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“Cool Heads but Warm Hearts.”

These are the words that celebrated English economist Alfred Marshall (1842-1924) said at the conclusion of his inaugural address as a professor at the University of Cambridge. Embedded in these words was his desire to produce as many human resources as possible who would work to confront and eliminate the social problem of poverty that plagued the U.K. at the time.

It is a famous quote that anyone who has studied economics has heard at least once, but I think Omi Merchants had the same mindset. They made a fortune with their standout business sense, but they valued working for the benefit of others, not only themselves. This mindset is expressed in the words of Omi Merchants like Riemon Nishikawa (“Love wealth and give others its benefits”) and Jihe Nakamura (“When doing business in other countries, don’t only think of yourself. Value every person in that country and never place self-interest above all else.”)

As a regional financial institution that is part of the regional economy, and also as a company that can trace its roots back Omi Merchants, we will strive to produce people with cool heads and warm hearts who embody the “Sampo yoshi” philosophy to solve regional problems.

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Leaping ahead to the next stage after the 90th anniversary

October 1 of this year will mark the Shiga Bank's 90th anniversary. The Shiga Bank was born through the merger in 1933 of the 133rd National Bank (Hyakusanjusan Bank), which was established by feudal retainers of the former Hikone Domain and prided itself on "sound management," and the Hachiman Bank, which was established by Omi Merchants and emphasized a culture of "enterprise." The two banks' different corporate cultures merged in a balanced way, leading to a bank with both a sound financial foundation and advanced ESG finance services.

Headquartered near ancient Lake Biwa that is said to be over

4 million years old, we are the only regional bank based in Shiga Prefecture. For many years we have carried out "environmental management" initiatives with the aim of creating a virtuous circle propelling the environment and economy forward. In line with global trends, these initiatives have now entered a new stage of "sustainability management."

On the following pages I will explain our commitment to taking the leap ahead to this new stage, and our strategy to boost regional earning power through sustainability and balance both the sustainable development of the regional community and new business opportunities.

Turning SDGs into business

The SDGs went into effect in 2016, and this year marks the halfway point to the 2030 goal. The awareness level of SDGs was low at first, but due to repeated natural disasters and the global COVID-19 pandemic, achieving sustainability in line with the SDGs has become a common priority to all humanity.

The Shiga Bank has practiced environmental management since the 1990s. Recognizing the importance of the SDGs early on, we announced our SDGs declaration in November 2017, making us the first regional bank to do so. We are striving to contribute to achieving a sustainable society by translating SDGs into corporate activities and creating a business model that balances economic value with social value.

In April 2019, we launched the 7th Medium-Term Business Plan, which incorporates the philosophy of the SDGs, and states our long-term vision formulated by backcasting from

our ideal picture of a sustainable regional community and our goal of becoming a "Sustainability Design Company." At that time we didn't have the term Sustainability Transformation (SX) in mind. But one of our basic strategies, "turning SDGs into business," aims to bring about innovation with SDGs and create new business models, thus leading to the earning power of the Bank and the region.

This is the final fiscal year of five-year 7th Medium-Term Business Plan. I feel we have made significant headway in the last four years in developing a framework to translate SDGs into business. One measure of particular note is rolling out new businesses coupled with digital technology in response to climate change, which is said to have the largest impact of all potential risk factors.

Regional carbon-neutral initiatives

One business model that combines decarbonization with digital technology is "Mirai-Yoshi Support," a CO₂ emissions management service developed jointly with Hitachi, Ltd. and launched this January (see Page 9). It has earned high acclaim from many customers as a convenient, user-friendly service,

but it also provides a significant benefit to the Bank. By formulating a business plan side-by-side with the customer, such as a plan to upgrade equipment, we can offer support in line with the plan, such as loans, leasing, and other types of financing, consulting, job placement, and at times even M&A.

And to ensure our employees can offer advice on decarbonization, we encourage them to acquire external advisor certifications and develop human resources. Since 2019 the Shiga Bank has offered SDG consulting (see Page 39). Our experience providing branch-led services has given us considerable knowledge to enable us to help decarbonize businesses. To ensure we can demonstrate that strength, we are enhancing our training program.

