

Review of the Year

Financial and Economic Environment

Over the course of the previous fiscal year, the whole globe was affected by COVID-19 in a major way and people and goods no longer moved as they once did, severely impacting the economy. At the end of the fiscal year, there was a third wave of cases, particularly in Europe and the Americas, which led to more lockdowns. In addition, there were trade frictions between the US and China, as they continued to struggle for hegemony, and the global economy suffered. Even compared to the past, it is increasingly hard to predict what the future may hold.

Closer to home, there was something of a recovery thanks to an increase in the number of visitors to Japan, among other things, but the country then recorded its worst downturn since the period after World War II. Osaka, our home region, has also been badly affected. While we must remain wary of new strains of the virus, we are gradually moving toward the end of the pandemic as vaccinations and the development of therapies make progress. As such, it looks like positive trends that hint at economic recovery in the future are gaining traction.

For SMEs, the negative effects of COVID-19 meant that the economic environment continued to be extremely difficult. That required both public and private agencies to actively work to support SMEs through financial relief and put their energies into measures aimed at supporting their management.

Working from home and holding meetings remotely has become common as a new way of working as people avoid congregating in places to which any of the Three Cs (Closed spaces, Crowded places, and Close-contact settings) apply. This is just one of several conventional frameworks or systems that have changed as the new normal becomes established. The rate of DX is also progressing increasingly fast and we are being called on to construct a new business model that allows us to respond to digitalization.

Operating Policies

Fiscal 2020 marked the first year of our medium-term business plan, Smart Shinkin 2022. Everyone who works for the Bank has striven as one with due haste toward the main objectives of the plan: becoming our customers' number one financial partner for problem resolution and for close ties to the region.

Regarding our banking operations, we were led by our belief that ensuring our customers can continue to do business is our highest priority and to that end we supported them with financing and actively promoted ways to resolve their problems during the pandemic. These included services such as our remote management consultations and online management seminars that cater to a wide range of customer queries about such issues as expanding sales and organizing business successions.

To better provide two-way communication with customers, we introduced concierges to the lobbies of our branches and, as a new initiative, set up spaces for the direct sales of local produce or bicycle-sharing stations. These are parts of our initiative to create a system that promotes a cyclical economy aimed at regional revitalization.

Our new department, the IT Strategy Office, was established to promote the DX of our operations and we bolstered our efforts to use IT to meet a variety of customer needs and increase convenience.

To improve our employees' capabilities even further; and to train them in more advanced consulting skills, we have continued to dispatch employees to outside companies, offered proposals from problem solving financial project teams, and promoted their self-development through online tools.

In addition to the above, we are enhancing our business management system by strengthening our business continuity system, working to prevent financial crimes such as money laundering or sophisticated fraud schemes, bolstering our cyber-security countermeasures, and upgrading our crisis management systems.

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.