



# ANNUAL REPORT 2007



SHIGA BANK

# Profile

The Shiga Bank Group consists of the Shiga Bank, Ltd., which was founded in 1933 and is the leading regional bank in Shiga Prefecture, as well as 15 subsidiaries. In addition to banking, the Group provides leasing, investing (including venture capital financing), credit card, clerical, credit guarantee, and other services.

With small and medium-sized companies and individuals as our core customer base, we seek to make a multifaceted contribution to regional society while ensuring harmonious coexistence with customers and local communities. To this end, we have adopted a customer-oriented approach, focusing on the “3 Cs”—Consolidation (upgrade products and services, and take a realistic yet bold approach to risk assumption), Credit Risk (more sophisticated credit risk management), and Cost Control (greater efficiency) and three brand-building strategies (providing expertise and care, being strong in Asia, and being highly CSR-conscious — to establish a solid operating foundation. We will also embrace a strong CSR commitment, with an emphasis on encouraging environment-friendly operations at our customers, while we transform ourselves into an “eco-clean” institution.



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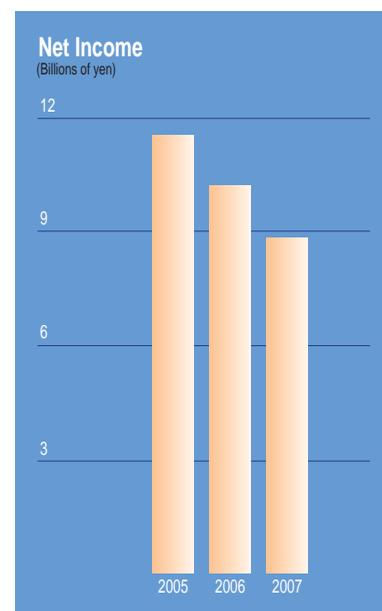
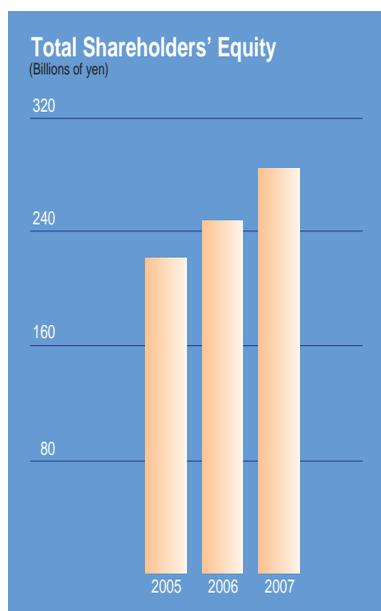
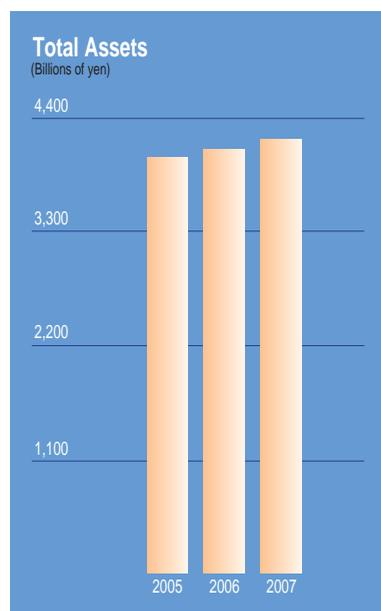
# Consolidated Financial Highlights

March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
<b>As of March 31</b>				
Total assets	<b>¥4,179,335</b>	¥4,082,911	¥4,006,137	<b>\$35,403,099</b>
Securities	<b>1,355,021</b>	1,426,683	1,403,630	<b>11,478,368</b>
Loans and bills discounted	<b>2,473,464</b>	2,378,949	2,318,503	<b>20,952,681</b>
Deposits	<b>3,705,751</b>	3,624,279	3,579,204	<b>31,391,373</b>
Total shareholders' equity	<b>283,997</b>	247,333	221,701	<b>2,405,737</b>
<b>Years ended March 31</b>				
Total income	<b>99,356</b>	99,914	90,974	<b>841,648</b>
Total expenses	<b>83,956</b>	77,892	71,544	<b>711,198</b>
Net income before income taxes and minority interests	<b>15,399</b>	22,021	19,429	<b>130,450</b>
Net income	<b>8,839</b>	10,209	11,483	<b>74,882</b>
<hr/>				
Cash dividends	<b>1,587</b>	1,323	1,320	<b>13,446</b>
Net income per share (in yen)	<b>¥33.41</b>	¥38.43	¥43.31	<b>\$0.28</b>
Capital ratio	<b>12.20%</b>	11.25%	11.18%	

Notes: 1. Japanese yen figures below one million are omitted.

2. U.S. dollar amounts represent translation of Japanese yen at the rate of ¥118.05 to US\$1.00 on March 31, 2007, the final business day of the term.



### Cautionary Statement with Respect to Forward-Looking Statements

Statements made in this annual report with respect to The Shiga Bank, Ltd.'s current plans, estimates, strategies and beliefs, and other statements that are not historical facts are forward-looking statements about the future performance of Shiga Bank. These statements are based on management's assumptions and beliefs in light of the information currently available to it, and therefore readers should not place undue reliance on them. Shiga Bank cautions readers that a number of important factors could cause actual results to differ materially from those discussed in the forward-looking statements.

