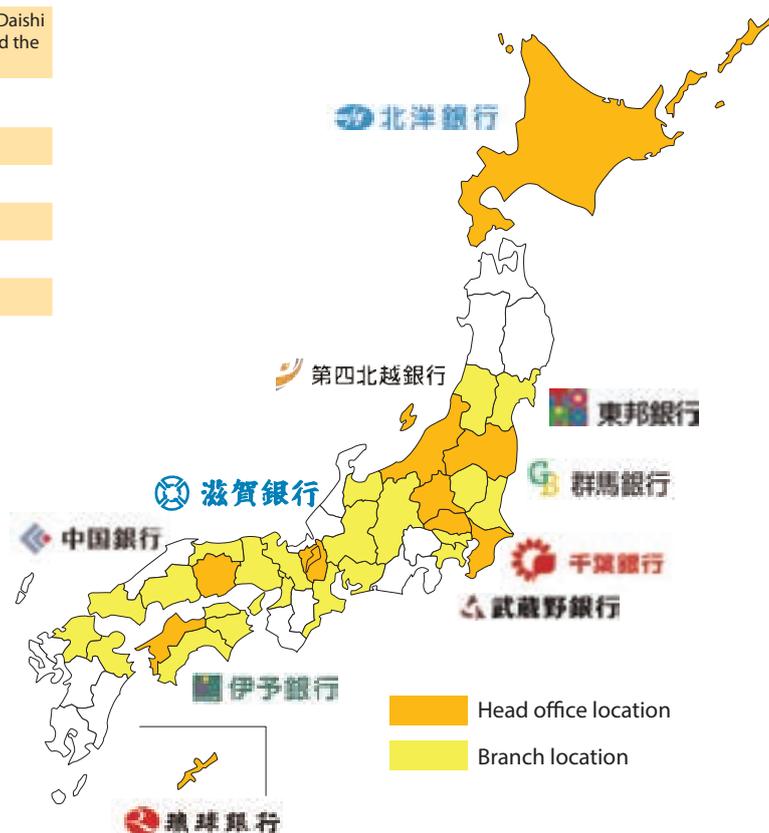
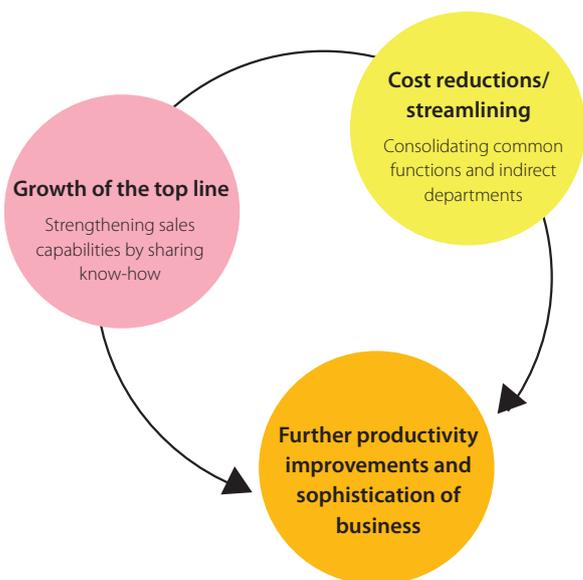
# TSUBASA Alliance

Business development that leverages economies of scale through widespread and large-scale collaborations

The Shiga Bank joined the “TSUBASA Alliance” in May 2019. The purposes are: sustainable growth of the region and improvement of the financial system; alliance contributing to enhancement of corporate value of the participant bank groups; growth of the top line; and planning and promotion of cost-cutting measures. In December 2020, with the addition of Gunma Bank, the Alliance covers all areas Japan from Hokkaido, the northernmost prefecture to Okinawa, the southernmost one. Leveraging the insights from the participants and economies of scale, we continue to offer cutting edge financial services including future-oriented digitalization.