We have also diversified our finance methods, enabling us to make proposals optimized to each customer. The Shiga Bank became the first bank in Japan to offer private placement type green bonds in 2019, and the first regional bank to offer sustainability linked loans in 2020. Since then we have enhanced our lineup even further with positive impact finance and other services. We also offer “Carbon Neutral Loan, Mirai-Yoshi,” which can be used in a wide range of decarbonization-related capital investments, with the aim of gaining a track record in decarbonizing businesses.

In addition, we started offering “Super Housing Loan, Mirai-yoshi” (see Page 9) this April with the aim of spreading decarbonization efforts throughout region. We are committed to spreading solar panels, storage batteries, and home fuel

cells throughout the region by encouraging decarbonization on an individual level. Recognizing that this requires the cooperation of home vendors, we held a briefing this February asking vendors to actively urge customers to install such equipment.

This initiative is good for the buyers as it enables them to install equipment with a zero real interest rate and reduce utility bills. It is good for the sellers as it enables home vendors to improve their brand image and boost sales and profits. It is good for society as it contributes to the widespread use of renewable energy and development of disaster-resilient communities. And it is good for the future as it will pass on a carbon neutral world to future generations.

When developing the product, we revised the housing loan process to make it more convenient and streamlined. We also introduced an online service so that the entire process could be carried out not face-to-face, enabling us to establish an interest rate on par with online banks. Many of our customers have cooperated with this new initiative to achieve decarbonization, and we have seen a considerable increase compared to the previous year’s results in both inquiries and monetary amount.

Increasing productivity of the regional communities

This May, COVID-19 was reclassified to Class V under the Infectious Diseases Control Law, and the regional economy is gradually recovering thanks to increased tourism and other factors. However, many companies that had received a grace period to repay so-called “zero-zero loans” (i.e., zero real interest, unsecured loans) must start repaying this year. Therefore, we must be ready to provide help again. Issues surrounding the region, such as the declining birthrate, aging population, and disparities caused by the concentration of people in Tokyo, are piling up.

Labor shortage is a pressing problem not only for our customers in the logistics industry that will face the 2024 problem, or anticipated further truck driver shortages, but also for customers in a wide range of other industries. The pace of population decline in Shiga Prefecture is slower than other prefectures, but it is certain to become a serious problem in the future. Unless you hire people to make up for the shortage or change business operations, you will reach a limit at some point.

In response, we established the Digital Promotion Office in October 2020 to provide IT business support (see Page 41) to resolve business issues such as streamlining business operations and managing labor through the use of digital technology. Many SMEs are often not making use of digital technology, and even just switching business processes from paper to digital can contribute dramatically improving efficiency. There are also cases of reevaluation of business operations leading to increased employee motivation, which we expect could spread a positive impact across the entire region. Furthermore, digitalization also will lead to data-based, data-driven business.

Last fiscal year these digitalization support initiatives were recognized and selected among the “Examples of Distinctive Initiatives of Financial Institutions, etc. that Contribute to Regional Revitalization for Fiscal Year 2022,” by the Cabinet Office, earning us an award from the Minister.

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Goal-based support

The Shiga Bank strives to provide “goal-based support” (see Page 47) as concepts on which customer service is based. We ask the customer what their dreams and visions are, and help them bridge the gap from idea to realization.

For business customers, with our SDG consulting service for example, we first hold detailed interviews about their founding spirit and their management philosophy, and identify the impacts of their business activities on society. Then the customers set targets and draw up plans so they can move in the right direction (highly relevant SDGs). Although it is not impossible without consulting, we believe that repeated, detailed dialogue on a day-to-day basis is important for drawing out customers’ dreams and wishes.

We offer a variety of support options to bridge a wide range of gaps — from helping develop sales channels and launch global operations, to human resource system design, crisis management, business succession, and M&As.

One long-time, major problem for the regional community has been the difficulty of finding talent to run companies. In response, the Bank obtained a license to operate in the fee-charging employment placement business in April 2022 and started a human resource placement business. Now that the variety of working styles, such as remote working, has

increased, our aim is to create a platform that enables the regional community to utilize the talent and expertise that is concentrated in Tokyo. Our goal is to contribute to enhancing the corporate value of customers by helping them recruit top management that matches their businesses.

