

Review of the Year

Financial and Economic Environment

In the previous fiscal year the change from the Heisei period to the Reiwa period raised the curtain on a new era. Although the Japanese economy in the first half of the fiscal year saw sluggish foreign demand due to the slowdown in overseas economies, capital investment in labor saving and digitization remained firm, leaving the ongoing moderate recovery trend intact.

However, in the second half of the year, the consumption tax hike, the US-China trade conflict, the deterioration of Japan-Korea relations, and the spread of COVID-19 at the end of the fiscal year stopped the flow of people and goods, associated with turmoil in financial markets and falling crude oil prices. The resulting rapid slowdown in the global economy has been responsible for the most critical situation since the global financial crisis.

Conditions are expected to turn increasingly adverse also for SMEs as the effects of COVID-19 cause the rapid disappearance of demand from foreign tourists in Japan, damage to the supply chain, and future deterioration of business conditions.

It is therefore necessary for the public and private sectors together to engage in efforts surrounding financing and management aid for SMEs and promote robust support action that must be immediate and wide-ranging.

Moreover, traditional boundaries in financial services have been diminishing due to the penetration of cashless payments, the acceleration of digitalization spurred by the launch of 5G services, and the full-scale entry of non-financial industries, which more than ever raises the need to create service value from the perspective of the customer.

Operating Policies

Fiscal 2019 marked the final fiscal year of our medium-term management plan. Toward the realization of the goal of "Becoming Customers' Number One Financial Partner for Problem Resolution" targeted under the plan, all corporate officers and employees were united in their efforts centered on enhancing the consulting abilities of all employees and enhancing productivity through greater operational efficiency.

Regarding shinkin banking operations, we worked to centralize branch office operations at headquarters, promote operation efficiency and work style reform, and strove to ensure the soundness of management. In addition, in order to improve the problem-solving ability of employees, we dispatched personnel members to external companies, supported our business partners by forming project teams for problem-solution based lending, and promoted employees' self-development using the Internet.

To solve customers' problems, we worked to provide a full service range addressing a diversity of needs, among other measures by establishing a business succession support center; by providing a bank passbook application function for smartphones, and by hosting seminars to support productivity improvements at our business partners.

In addition, in collaboration with the Credit Guarantee Corporation of Osaka we established the "City Simpo Step-Up Fund" to promote local SMEs, set up consultation desks as a support measure for customers affected by the spread of COVID-19, and initiated "New Pneumonia Emergency Aid Loans," and in this way rolled out wide-ranging support for local SMEs.

We also actively engaged in activities contributing to local communities in connection with SDGs (Sustainable Development Goals), such as our continuing sponsorship and employee participation in events for regional revitalization and our sponsorship of a contest for working out plans with potential for the health industry.

In the second half of the fiscal year, we continued to strengthen our customer protection efforts, took measures for the prevention of financial crime such as money laundering and sophisticated fraud schemes, and reinforced cyber security measures. Additionally, we further fortified internal control systems by enhancing crisis management systems, among other measures.

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.