## Expanding the network nationwide

October 2015	The Chiba Bank, Ltd., the Daishi Bank, Ltd (currently the Daishi Hokuetsu Bank., Ltd), and the Chugoku Bank, Ltd. formed the alliance.
March 2016	The Iyo Bank, Ltd., the Toho Bank, Ltd. and North Pacific Bank, Ltd. joined the alliance.
April 2018	The Hokuetsu Bank, Ltd. joined the alliance.
March 2019	The Musashino Bank, Ltd. joined the alliance.
May 2019	The Shiga Bank, Ltd. Joined the alliance.
April 2020	Bank of The Ryukyus, Ltd. joined the alliance.
December 2020	The Gunma Bank, Ltd. joined the alliance.



## Establishment of the joint venture, “TSUBASA Alliance Corporation”

In July 2020, the TSUBASA Alliance Corporation was established through joint investment by the participating banks, with the aim of serving as a platform for the consolidation of common operations and functions among each bank. In October 2020, the ALM center, which engages in the business related to anti-money laundering and prevention of the provision of funds for terrorism was opened within the company. Concentrating the insights and expertise from each bank, the ALM center is reinforcing the system in line with requests from the international society while consolidating redundant operations.

### Corporate Profile

Head office location	1-5-5 Nihonbashi Muromachi, Chuo-ku, Tokyo Muromachi Chibagin Mitsui Building
Common stock	10 million yen
Stockholders	10% each (The Chiba Bank, Ltd., The Daishi Hokuetsu Bank, Ltd., The Chugoku Bank, Ltd., The Iyo Bank, Ltd., The Toho Bank, Ltd., North Pacific Bank, Ltd., The Musashino Bank, Ltd., The Shiga Bank, Ltd., Bank of The Ryukyus, Ltd., The Gunma Bank, Ltd.)
Officers	10 Directors (president of each bank takes a seat on the Board)
Date of establishment	July 2020

# Stakeholder Communication

The Shiga Bank strives to build trust and offer better value by recognizing the social issues through continuous communication with many stakeholders, including our customers, communities, shareholders, and the officers and employees. We aim for sustainable development of the local community and enhancement of corporate value by valuing transparent and speedy disclosure of information, as well as utilizing opinions and requests from stakeholders for better management.

## Communication with customers

We improve the quality of products and services by evaluating the opinions and requests from our customers via communication card or other types of questionnaire. Meanwhile, the deep dialogue through our consulting service helps to solve the customer's issues. We hold local gatherings semi-annually to facilitate interactive dialogue.

### Communication channel

Via communication cards, questionnaires, Customer Consultation Office, and local gatherings

## Communication with communities

We contribute to a more vibrant region by solving social issues through engagement with local communities, responding to potential needs and promoting regional branding toward the achievement of a sustainable society.

### Communication channel

Dialogue toward a Regional Circular and Ecological Sphere, Shigagin Welfare Fund, Kakehashi, a general information magazine for the region, culture business and sports promotion

## Communication with administrative and educational bodies, NPO/NGO, etc.

We realize high-quality solutions by linking new research ideas with local needs through our partnerships with administrative agencies and experts. In addition, we actively carry out cooperation with educational institutions for improving literacy of finance and SDGs.

### Communication channel

Relationship with regulatory authorities; Joint projects and dialogues among industry, academia, government and finance; Education of literacy regarding SDGs and finance

## Communication with employees

We respect human rights, support diverse work styles and put in place a support system toward self-realization so that each and every officer and employee can display their maximum capabilities feeling high job satisfaction.

### Communication channel

System for discussion; Diversity Promotion Committee; Human resources recruitment system; Internal reporting system

## Communication with shareholders and investors

We work to conduct constructive dialogues with shareholders and investors and disclose corporation and management information transparently for sustainable growth and corporate value enhancement.

### Communication channel

Announcement of financial results; General Meeting of Stockholders; Financial results briefings for the investors; Integrated Report/Annual Report; Report on the business, etc.

