

Review of the Year

Financial and Economic Environment

In fiscal 2018, the Japanese economy was adversely affected by natural disasters, but higher inbound tourist spending and strong exports led to improvements in the employment situation and a gentle economic recovery overall.

The Osaka economy is in a similar position, with demand from inbound tourism continuing to have a favorable impact. The city has also been selected to host Expo 2025 Osaka-Kansai, and hosted the 2019 G20 Osaka summit in June and Rugby World Cup 2019 matches in September and October. The JR-West Osaka Higashi Line also opened fully in 2019. These and other positive developments are sure to stimulate activity and expansion of the Osaka economy in the future.

On the other hand, smaller businesses are facing structural issues that include soaring raw material costs and downward pressure on prices, as well as labor shortages and other issues related to business succession due to a shrinking population. To improve productivity and enable the Osaka economy to expand, a concerted and broad-based business support system will have to be set up with the public and private sectors working together. That support would necessarily include support for setting up businesses, including for social businesses, and cover every phase from company establishment to business succession.

In the area of finance, the use of AI and the Internet of Things is accelerating work automation while pushing a shift toward a cashless economy. Meanwhile, the Bank of Japan's extension of its monetary easing policies has resulted in more fierce competition over interest rates for loans. At the same time, companies from other industries are entering into the financial services sector.

We are approaching a time of major changes to the framework of financial services that until now have been based on payment/settlement operations and financial intermediation. With such impending change in the financial and economic climate, it will be necessary to build a business model that contributes to the sustainable advancement of the local economy.

Operating Policies

In fiscal 2018, the middle year of our Medium-Term Management Plan, Osaka City Shinkin Bank focused with determination and speed on efforts that would enable us to become our customers' number one financial partner for problem resolution.

We added more convenient financial services to meet the varying needs of customers. We did this in a number of ways: providing a smartphone app by which customers can check their bank balance; giving customers access to personal loan instruments online; and by forming a partnership with Origami Inc. to promote cashless systems.

We also worked actively on a number of initiatives to contribute to the local community, including the commissioning of Shinkin CSR Private Placement Bonds; the endowment of courses at local universities; the sponsorship of a contest for health-related business plans (continued from last year); and, for the first time, the sponsorship of a social business plan competition.

Additionally, we continue to work to protect customers from bank transfer fraud and other financial crimes, and are bolstering our internal control systems by eliminating transactions with antisocial forces and strengthening cybersecurity and money laundering countermeasures.

Internal Control Systems

In accordance with the following Basic Policy on Internal Control Systems adopted by the board of directors based on Article 36, Paragraph 5, Item 5 of the Shinkin Bank Act and the provisions in Article 23 of the Ordinance for Enforcement of the Shinkin Bank Act, our Bank has continued working to develop a system for internal control.

- (1) Provide a system to ensure that all directors and personnel of the Bank execute all duties of the Bank in accordance with the law and the articles of incorporation of the Bank.
- (2) Provide a system to store and manage information with respect to the execution of the duties of each director of the Bank.
- (3) Provide rules and other systems for risk management against losses by the Bank.
- (4) Provide a system to ensure that each director of the Bank executes his/her duties efficiently.
- (5) Provide a system to ensure propriety of the following systems and other operations in the Bank group.
 - Provide a system to ensure that all directors and employees of subsidiaries of the Bank execute all duties of the Bank in accordance with the law and the articles of incorporation of the Bank.
 - Provide a system for reporting matters relating to the execution of duties by directors of the Bank's subsidiaries.
 - Provide rules and other systems for controlling the risk of losses by Bank subsidiaries.
 - Provide systems for ensuring efficient discharge of duties by senior management of Bank subsidiaries.

- (6) Establish provisions regarding personnel when requested to be assigned to assist auditors of the Bank in performing their duties.
- (7) Establish provisions to ensure the independence from directors' influence of personnel assigned to assist auditors of the Bank and the effectiveness of auditors' instructions with respect to said personnel.
- (8) Provide a system by which directors and personnel of the Bank and directors and employees of subsidiaries, or persons who have received reports from said persons, can report to auditors, and other systems for reporting to auditors.
- (9) Provide a system to ensure that persons who make reports described in the previous item are not subject to unfair treatment as a result of making such a report.
- (10) Establish provisions for policies regarding procedures for prepayment or reimbursement of costs that arise due to the execution of duties by auditors of the Bank, and for handling other costs or financial obligations that arise due to the execution of other pertinent work.
- (11) Provide a system to otherwise ensure the effectiveness of auditors of the Bank performing an audit.

The outline of the operation status during this fiscal year with regard to the above Internal Control Systems was as follows.

(1) Compliance Efforts

The Compliance Committee convened 12 times during the fiscal year to ascertain, manage, and quickly respond in a unified way to issues relating to compliance with laws and regulations, and to confirm the compliance status.

(2) Risk Management Efforts

The ALM Committee convened 12 times during the fiscal year to ensure the stability of earnings and soundness of assets. Every kind of risk was comprehensively managed and addressed appropriately.

(3) Other Major Meetings

The board of directors met 12 times during the fiscal year and the legality of the manner in which the directors carried out their duties was ensured. Auditors' meetings were held 6 times. The directors' performance of duties and compliance with laws and regulations were confirmed.

(4) Internal Control System for the Bank Group

The Compliance Code of Conduct was applied to subsidiaries as well to put in place a system of compliance with laws and regulations. Additionally, auditors of the Bank and the auditing department conducted audits of internal controls of subsidiaries and confirmed that there were no problems in their compliance with laws and regulations, or risk management systems.

Financial Review

We have worked to absorb small stable deposits, offered a special time deposit product with a higher than usual interest rate, and worked to expand the balance of liquid deposits. As a result, total deposits rose during the term to ¥2,491.2 billion.

At the same time, the total of loans outstanding expanded to ¥1,298 billion, reflecting in part our active promotion of problem-solving financing.

Net income for core operations totaled ¥2.862 billion; ordinary income was ¥5.514 billion; and net income for the period amounted to ¥4.467 billion. In addition, our capital adequacy ratio was 8.79%.

Issues and Outlook for the Bank in Fiscal Year 2019

The Japanese economy in fiscal 2019 was faced with increasing economic uncertainty outside of Japan, but improvements in the domestic employment and income situation continue, signaling that sustainable economic growth can be achieved as long as efforts are made to boost productivity, expand demand from inbound tourism, and create new businesses through the use of information technologies.

In the area of finance, as unprecedented monetary easing policies are extended, we must strengthen our management foundation and further improve our financial functions and the financial services we offer to customers and local businesses for the development of the local region.

In this climate, our business plan for fiscal 2019 is based on four main policies that will be pursued diligently: (1) enhancing productivity through greater operational efficiency; (2) developing more convenient financial services; (3) taking measures to enhance the consulting abilities of all employees; and (4) constructing a robust internal control system to maintain customers' trust.

Also, fiscal 2019 is the final year of our Medium-Term Management Plan, during which we are aiming to become our customers' number one financial partner for problem resolution. Our directors and employees will work together to further strengthen our management foundation as a financial institution.

We thank you all for your continued patronage and support.