For individual customers, our services focus on goal-based support in accordance with their life stages and asset building support that is compatible with the 100-year life-cycle era. We have digitized our assets under custody operations, and created an organizational structure that enables us to handle everything in one stop — from inheritance and asset succession to effective use of real estate. It is highly compatible with the trust services we launched in April 2020 and we see expanding of our services such as testamentary trusts to achieve a seamless inheritance process.

In addition, now that the legal age of adulthood has dropped to 18 in Japan, the importance of financial literacy education has grown. One of the challenges laid out in our 7th Medium-Term Business Plan is “activities for promotion and improvement of SDGs and financial literacy.” Accordingly, we carry out efforts of holding special courses at universities and other organizations, on financial knowledge that is crucial in our long lives.

Creating a corporate culture where employees are encouraged to act voluntarily

It has long been said that “human resources are the greatest asset” for financial institutions that do not have tangible products. On the other hand, as a characteristic of labor-intensive industries, there has been a strong view that human resources = labor costs (costs). Against this backdrop, and in light of the concept of “human capital” that has been gaining attention in recent years, it is true that there are still many areas in which we are immature or lacking in our efforts.

Despite these circumstances, one thing I am proud of is former members of the Bank who play an active role in the community. Their ages vary, but after leaving the Shiga Bank Group, they play an active role in a wide range of areas, including local economic organizations, public facilities, universities, well-known local companies, and NPOs, and

support the Bank’s initiatives. Their presence greatly reassures the Bank for a regional financial institution that owes its very existence to the support of the regional community. The people who are working with us now will one day graduate and go on to different paths, but if they can use the skills and experience they have gained at our bank to benefit the community and create value for the community, we believe that this can be viewed as valuable human capital for our bank.

Therefore, the Bank hopes our employees prize their feelings to proactively take on challenges, and engages in initiatives that emphasize initiative. For example, in addition to the human resources recruitment system we implement annually, employees are encouraged to volunteer when we assemble teams and put out calls for members. Examples include the

Flexsus Project to upgrade our next-generation core system and the Diversity Promotion Team that makes suggestions for revising the Shiga Bank Group's human resource system (see Page 54). We will be making various attempts to enhance our human capital, but we believe that the effectiveness of

our investments will differ greatly depending on whether or not we have this "initiative to raise one's hand. This is our first challenge, and we will work to establish a corporate culture in which employees raise their hands on their own initiative.

Next challenges for the leap forward

We have accomplished many things in the 7th Medium-Term Business Plan. For example, we have worked to decarbonize and digitalize the region, established the Sustainability Policy, enhanced our consulting capabilities, reorganized our branch network, and streamlined business operations. And I believe this has greatly strengthened our organizational structure. We have nearly completed the plan of consolidating our branches into about 75% which we planned to accomplish during the period covered, and are optimizing assignment of personnel. However, due to factors such as other industries' becoming involved in banking, the business environment has changed radically, so we need to increase profitability of our existing businesses further and diversify our sources

of revenue. We are considering taking on the challenge of entering new business domains in line with the revision of the Banking Act, to make for new businesses.

In addition, the Flexsus project (see Page P40), which is building a new core system in anticipation of the development of the digital society, plans to replace the current "mainframe" system with an "open system" that is more flexible and agile, and more resistant to external linkage. In order to ensure stable provision of banking services and stable operation of the core system, and to secure sufficient time for development and verification, the start-up of the system has been changed from January 2024 to January 2025 or later, and we will continue to make every effort.

For the growth of individuals and communities

In today's age, we will no longer be able to achieve sustainability if we do not act and the actions of each individual will be tested. The spotlight is on the role of regional financial institutions to encourage action, and this potential is being discussed in research groups of government agencies and other organizations. In the past some suggested AI would take bankers' jobs or banks are no longer necessary, but I believe it is the ideal for the Shiga Bank's to evolve into a bank that is essential for customers and the regional community.

We refer to such a presence as a "Sustainability Design Company," in other words, a company that designs the sustainability of the region beyond the concept of bank. With this in mind, the Shiga Bank Group will continue to contribute to the realization of a sustainable regional community. Thank you for your continued understanding and support. We hope to receive your continued patronage in the future.



Shinya Kubota, President, Shiga Bank