## Communication with industrial associations and peer companies

We aim to grow together while improving convenience and addressing issues peculiar to the industry by utilizing respective strengths and through partnerships.

### Communication channel

Alliances with other domestic banks; Business tie-ups with overseas financial institutions; ATM alliance; FinTech alliance, etc.



# Risk Management

## Basic views

The risks faced by the Bank in the performance of its operations have been growing more complex and diversified.

We are building Internal Rating System and Comprehensive Risk Management System in order to accurately assess and control risk using rational criteria without undue reliance on personal intuition or experience. We have also introduced a “risk appetite framework” that will incorporate business strategy in an integrated risk management model in order to ensure continuous profitability based on reasonable risk-taking.

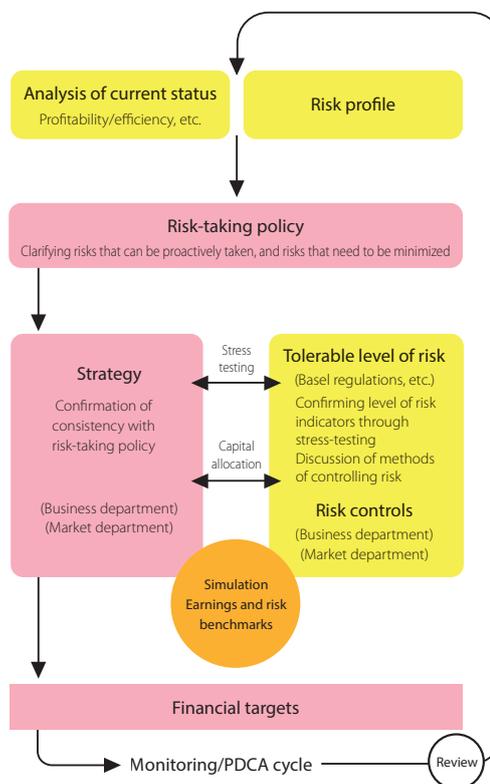
## Risk Appetite Framework

The risk appetite framework refers to frameworks for business and risk management that enable clarification of risk by type and level that the Bank is prepared to take on, as well as sharing and monitoring of it for the purposes of accomplishing business strategy and financial targets.

Regarding the formulation of financial targets, the Bank identifies a risk-taking policy based on current-status analysis and risk profiling, and confirms the consistency of strategy in the sales and market departments. Then we carry out various simulations to test the strategy, and sets target earnings and risk benchmarks. After confirming through stress testing that the plan will remain reasonably sound under a certain amount of stress, we allocate capital accordingly and seek out the best balance among earnings, risk, and capital. Stress testing is also used to originate countermeasures in the event of strategy failure.

We monitor financial targets that have been prepared, and every six months consider revisions to the risk-taking policy and financial targets. This enables us to clarify the relationship between analysis of current status and risk profile; risk-taking policy; strategy; and financial targets. We ensure the effective functioning of the PDCA cycle for achievement of appropriate risk management and strategy attainment that can quickly respond to changes in the financial environment.

## Process of developing financial targets



## Outline of Risk Management System

The Shiga Bank’s Board of Directors have established Risk Management Rules, specified the types of risk that should be managed, and defined the roles and responsibilities of the sections responsible for those risks. At the same time, Risk Management Rules prescribe risk management methods.

Furthermore, “Risk Management Policies” integrated with the financial plan are instituted semiannually at the Board of Directors’ meeting after clarifying “risk appetite” in light of the Bank’s strategic goals and risk status.

These statuses of risk and return are properly managed by having it reported to management through the ALM Committee, the Meeting of Managing Directors, and the Board of Directors.

### Glossary

#### Capital allocation

The Bank uses VaR, etc. to quantify the various risks it faces. Amounts of capital corresponding to risk amounts (economic capital) are allocated for individual categories of risk and for individual departments and other units, within the scope of own capital. At Shiga Bank, business department and market department are subject to capital allocation measures.