## Message from the President

First, I would like to take this opportunity to thank all our stakeholders for their support over the past year.

With mandatory application of the new international risk management standards for Japanese banks at the end of March 2007, in line with the new Basel II BIS capital adequacy requirements, I am proud to announce that Shiga Bank has joined a group of five Japanese regional banks authorized to adopt the advanced Foundation Internal Ratings Based (FIRB) risk management approach.

Unlike the standard approach based on rules set by Japan's banking authorities, FIRB represents a new paradigm for risk management. It enables us to proactively address the challenge of risk, using proprietary data accumulated and analyzed by our in-house systems for borrower credit-rating and IT strategies built up by the Bank over 10 years, yielding a more sophisticated risk management system.

The Bank took this opportunity to launch in April its 3rd Medium-Term Business Plan for the 21st Century (April 2007-March 2010), which has as its main theme enhancement of enterprise value through more sophisticated risk management.

By harnessing our long-standing emphasis on rational policy-making and our sophisticated computer systems, we are reaching for a new level in our development of an original business model based on the principle of accountability. We are further developing our three brand-building strategies (providing expertise and care, being



Koichi Takata , *President*

strong in Asia, and being highly CSR-conscious), as well as making a Groupwide effort to become a partner in prosperity for our community.

I hope we can count on the further support and encouragement of our stakeholders in our future endeavors.

July 2007

A handwritten signature in black ink, appearing to read 'K. Takata' with a stylized flourish underneath.

Koichi Takata , *President*

# Overview of Operations

## **FIRB for management rooted firmly in accountability**

As a bank, our defining mission is to accept risk. With the valued deposits of our customers as our core resource, we cannot accept risk without taking protective measures. To gird ourselves to meet these needs, we have to take a realistic approach.

Since I became president in 1997, I have spared no effort to spread awareness of these issues at every level of the Bank and ensure that a sense of realism firmly underpins all we do. My goal has been modernized bank management based on the principle of accountability. As we say in Japanese, “Protect your own castle by your own efforts.”

This has meant building system infrastructure in various ways. We were ahead of the field in establishing systems for in-house corporate customer credit-rating and for better matching interest rates to levels of risk, and we also created an IT strategy enabling us to perform more advanced operations at greater speed. As a result of over 10 years spent on such endeavors, we have succeeded in gaining approval to become one of

five Japanese regional banks among a total of 64 authorized to adopt the Foundation Internal Ratings-Based (FIRB) risk management approach, a more rigorous version of the standard IRB framework, in line with the new Basel II BIS capital adequacy requirements effective in Japan from March 31, 2007.

Based on this more advanced risk management paradigm rooted in the principle of accountability, the Bank has reached a new stage in its development in which bolder risk-taking becomes a core activity. Every employee of the Bank from senior executive down to counter staff takes pride in this achievement. We ask for the understanding of everybody in the community we serve as we go about becoming a partner in prosperity for them.

## **Three brand-building strategies for our own community-focused management style**

In the autumn of 2007, competition within the financial sector is expected to grow more severe with the scheduled privatization of Japan Post and lifting of remaining restrictions on



over-the-counter sales by banks of life and casualty insurance products.

To thrive in this future competitive environment, we must not only instill the principle of accountability-oriented management, but also build up our own community-focused management style to further deepen the trust of our customers.

Thus we will develop our three brand-building strategies first proposed in the previous (2nd) business plan (April 2004 - March 2007), our Medium-Term Business Plan for the 21st century.

The first concept is providing expertise and care. By this we mean developing a solution-oriented business using qualified financial planners. They will offer our customers a broader portfolio of solutions services, such as financial planning for individuals (financial asset management) and for corporate customers, support for business start-ups and M&A solutions.

Our second goal is becoming stronger in Asia. Based on our overseas bases (our branch in Hong Kong and our representative office in Shanghai), we will support our customers' expansion into Asian business, and provide forums for private sector economic exchange, for example by holding business round-table talks in Asian countries. In this way we also hope to foster better international relations.

Third, we are creating a highly CSR-conscious paradigm with environmental management as its centerpiece. As a bank with a headquarters near Japan's largest lake, Lake Biwa, we committed ourselves to a 6% reduction target for carbon dioxide emission under the Kyoto protocol as a global warming measure in the previous Medium-Term Business Plan - our first such initiative. In the end, we achieved 9.94% (compared with 1990). We have incorporated another 6% cut, compared with



fiscal 2006 levels, in the current Medium - Term Business Plan, and continue to develop more environment-friendly products and services.

### **Commitment to a CSR Charter**

With the launch of the 3rd Medium-Term Business Plan for the 21st century in April 2007, the Bank has compiled a CSR charter and a code of conduct as key elements of our corporate philosophy.

Enterprises today are expected to show tireless commitment to developing CSR-oriented management.

In 1966, the Bank compiled the following core values: "be harsh on yourself, be good to others, and do your utmost for society." We believe we are carrying on the spirit of the legendary good merchants of Omi (the old name for Shiga Prefecture), who believed a man of business should be honest in selling and buying and all his dealings with those around him, so that all parties, buyer, seller and local community, benefited from a transaction. These simple but meaningful ideas are enshrined in the Shiga Bank philosophy, to which we shall always adhere.

