

Improving Asset Soundness

Nonperforming loans

The balance of loans subject to risk management under the Banking Law totaled ¥60.9 billion on a non-consolidated basis at the end of the term, down ¥13.6 billion from the end of the previous term. Such loans accounted for 2.45% of the total balance of loans and bills discounted, representing an improvement of 0.66 percentage point from the previous term-end. Because our subsidiaries do not provide general business loans, the balance of loans subject to risk management on a consolidated basis rose by only ¥149 million, and accounted for 2.46% of the balance of loans and bills discounted. This is almost the same as the percentage in the consolidated account.

The balance of loans subject to mandatory disclosure under the Financial Reconstruction Law totaled ¥61.0 billion on a non-consolidated basis, a decline of ¥13.6 billion from the previous term-end. Such loans accounted for 2.41% of the total credit balance, representing an improvement of 0.64 percentage points from the previous term-end.

Hence, on a non-consolidated basis, the proportion of non-performing loans was between 2-3% both in terms of loans subject to risk management under the Banking Law, and loans subject to mandatory disclosure under the Financial Revitalisation Law. This was also in line with our target in the 2nd Medium-Term Business Plan for the 21st Century.

Balance of Deferred Tax Assets

To uphold the soundness of our asset portfolio, Shiga Bank adopts a conservative approach to the recording of deferred tax assets, limiting its estimates of future income flows to five years in its judgments of the recoverability of deferred tax

assets. Deferred tax assets at year-end on a consolidated basis (as recorded in the Balance Sheets) increased ¥42 million to ¥315 million, a sum equivalent to 0.15% of the ¥204,777 million constituting our basic Tier I capital for the purposes of calculation of capital adequacy. This sum is 0.01 times as much as core net business profit. We shall accordingly continue to take measures to reduce the balance of deferred tax assets, even though we believe that their level has reached a fully acceptable level in terms of a capital adequacy and earnings potential.

Capital Ratio (Non-Consolidated and Consolidated Basis)

As a result of application of the new capital ratio standards under Basel II (new BIS capital adequacy requirements effective in Japan from March 31, 2007), our capital ratio on a non-consolidated basis climbed 1.03 percentage points at the end of the term (March 31, 2007) to 12.20%. Our Tier 1 ratio increased 2.09 percentage points compared with the previous term-end to 9.54%.

On a consolidated basis, our capital ratio rose 0.95 percentage point to 12.20%, and our Tier I ratio increased 2.07 percentage points year-on-year to 9.60%.

We reached our capital ratio target of 11.0% under our 2nd Medium-Term Business Plan for the 21st Century on both consolidated and non-consolidated bases.

Shiga Bank's Credit Ratings

(as of end of March 2007)

JCR: A+

R&I: A+

Capital Ratios (BIS Standard; consolidated basis)

March 31, 2007

Effective from the term under review, the Bank has adopted the new standards (Basel II framework) for the calculation of its regulatory capital. The Bank has employed the Foundation IRB approach for the calculation of credit risk and the standardized approach for operational risk.

At the end of the term ended March 2007, the Bank's capital ratio stood at 12.20%, both on a non-consolidated and consolidated basis. Tier I capital ratio stood at 9.54% on a non-consolidated basis and at 9.60% on a consolidated basis.

Capital Ratio (consolidated basis)

	Millions of yen	Thousands of U.S. dollars
	2007	2007
(a) Capital ratio	12.20%	
Tier I capital ratio	9.60%	
(b) Tier I capital	¥ 204,777	\$ 1,734,671
50% of the excess amount of expected future loss over qualified reserve	8,736	74,003
(c) Tier I capital	66,452	562,922
45% of the difference between balance sheet values and book values of securities available for sale	41,331	350,117
45% of the surplus from land revaluation	10,893	92,281
Reserve for possible loan losses, excluding specific reserve	227	1,929
Subordinated debt	14,000	118,593
(d) Deductions	11,163	94,569
Shareholding by other financial institutions to ensure fund procurement capability	803	6,803
Investments outside the scope of consolidation	1,386	11,748
50% of the excess amount of expected losses over qualified reserves	8,736	74,003
Expected future loss on exposure (primarily of equity shares) under PD/LGD approach	89	761
On-balance sheet exposure to securitization and credit-enhancing IO strips	147	1,252
(e) Total regulatory capital (b + c - d)	260,067	2,203,024
(f) Risk-weighted assets	2,131,355	18,054,682

Note: Amounts less than ¥1 million are discarded and percentage figures are calculated to the second decimal place.

For reference: Previous standards

	2007	2006	Comparison
Capital ratio Previous standards	11.35%	11.25%	0.10%
Tier I capital ratio	8.49%	7.53%	0.96%

An increase in the Tier I capital ratio of 0.96 of a percentage point is attributable to an issuance of preferred securities (in the amount of ¥20 billion).

Comparison of standards

	New standards	Previous standards	Comparison
Capital ratio	12.20%	11.35%	0.85%

A rise in capital ratio calculated under the new standards is mainly attributable to a fall in credit risk.