## Comprehensive Risk Management

Comprehensive risk management means to appropriately manage risks by looking at various types of risk as a whole, and comparing them to capital adequacy which represents the strength of the financial institution.

Based on the above, the Bank's Assets & Liabilities Managing Department comprehensively identifies and manages all risks. Additionally, the Bank conducts its business operations so as to control risk within the scope of own capital with an integrative risk management system (the capital allocation system and internal capital adequacy assessment process) which measures and manages various types of risk using such integrated yardsticks as the (maximum) Value at Risk (VaR) formula.

### ■ Capital allocation system

The Bank allocates its own capital to risk generated by holding financial products such as loans, securities and deposits (credit risk, market risk, etc.) and risk generated from operational execution (operational risk, etc.) by business division and risk category.

Specifically, the Bank controls risk by keeping it within the specified ratio to both regulatory capital (own capital needed to satisfy capital adequacy regulations) and economic capital (risk amounts calculated using VaR, etc.). In addition, the Bank has created a system that appropriately complements the capital allocation system by controlling price change risk in investments in securities by keeping it within a specified range.

### ■ Internal capital adequacy assessment process (stress test)

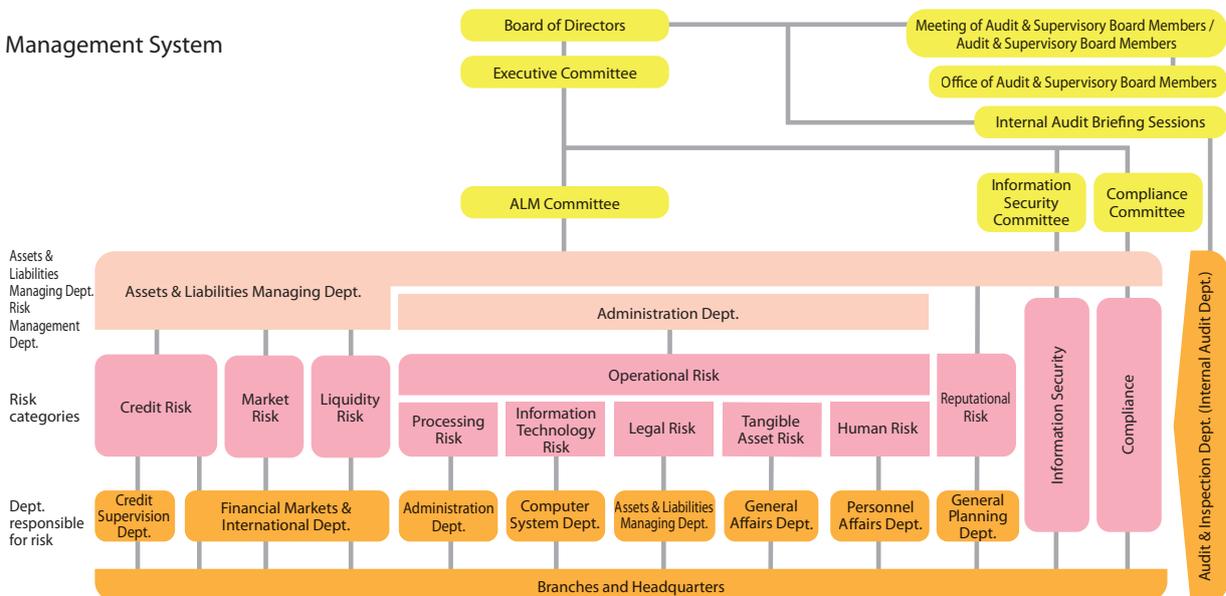
To ensure the present and future soundness of the Bank, we assess its own capital adequacy under stress events such as deterioration in gain or loss on valuation of securities due to an increase in credit costs in a recession period and a rapid change in the financial market, in light of changes in the external environment and the risk profile of the Bank.