Taking this as our departure point in our CSR management, we will become a partner in prosperity in every way for our community, our employees and for the global environment.

# Corporate Governance

Based on its commitment to being a partner for prosperity for local communities, the Bank is upgrading its corporate governance system to ensure the soundness, efficiency, and transparency of management. In addition to strengthening risk management, we are pursuing a number of specific initiatives. These include improving operating efficiency, instilling widespread compliance with legal and ethical rules, disclosing information in an appropriate and timely manner, and upgrading the content of materials disclosed.

In addition, we intend to constantly review the status of corporate governance in order to properly address the ever-changing business conditions that we face.

## Conduct of Business, Auditing, and Supervisory Systems

### (1) Board of Directors

The Board of Directors, with 17 members, meets once a month in principle. At the meetings, decisions are made on important business matters for conduct business. Corporate auditors attend all such meetings to monitor the performance of directors.

### (2) Board of Corporate Auditors

The Board of Corporate Auditors has four statutory auditors, including two from outside the Bank. The Board meets at least once every month, in principle. Corporate auditors also attend other important meetings, including those of the Board of Directors and Executive Committee, as well as internal audit briefing sessions. They also audit the performance of directors in their duties through ongoing examination of the Bank's business performance and financial position.

In addition, corporate auditors maintain close interaction with the Bank's accounting auditors, holding regular meetings to exchange opinions and information. They also conduct audits as appropriate based on reports from the Internal Audit Department.

### (3) Executive Committee

The Executive Committee consists of the president, senior managing directors, and managing directors. It meets as necessary to make swift decisions about overall operations, including investment plans, new product development, business structural changes and monitoring the risk environment.

Important items related to the execution of business are submitted to the Board of Directors.

### (4) Internal Audit System

Seeking to conduct its business in a sound and appropriate manner, the Bank established the Audit & Inspection Department to undertake internal audits. The Department performs audits of the Bank's branches to ensure that their internal control mechanisms are functioning properly and effectively, in accordance with annual internal audit plans approved each year by the Board of Directors.

In addition, the Bank holds internal audit briefing sessions each month in principle, with attendance by the president and other members of management. At these sessions, participants examine reports of audits, as well as the status, problems, and issues concerning branches that have been audited. The objective of these sessions is to alleviate risk, enhance administrative reliability, and ensure appropriate business operations.

### (5) Compliance Committee

The task of the Compliance Committee, headed by a senior managing director and with participation of corporate auditors as observers, is to help ensure that the Bank conducts its activities in a sincere and fair manner.

The Committee conducts extensive investigations of issues related to compliance with social norms, laws, and the Bank's internal regulations.

### (6) ALM Committee

The objective of the ALM Committee, headed by the president, is to help ensure steady earnings growth by upgrading risk management. In addition to analyzing, discussing, and reporting on risk-related matters, the Committee performs asset-liability management.

# 3rd Medium-Term Business Plan for the 21st Century

**Our Vision:**  
Becoming a partner in prosperity for our community

**Main Theme**  
Enhancing enterprise value through more  
Period of the plan: April 2007-

## Basic strategy

Focus on the 3 Cs (**Consolidation**, **Credit risk** and **Cost control**), commit to  
**Consolidation:** Upgrade products and services, and take a realistic yet bold approach to risk;  
**Cost control:** Greater efficiency; **CSR:** Step up environmental protection and community

## Marketing strategy

Focus on asset quality, and develop the three brand-building

Providing expertise and care

Being strong in Asia

### Nature of businesses

Business fields in which we will strengthen relations with customers so as to respond more accurately to their needs

Business fields in which we will broaden our scope of operations so as to enhance customer convenience

### Marketing activities

Provide solutions

Provide greater convenience in transactions

### Policies

#### Create a solutions business

(Corporate customers)  
Support new business setups (*Nonohana* program)  
Strengthen support for corporate rehabilitations  
Get involved in investment banking  
Asia business support  
Strengthen measures for setting loan interest rates at the right levels

(Individual customers)  
Strengthen our private-banking activities  
Promote our assets-under-custody business

#### Consolidate customer base with better products and systems

(Corporate customers)  
More effective measures for small account-holders

(Individual customers)  
Efficiently promote mortgage loans and strengthen credit management  
Strengthen marketing of unsecured loans  
Strengthen our card strategies  
Upgrade settlement functions for small account-holders

### Systems

#### “Hard” measures: Build a more effective and efficient network of marketing channels

Strategic entry into growth markets  
Establishment of specialized branches  
Revamp branches to match them better with particular regional needs  
Expand direct marketing channels

#### “Soft” measures: Create a marketing system that addresses specific customer segments in line with market trends

Expand our area marketing structure  
Efficient promotion of loans to individuals  
Strengthen over-the-counter marketing

### Personnel needed

Build up staff teams capable of marketing solutions

Shift focus to human resources

Efficiently deploy personnel able to make the right business decisions quickly

### Develop products and services

Provide products and services that meet market needs  
Provide a broader range of solutions

Develop more products and services geared to CSR needs  
Respond to diversifying business opportunities

## Nurturing and harnessing human resources

### Personnel needed

Professionals with knowledge of the latest banking practice

Optimize deployment of personnel  
Develop capabilities of female employees  
Nurture expert talent