Glossary

#### VaR (Value at risk)

VaR uses a statistical technique to measure the losses that could potentially be incurred in a fixed period of time (for example one year). The Bank uses risk amounts measured with a confidence interval of 99% and a holding period of one year in its internal management.

### ■ Risk Management System



## Credit Risk Management System

Credit risk is the risk that the Bank will suffer losses due to the worsening financial conditions of clients, etc.

Recognizing credit risk as the most important risk to business management from the standpoint of its degree of impact, the Bank believes that establishing a management system for credit risk, which accounts for the majority of risk, and rationally controlling the risk are essential for mutual prosperity with regional communities. Based on this view, the Bank introduced its own “corporate credit ratings system” and has endeavored to improve its credit risk management.

### ■ Outline of the Corporate Credit Rating System

The Bank implements financial analyses (quantitative evaluations) using statistical rating models based on the financial statements of the customers, and decides the corporate credit rating taking into account qualitative evaluations using the unique screening know-how, and the condition of the company. Based on this Corporate Credit Rating System, the Bank conducts “Shigagin Ratings Communication Service” which discloses the ratings of customers and “Shigagin Ratings Simulation Service” as rational communication tools that connect our customers to the Bank. A shared recognition is reached regarding issues and risks faced by a business customer, and the Bank provides proposals to strengthen the management foundation of customers for sustainable growth and support for compilation of plans for management improvement.

### ■ Outline of Credit Risk Management

Changes in the financial status of the customers are reflected as changes in the credit risk of the Bank through the credit rating system.

In recent years, linkage between the economy and the financial capital market has deepened on a worldwide scale. Using compilations of multiple economic scenarios on a global basis, the Bank predicts the extent of impact of such scenarios on the regional economy and on our business customers. Specifically, we forecast rates of sales growth or decline for individual business customers under these different economic scenarios, and possible changes in credit rating after a trial calculation of financial impact. This enables us to manage credit risk and capital ratio status for the whole Bank. Also, we control the credit portfolio appropriately to avoid excess credit concentration on large customers and specific sectors and are working to achieve a level of pricing (setting of loan rates) duly corresponding to credit risk to ensure an appropriate level of returns in relation to the risk.

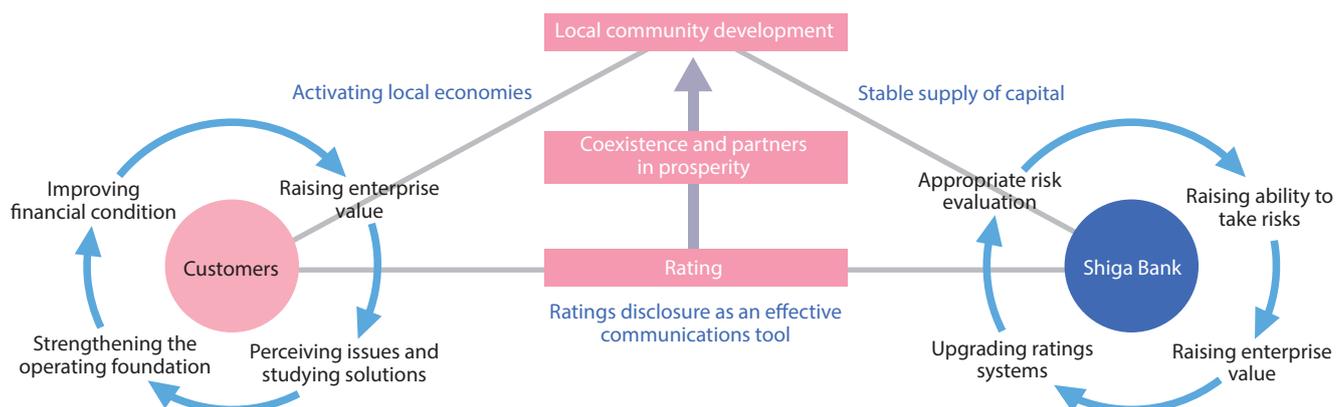
For organizational aspects, the credit risk control unit independent of the business promotion and credit supervision units has designed a self-assessment system of credit ratings and conducted various verification to check the operations of the others and build a solid operation system.

## The Significance and Purpose of the Corporate Credit Rating System

Based on its conviction to adhere to our “responsible management” system, and with the aim of sophisticating credit risk management, the Bank introduced its own corporate credit ratings system in December 1998 as a rational communication tool for the Bank and its customers to use together to raise enterprise value.

Based on its belief that internal ratings system is ultimately a tool for pursuing mutual prosperity with the regional communities, the Bank recognizes that the building of a solid internal ratings system is essential for consistent implementation of the responsible management model.

From this viewpoint, the Bank, in adopting Basel II in March 2007, has selected the Foundation Internal Ratings Based-Approach (FIRB). Under an environment where financial transactions are increasingly diversified and sophisticated, the Bank has proactively committed itself to a credit-based business and its own credit ratings system and wants to contribute on a broad basis to the further development of the regional communities, through its main business.



## Market Risk Management System

Market risk refers to the risk that the Bank will incur a loss because the value of the assets and liabilities it holds changes due to fluctuations in a variety of risk factors in the market, including interest rates, prices of securities and currency exchange rates.

The Bank strives to secure stable revenues by controlling market risks within a certain range.

Regarding market risk for overall banking operations, adjustments are made to financial targets every six months concerning all assets and liabilities including deposits, loans, and securities, and capital is allocated after consideration of the expected earnings and risk balance. The amount of interest rate risk is controlled based on the "interest rate risk in the banking book" (IRRBB). Furthermore, in risk measurement the Bank takes into account the type, size, and characteristics of the positions held, and uses VaR and sensitivity (duration, BPV) and other factors for multiple management.

For the market risks arising from fluctuations in the prices of securities and other financial instruments, the Bank sets risk tolerance amounts and other limits so as to ensure that such risks do not have an effect on the operation of the regulated capital base. For items for which limits are set using risk amount measurement methods such as VaR, the Bank performs back-testing in order to verify that the risk amounts are being ascertained appropriately, and reports the results of the verifications to the ALM Committee.

As a general rule, the organizational system related to market risk management is divided into the market transaction sector (front office), business management sector (back office), and risk management sector (middle office), each of which checks the operations of the other. Furthermore, the internal audit department performs audits of the state of compliance with related laws, related regulations, the operational plan, and other requirements and reports the audit results to the Internal Audit Briefing Sessions and the Board of Directors.

## Liquidity Risk Management System

Liquidity risk is the risk of losses arising due to the necessity of trading at significantly adverse prices compared with usual levels, due to upheaval in markets causing inability to secure sufficient funding and hindering fund-raising.

Liquidity risk is viewed as a fundamental risk faced by the Bank. We take measures to ensure accurate understanding of fund-raising and stable fund procurement and investment, and have a basic policy in place for rigorous risk management that fully emphasizes market liquidity.

In managing the flows of funds, the fund-raising management department monitors fund-raising factors including the financial environment, balance of liquid assets, expected cash outflows, and events that are expected to have an impact on fund-raising on a daily basis, and acts as appropriate. In addition, the Assets & Liabilities Managing Department keeps track of day-to-day risk management by the fund-raising management department, and ensures appropriate management of liquidity risk through regular reporting to the ALM Committee regarding the status of fund-raising. For the liquidity coverage ratio regulation which is the standard for judging soundness of the liquidity, the Bank takes appropriate action.

## Operational Risk Management System

Operational risk refers to the risk that the Bank will incur a loss due to a work-related accident at the bank, a flaw in the systems of the Bank, or external factors such as earthquakes or other disasters.