Strengthen training and operational guidance  
Harness the knowledge and experience of veteran employees

### Risk management capabilities

FIRB approach,  
integrated risk management

### Advanced system infrastructure

New branch operating system,  
new backbone computer system,  
new office building

### Expand delivery channels

Bigger branch network/Hello  
Support direct marketing channels

Our

## sophisticated risk management

March 2010 (3 years)

## CSR

**Credit risk:** More sophisticated credit risk management; initiatives, and put in place corporate governance structures

## strategies

### Being highly CSR-conscious

### Securities Strategy

Manage portfolios with efficient use of capital

Seek returns duly balanced against risk

Risk control for equity investments with specific policy purposes

## Business Environment

Addressing rising market interest rates, the spread of electronic money, and the larger number of baby-boomer retirees amid a rising dependency ratio (fewer births, more retirees)  
(Systemic change) Addressing enactment of the Financial Products Exchange Law (J-SOX) and Basel II, and amendment of the FSA's financial inspection procedures  
(Competitive environment) Privatization of Japan Post, allowing ordinary companies to enter the banking business, and expansion of online banking

Reform the merit-based compensation system

Create a personnel system that gives free rein to employees' potential

Strengthen internal control systems

## Internal processes

More sophisticated management of operations (respond appropriately to Basel II capital adequacy requirements)  
Optimize deployment of risk capital, manage operations based on credit rating  
Better customer service  
More effective capital policies

Strengthen BCP (Business Continuity Plan) initiatives  
Compile a CSR charter  
Make more effective use of IT systems

Develop a more sophisticated approach to internal controls and disclosure management, strengthen compliance  
Reform administrative processes  
Pursue efficiency and leverage Group companies

### Stronger capital ratio

Achieve capital ratio well ahead of regulatory minimum

### CSR-oriented management with the environment as its centerpiece

Winning community approval for our environmental and CSR record

### Growth potential of markets in Shiga Prefecture

The rate of population increase in Shiga Prefecture is one of the highest in Japan.

## Strengths

In April 2007, we launched our three-year 3rd Medium-Term Business Plan for the 21st century.

With its main theme of enhancing enterprise value through more sophisticated risk management, the new plan is intended as the culmination of our efforts to date to establish an original management model based on the principle of accountability, enabling us to realize our vision of becoming a partner in prosperity for the community we serve.

## The “3 Cs” plus CSR

To build up enterprise value, we consider it important to pull together as a group to steadily grow earnings through an optimized risk return policy — in other words, generate more economic value — while building up social value through CSR activities.

Under the basic strategy of the current Medium-Term Business Plan, we have added CSR to our Group commitment to a new set of “3 Cs”: Consolidation (upgrade products and services, and take a realistic yet bold approach to risk assumption); Credit risk (more sophisticated credit risk management); and Cost control (greater efficiency).

## Bolstering Relationship Banking

We are dividing our operations into relationship banking — using stronger ties with our customers to better tailor our operations to their needs — and broadening our range of operations to enhance customer convenience. To further

strengthen our solutions business in our relationship banking activities, we have broadened our portfolio of solutions and shifted more resources into this area.

At the same time, in efforts to broaden our scope of operations to enhance customer convenience, we are creating a more efficient operating structure capable of responding to customer needs better in terms of products and systems based on a new core computer system, scheduled to go into operation in January 2008.

## Further strengthening personnel training

Personnel training is vital for accurately and swiftly tailoring our services and products to customer requirements as these become more diverse and sophisticated.

The areas we are focusing on in the current Medium-Term Business Plan are strengthening training, development of our female employees' roles, harnessing the expertise and experience of veteran employees and fostering expert talent.

We plan to build a new training center in fiscal 2008 as a symbol of our commitment to employee education.

The new training facility will also symbolize our CSR commitments, as it uses an environment-friendly design featuring solar panels and rooftop and wall greening.

## Optimizing management resources

To ensure a more efficient and effective marketing strategy, making maximum use of Foundation Internal Ratings-Based models for

# enterprise value through enhanced risk management —

credit risk compatible with Basel II, we are a reallocating management resources to growth markets such as the Konan area of Shiga Prefecture, the southern districts of Kyoto and the Osaka area.

We are also reviewing our branch strategy chiefly in Shiga Prefecture, looking at the possibility of a shift from full banking services at each branch to a more specialized system with branches focusing on specific roles such as asset management consultation.

## Total commitment to the three brand-building strategies

We are proactively developing the three brand-building strategies — providing expertise and care, being strong in Asia and highly CSR-conscious — launched in the previous Medium-Term Business Plan.

The goal of the current Medium-Term Business Plan is to further increase gross business profit, based on expansion of the loan portfolio and of revenue from fees and commissions.