The Bank has formulated the Operational Risk Management Regulations, divided operational risk into five kinds of risk: (i) processing risk, (ii) information technology risk, (iii) legal risk, (iv) tangible asset risk, and (v) human risk, and is carrying out integrated management of these risks in the Administration Dept.

In response to cyber-attacks, which are a growing concern in the digital society, we have created a cross-departmental team in the Bank (the Shigagin CSIRT\*) and are also utilizing external expertise as we focus on adopting a stronger stance, taking an approach based on multilayered defense with countermeasures at entrance points, inside, and exit points.

\*CSIRT: Computer Security Incident Response Team

## Reputational Risk Management System

Reputational risk is the risk of unexpected tangible or intangible losses arising for damage to the Bank's good name due to rumors or slanders spreading in abnormal circumstances.

The Bank has formulated the "Reputational Risk Management Rules" and is committed to prior prevention of abnormal situations that could lead to reputational risk arising.



# Enhancing Legal Compliance

Led by the Legal Affairs Office of the Assets and Liabilities Managing Department, the Bank is building systems for maintaining compliance with laws and regulations and proper bank management, and is making efforts to foster employees with a heightened awareness of expectations placed by the public in banks, and with a strong sense of ethics.

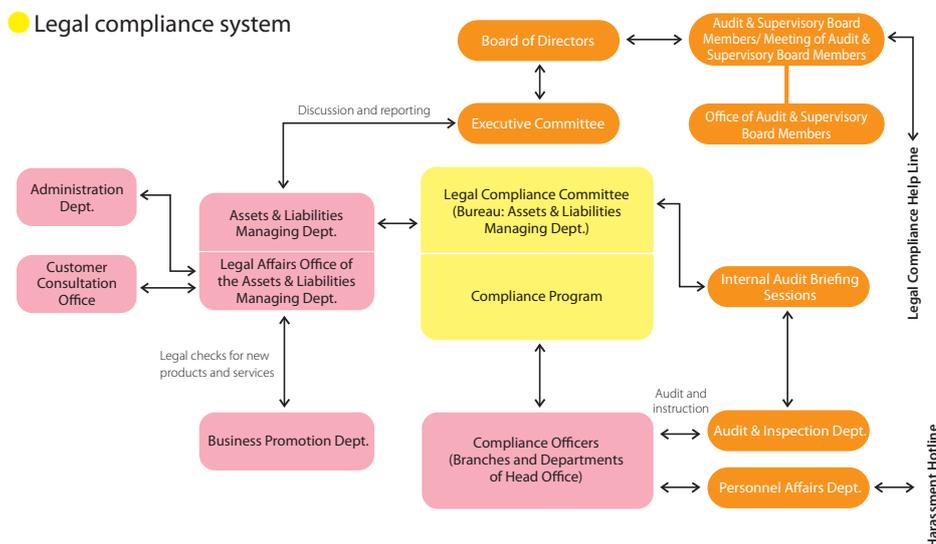
## Legal compliance system

The Bank has stipulated the Code of Conduct based on the CSR Charter, our management principles. In order to comply with them and to thoroughly comply with laws and regulations, the Board of Directors formulates a Compliance Program every fiscal year, after deliberation by the Legal Compliance Committee. In addition, we strive to raise the awareness of employees by conducting training at all departments, branches and affiliates, as well as implementing monitoring to prevent recurrence of misconduct. Moreover, the PDCA cycle is continuously implemented through monitoring of the implementation status of the above program by the Legal Affairs Office of the Assets & Liabilities

Managing Department, and reporting to the Legal Compliance Committee and the Board of Directors.

## Whistle-blowing system established

In order to promote compliance management, we have established internal and external whistle-blowing hotlines (the Legal Compliance Help Line and the Harassment Hotline) for employees to contact when they have discovered a violation of laws, regulations, or rules in the workplace and cannot discuss their concerns with their superiors or colleagues.