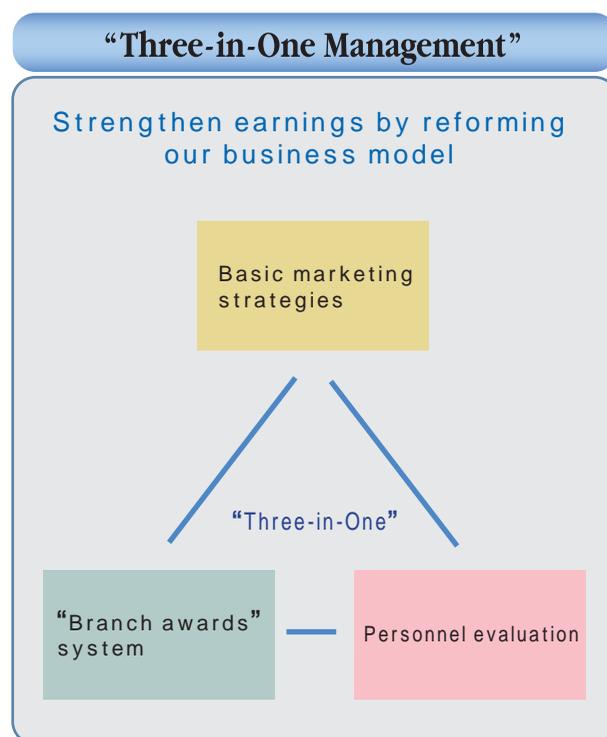
Performance indicators	March 31, 2010
ROE (Consolidated)	5% or higher
Capital Ratio (Consolidated)	Approximately 11%
Tier I Ratio (Consolidated)	9% or higher
Overhead Ratio (Non-consolidated)	60% or lower
Carbon Dioxide Emissions	6% reduction

\* We aim to maintain the capital ratio (consolidated basis) by bold but realistic risk-taking, on the assumption of a higher level of risk assets.

\* Regarding carbon dioxide emissions, we target a reduction of 6% for fiscal 2009 compared with fiscal 2006.

## Promoting Three-in-One Management

Based on these priorities, we will develop a tripolar paradigm of management organically fusing the following three elements: (1) business strategy rooted in reform of business process, sophisticated financing models and development of a solutions business, (2) performance-linked reward system and (3) sound personnel policy (training, deployment and appraisal systems). We will take every available measure to fulfil the targets in the 3rd Medium-Term Business Plan for the 21st Century.



# Fiscal 2006 Highlights

## Final Results of our Relationship Banking Action Program

We have devised a relationship banking action program with the following three priority objectives in fiscal 2005 and 2006: 1) smoother corporate rehabilitation procedures and financing for smaller enterprises; 2) strengthened product marketing capability; and 3) enhanced convenience for customers in our community. At the same time we have set numerical targets in nine areas and taken initiatives to achieve these goals, including increasing the capital ratio to 11% or higher on a consolidated basis and reducing carbon dioxide emissions by 6% (compared with the level of base year 1990) to help combat global warming.

### 1. Smoother Corporate Rehabilitation Procedures and Financing for Smaller Enterprises

#### Strengthen our support functions for startups and new business entry by established businesses

As part of our wide-ranging initiatives to support our *Nonohana* new business program, we held ten “Saturday Entrepreneur Seminars,” a joint initiative with partners in industry, academia, local government and finance, to link up “seeds” (fruits of research) with corporate needs. We also took steps to upgrade our new business support network Shigagin *Nonohana* Support Group, which uses a regionally-focused format which is unique in Japan. During the period between April 2006 and March 2007, we were able to provide business-matchmaking information in 74 cases. Likewise our Shigagin New Business Support Loan Facility, which offers uncollateralized finance up to ¥30 million, provided finance totaling ¥240 million in nine transactions.

### Strengthen our Management Consultation and Support Functions (Initiatives for diversification of fund procurement methods)

We offer business loans called Entrepreneurial Power, Entrepreneurial Power Plus, and Super Agricultural Power to support smaller businesses which require no collateral or guarantors with rapid appraisal using our automatic “scoring model” creditworthiness assessment. Loans totaled ¥8,948 million in 1,724 cases as of March 31, 2007.



### (Initiatives for corporate rehabilitation)

During the term under review, we helped 49 customers improve their borrower category, after the customers in question were given management reform guidance by the corporate management support office of our Credit Supervision Department (established in October 2003).

### 2. More Convenient Services for Local Customers

#### Initiatives for CSR

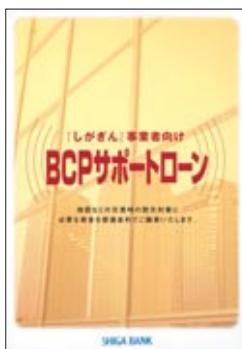
As a financial institution based near Japan’s largest lake, Lake Biwa, sound environmental management is the Bank’s priority, and we ensure rigorous adherence to CSR principles and promotion of environment preservation management on a Groupwide basis. As part of these

efforts, we laid down the Shigagin Principles for Lake Biwa in December 2005 and launched the Shigagin Principles for Lake Biwa Support Fund (PLB Fund) financing facility for corporate clients that have demonstrated particular environmental concern. Since the start of the program, we have provided a cumulative total of ¥4.1 billion via the PLB Fund to 312 entities among 1,010 applicants.

In August 2005, we began offering the Eco and Earthquake Resistance Mortgage Loan, offering preferential interest rates of a maximum of 1.2 percentage points lower than our ordinary loan rates for financing construction of ecologically sound and earthquake-proof housing. A total of 2,102 loans, totaling ¥45.3 billion, have been made since the launch of the product, reflecting our customers' high level of consciousness concerning environment preservation.

In addition, the cumulative total of our Shigagin Eco-Plus Time Deposit program reached to 738,163 deposits (totaling ¥604.2 billion) since the launch of the product in April 2003. In June 2006, we donated ¥1 million to two elementary schools in Shiga Prefecture for the purpose of creating "School Biotopes" with the contributed capital of this program.

In August 2006, we started offering BCP Support Loan for companies that proactively take measures against natural disasters including earthquakes and typhoons. This loan provides lower interest rates than our ordinary loan rates, urging our customers to draft up business continuity plans (BCPs). Since the launch of the product, loans totaled ¥111 million for three cases.



## Numerical Targets and Results Basic Targets in the Medium-Term Business Plan

### Targets for March 31, 2007

(Actual values achieved as of March 31, 2007 are in brackets)

ROE (non-consolidated) .....	5% or higher	[3.38%]
OHR (non-consolidated) .....	60% or lower	[68.49%]
Capital ratio (consolidated) .....	11% or higher	[12.20%]
Tier I ratio (consolidated) .....	8% or higher	[9.60%]
Non-performing loan ratio under the Financial Reconstruction Law (non-consolidated) .....	2-3% <sup>1</sup>	[2.41%]
CSR .....	6% reduction in carbon dioxide <sup>2</sup>	[9.94%]

Notes: 1. Because we have already reached our target of under 4% as of March 31, 2005 for our non-performing loan ratio in the 2nd Medium-Term Business Plan for the 21st Century, we have set a new target of under 3% as of March 31, 2007 in our relationship banking action program to further strengthen asset soundness.

2. Complies with Japan's target under the Kyoto Protocol for reduction of CO<sub>2</sub> emissions.

## Targets in our Expertise and Care and Strong in Asia Campaigns Targets for March 31, 2007

(Actual values achieved as of March 31, 2007 are in brackets)

Number of cases handled by our solution provision section ...over	1,600	[2,488]
Number of attendees (customers planning to offshore operations in East Asia) at our Advance into Asia seminars .....	over 1,800	[2,245]

## Targets under our highly CSR – conscious Campaign

Eco and Earthquake Resistance Mortgage Loan .....	over 1,800	[2,102]
Shigagin Eco-Plus Time Deposits, total number of deposits ... over	665,000	[738,163]

# Comprehensive Control Mechanisms for Specific Risk Categories

## Toward a Stronger Risk Management System

Shiga Bank has been authorized to adopt the advanced Foundation Internal Ratings-Based risk management approach under the new Basel II BIS capital adequacy requirements, bringing us to a new stage in our efforts to build an advanced risk management system based on the principle of accountability. By continuing to develop these methodologies and constructing still more advanced risk management systems, we aim to further enhance our capabilities in this important area.

### (1) Comprehensive Risk Management

Our Assets & Liabilities Management Department is responsible for unified monitoring of all risk.

In particular, we are taking steps to appropriately evaluate loan concentration risk, which is outside the scope of the capital adequacy requirements, and interest rate risk on our own accounts. We have quantified these risks to compare them with the Bank's regulatory capital.

### (2) Comprehensive Risk Management

In our comprehensive risk management, we measure and manage risk quantitatively using such integrated yardsticks as the (maximum) Value at Risk (VaR) formula applied to each risk category. At the same time, we comprehensively control quantifiable risk and ensure that the magnitude of risk is kept within the specified ratio to regulatory capital, based on the capital allocation system (of covering each risk category with an amount no smaller than the maximum potential loss). In line with the launch of Basel II in March 2007, we are also reforming our capital allocation system to create more sophisticated risk management mechanisms.

### (3) Credit Risk Management

We regard credit as the most important category of risk in terms of scale and scope. We are creating appropriate mechanisms for management of credit risk by putting in place a borrower-rating system based on the Foundation Internal Ratings-Based approach under Basel II.

### (4) Operational Risk Management

Operational risk should be avoided as much as possible during the course of daily operations. We are taking measures to forestall such risk where its emergence is expected, and to minimize impact when it materializes. Risk appraisal is based on the regular implementation of the Bank's risk and control self-assessment standard as part of our efforts to establish a risk management system in conformity with Basel II.

To refine our risk management, we gather and analyze data relating to operational risk, and implement measures aimed at forestalling such risk as well as controlling, transferring and avoiding risk. To increase the effectiveness of risk management, we are adopting the Plan-Do-Check-Act (PDCA) cycle.

### (5) Market Risk Management

To ensure stability of earnings generation, we draft an ALM plan each half-year, which incorporates plans for investments in securities and other instruments, taking into account the risk-return scenario of the entire Bank. The status of market risk is quantified and monitored, with findings reported to top management. Organizationally, the business, administrative, and risk management functions are conducted by separate departments, each of which checks the operations of the others.

### (6) Liquidity Risk Management

With respect to managing the flows of funds, the Securities & International Department monitors the financial environment, balance of liquid assets, expected cash outflows, and other fund-raising factors, and acts as appropriate. At the same time, the Assets & Liabilities Managing Department keeps track of day-to-day risk management, to ensure that obstacles to our fund-raising do not appear.

### (7) Reputational Risk Management

The Bank has formulated a general outline for dealing with rumors that could affect its business, and has put place measures and internal systems to deal with exceptional situations or expected exceptional situations related to reputational risk.