## Measures against money laundering

In recent years, measures against money laundering and terrorism funding (hereinafter referred to as the “unlawful financing”) are becoming increasingly important. The Bank is taking measures to effectively prevent more complex and sophisticated form of unlawful financing by cooperating with related authorities.

In February 2018, the Financial Services Agency developed and announced the “Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism” that clarify basic approaches of effective measures against the unlawful financing taken by financial institutions. Under the guidelines, banks and other financial institutions are required to additionally confirm more items than required by the Act on Prevention of Transfer of Criminal Proceeds, depending on details and conditions of customer transactions, in addition to items required by the said Act and other laws.

### Major initiatives of the Bank

- Launched the “project team for measures against money laundering and the financing of terrorism” for promoting cross-departmental efforts in July 2018

- Put in place the Money Laundering Countermeasures Office as an expert supervising organization in the Assets & Liabilities Managing Department to strengthen a structure for preventing the unlawful financing in January 2019.
- Revised the “risk evaluation report concerning money laundering” (hereinafter referred to as the “risk evaluation report”) in March 2020
- Introduced an illegal transaction detection system related to unlawful financing in April 2020
- Introduced a system to evaluate and judge the degree of risks of unlawful financing based on the Bank’s standards, a system to extract information that meets specific conditions, and a system to record the status of measures and information collected during transactions in October 2020
- Commenced regular updating of customer information using the Customer Information Confirmation Form in January 2021

We are proceeding with measures in sequence to reduce the Bank’s risks from the unlawful financing based on the risk evaluation report, in addition to improvement of various training systems and encouragement of acquisition of related qualification.

## Special fraud prevention system

The Bank is taking various measures to protect important deposits of customers from “special fraud” that has become a social problem and offer safe services.

### ■ Major examples of initiatives

- The Bank’s employees speaking to customers at bank counters and ATM areas and observing their facial expressions and behavior carefully.
- Posting notice on the webpage
- Conducting internal training programs
- Conducting lectures at each branch
- Internally commending recipients of a certification of appreciation for special fraud prevention and sharing good examples of preventive measures among all branches on a timely manner
- Strengthening cooperation with the police and related organizations (study meetings, distribution of fraud alert flyers, use of automated calls, etc.)
- Adopting the “cashier’s check” plan
- Limiting part of the ATM transfer function

Thanks to these measures, we received seven certifications of appreciation for special fraud prevention from police stations in Shiga Prefecture during one year from January to December 2020.

## Measures to eliminate anti-social forces

The Bank takes active measures to eliminate anti-social forces, introducing an “anti-social forces elimination clause” to the Ordinary Deposit Regulations and other rules together with establishing the “Shiga Bank Anti-social Forces Elimination Regulations.”

## System for managing conflict of interest

“Managing conflict of interest” refers to appropriately managing transactions that may cause a conflict of interest in order not to harm interests of customers unfairly as increasingly sophisticated financial transactions more likely lead to a conflict of interest between customers and financial institutions.

The Bank executes its business not to harm interests of customers unfairly, concerning transactions that may cause a conflict of interest “between a customer and the Bank or its affiliate” and “between customers of the Bank and its affiliates,” in accordance with laws and regulations.

## Personal information protection and management

While advanced information and communication technology represented by the Internet, social media, cloud services and FinTech has brought more convenient services, it has also been pointing to growing importance of appropriate protection and management of personal information.

We established the “Personal Information Protection Policy” and the “Basic Policy on Handling of Specific Personal Information, etc.” as basic policies for appropriate and strict handling of personal information. (These policies are available in Japanese on the Bank’s website.)

Based on these policies, we only use the personal information within the scope informed through our website and leaflet in advance. In addition, to prevent leakage of information, we put various safety management measures in place for administrative procedures and system technologies, and regularly review these measures for improvement.

## System for listening to the voice of customers

The Bank as a whole is striving to offer and improve customer-oriented products and services by listening to the various “voice” of customers.