# Internal Control System

## Internal control system status

In accordance with Corporation Law and the Regulations for Enforcement of the Corporation Law, the fundamental policy of our internal control structure was discussed and determined by the Board of Directors. As detailed below, the Bank has a system to ensure appropriate practices in the execution of its daily business. The Bank has also appointed a person to head the General Planning Department dedicated to overseeing maintenance, operation and evaluation of internal control over financial reports in accordance with the Financial Product Transaction Law, which will come into force in April 2008.

## Fundamental Policy of the Internal Control System Structure

### <Fundamental Policy>

The Bank sees the appropriate execution of its social responsibilities as an essential role in its overall management approach and in order to ensure that the Bank is using the most appropriate work practices when carrying out its business, the following (Internal Control System) structure has been put in place. Moreover, in order for the Bank to flexibly change its operational system in line with changes in the business environment, the Bank will review following systems as needed.

(Systems to ensure the most appropriate work practices)

1. A system to ensure that the Bank's Directors are executing their duties in accordance with the law as well as the Bank's Articles of

Incorporation. A system to ensure that Bank employees are executing their duties in accordance with the law as well as the Bank's Articles of Incorporation.

2. A system to store and maintain information related to the Directors and the execution of their duties.
3. A system to ensure that regulations related to risk management are being followed.
4. A system to ensure that the Directors execute their duties in an effective manner.
5. A system to ensure that the Shiga Bank Group, consisting of the parent Bank and its subsidiary companies use the most appropriate work practices in the execution of their business.
6. In the event that the Bank's statutory auditors request the appointment of employees of the Bank to assist their tasks, said employees shall be treated pursuant to stipulations in Article 100, Paragraph 3, Item i of the Regulations for Enforcement of the Corporation Law. Independence of such employees from the Directors shall also be assured.
7. A system to facilitate reporting to the statutory auditors by the Bank's Directors and employees, an auxiliary system for reports to the statutory auditors, and a system to ensure the effective execution of any audit carried out by the statutory auditors.

# Shiga Bank's CSR Commitment

## Our Aims for 'Shiga Bank — Committed to CSR' — establishing a CSR Charter

The Shiga Bank positions CSR (Corporate Social Responsibility) as an essential part of its management approach and this is reflected in its slogan Clean Bank Shigagin and in its Environmental Management that incorporates the environment as part of the Bank's management approach.

The concept of a "Clean" means (1) Eco-Office — reducing the amount of resources and energy consumed, (2) working to protect the local environment by developing and offering environmentally sensitive financial products and services, (3) creating a work force with high ethical values, and (4) highly transparent information disclosure. The entire organization is working to make this a reality.

Through the Shigagin Welfare Fund, we seek to enhance the welfare of local communities. Each year, for example, we provide contributions to experimental and pioneering welfare programs undertaken in Shiga Prefecture. At the same time, we promote regional cultural initiatives through our affiliate, The Shigagin Economic & Cultural Center Co., Ltd.

To further improve our environmental, welfare and cultural work and in order to pursue our CSR, we established a CSR Committee in April 2004 with President Takata as Chairman. This committee helps us fulfill our social responsibilities to all of our stakeholders — our customers, shareholders, people who live and work close to our locations, from senior executive down to counter staff — and thus become highly CSR-conscious.

To make the Bank's social responsibility more explicit, in April 1, 2007, we established a CSR Charter (Management Principles) as the basis for the Bank's creed, "be harsh on yourself, be good to others, and do your utmost for society" (established 1966). The charter consists of three principles: (1) "Co-exist and prosper with your local community" to help gain the trust and fulfill the expectations of our customers;

(2) "Co-exist and prosper with the Bank's employees" to respect every individual's rights and individuality; and (3) "Efforts for the preservation of the Global Environment" to practice environmental management as a bank based near Lake Biwa. In order to make the spirit of the Charter a reality, we set up specific guidelines in the form of The Shiga Bank Code of Conduct. We are the first regional bank in the country to establish its own CSR Charter and from now on, from senior executive down to counter staff will do their best to achieve the spirit of the CSR Charter as well as the Code of Conduct.

## Environmental Initiatives ISO14001

At the core of the Bank's Environmental Management System is our dedication to the ISO14001 standard.

We were the first to be ISO14001 certified (in 2000) among Japan's financial institutions. The certifying organ was impressed with our work on (1) creating an Eco-Office focused on reducing the amount of resources and energy consumed and (2) incorporating development and offering of environmentally sensitive financial products and services into the Environmental Management System and working to make it a reality.



## Shigagin Eco-Style Campaign

Our Summer Eco-Style Campaign runs between June 1st and September 30th, beginning in 2005. In addition to encouraging staff to come to work dressed "Eco-Style" for warm weather, we set the thermostat for the head office and our affiliates at 28°C and for our branches at 26°C. Moreover, as part of our Winter Eco-Style initiative which runs between December 1st

and March 31st, the thermostat for the head office and our affiliates was set at 20°C and for our branches at 22°C. This program was part of our efforts to reduce the emissions of greenhouse gases (CO<sub>2</sub>).



### Green Purchasing

The Bank's Green Purchasing initiative started in April 2005. The program emphasizes the purchase of materials and products with the smallest environmental burden.

The thank you gifts distributed to our customers have, since 1998, been subject to our Green Purchasing program.

Our green purchasing rate is 99.8% for paper and 82.7% for stationery.

### Reed Cutting Volunteers

To promote the growth of the reeds in and around Lake Biwa, which are essential to maintain the water quality and breeding grounds, from senior executive down to counter staff from the Bank volunteer for reed cutting duty each year. A total of about 400 volunteers do this work around Karasuma Peninsula in Kusatsu City in January 2007 and around Azuchijo Nishinoko in February.

### Forest Building Volunteers

This year, our staff cleared the undergrowth from 10,000 young trees that were planted at the Biwako World Citizens' Forest (formerly the dry riverbed of the Yasu River) in 2003 to help celebrate our 70th

anniversary. During fiscal year 2006, 735 employees volunteered in July and August.

## Social Contribution Activities

### Shigagin Welfare Fund

Through the Shigagin Welfare Fund, the Bank provides comprehensive assistance each year to experimental and pioneering welfare programs undertaken in Shiga Prefecture. In the term ended March 2007, we extended a total of ¥10.92 million in grants to 15 groups and organizations. Since its first grant in 1985, the Bank has provided a total of ¥266.3 million to 351 entities via the Shigagin Welfare Fund.

### Promoting the Local Economy and Culture

Together with our affiliate, The Shigagin Economic & Cultural Center Co., Ltd. (popularly known as Keibun), we provide the latest information on the region through the publication of a monthly local business magazine, *Kakehashi* (circulation of 14,000), and a seasonal publication, *Mizuumi* (The Lake, 29,000).

Every December, we sponsor a performance of Beethoven's Ninth, an event with public participation that is often called the "Keibun Ninth." We also co-host concerts and other events at various cultural halls in Shiga Prefecture.

In addition, twice a year, in spring and autumn, we offer ten *Keibun* cultural courses to the general public to for the learning enjoyment of local people.



## ZAikai Honors President Takata with its 'Manager of the Year' Award

The general business magazine ZAIKAI held an award ceremony for the winners of its fiscal 2006 Zaikai Award and Manager of the Year Award in the Marunouchi district of Tokyo in January 2007. Shiga Bank President Koichi Takata was presented with the Manager of the Year award.

The award was given as recognition of the Bank's mission as a bank based near Lake Biwa to preserve the lake and the global environment (Environmental Management), and its pursuit of CSR (Corporate Social Responsibility). The magazine recognized that the Bank's "management that emphasizes the environment makes it an example not just for the financial sector, but for all industries, and highly values the importance of this."



## Supporting School Safety Volunteers to Ensure Safety

Gifts of bicycles to all of the municipal elementary schools in the prefecture

In January 2007, the Shigagin Traffic Safety Sazanami Society (Chair: President Koichi Takata) donated one bicycle to every municipal elementary school in Shiga Prefecture, a total of 231 bicycles.

This Society (established in 1968) had been

donating pencils embossed with traffic safety slogans to new first grade students every year, paid for by a



portion of the interest accrued on fixed-term deposits. However membership of the society has fallen in recent years and the decision was taken to disband the society. The remaining funds were used to purchase the bicycles for the school safety volunteers.

## ¥1.5 million Donated to Shiga Prefecture Elementary Schools

The Shigagin Eco-Plus Time Deposit program was set up to support environmental initiatives. During the year, the Bank donated ¥0.5 million to each of three Shiga Prefecture elementary schools, for a total of ¥1.5 million, from the fund to help them undertake "School Biotope" activities.

The funds are used to foster regional environmental initiatives. The "School Biotope" is a program aimed at fostering schools as places of environmental learning and preserving, restoring,



ing, and regenerating areas around schools, which are home to various living things.

By supporting the program, we hope to promote a better understanding of nature among children, who are our future leaders, while encouraging them to learn about the importance of life and the environment.

### Donation of ¥1.2 million to the Nigorobuna Reintroduction Program

To protect the *nigorobuna*, a carp indigenous to the Lake Biwa region, the Bank donated ¥1.2 million from the fund for its environmentally sensitive financial product, the Bright Future Carbon Neutral Loan to the *nigorobuna* reintroduction program.

The Bank computes the amount of money that corresponds to the amount of reduction of CO<sub>2</sub> achieved through introduction of solar electricity systems using the Bright Future Carbon Neutral Loan, and contributes that amount to the *nigorobuna* reintroduction program.

There were a total of 104 loans taken out during fiscal 2006, which resulted in a reduction of around 327 tons of CO<sub>2</sub>. This was calculated to be worth ¥1.2 million (calculated using the EU carbon emission right trading price of ¥3,792/ton of CO<sub>2</sub>).

This reintroduction aims to protect and promote



the local slow food culture (including *funazushi*) by increasing the number of *nigorobuna*.

### Included in SRI Index

Shiga Bank was selected as a constituent of the Morningstar Japan Socially Responsible Investment (SRI) Index for the fifth consecutive year (since 2002).

Launched by Tokyo-based Morningstar Japan K.K., the index screens companies based on their performance in CSR-related areas. Of 3,600 companies screened, only 150 were selected for inclusion in the index.

For the third successive year, the Bank was also included in the FTSE4 Good Global Index, operated by FTSE, a joint venture between The Financial Times and the London Stock Exchange.

### The Women's Activity Promotion Committee

In order to further promote the Positive Action program that proactively

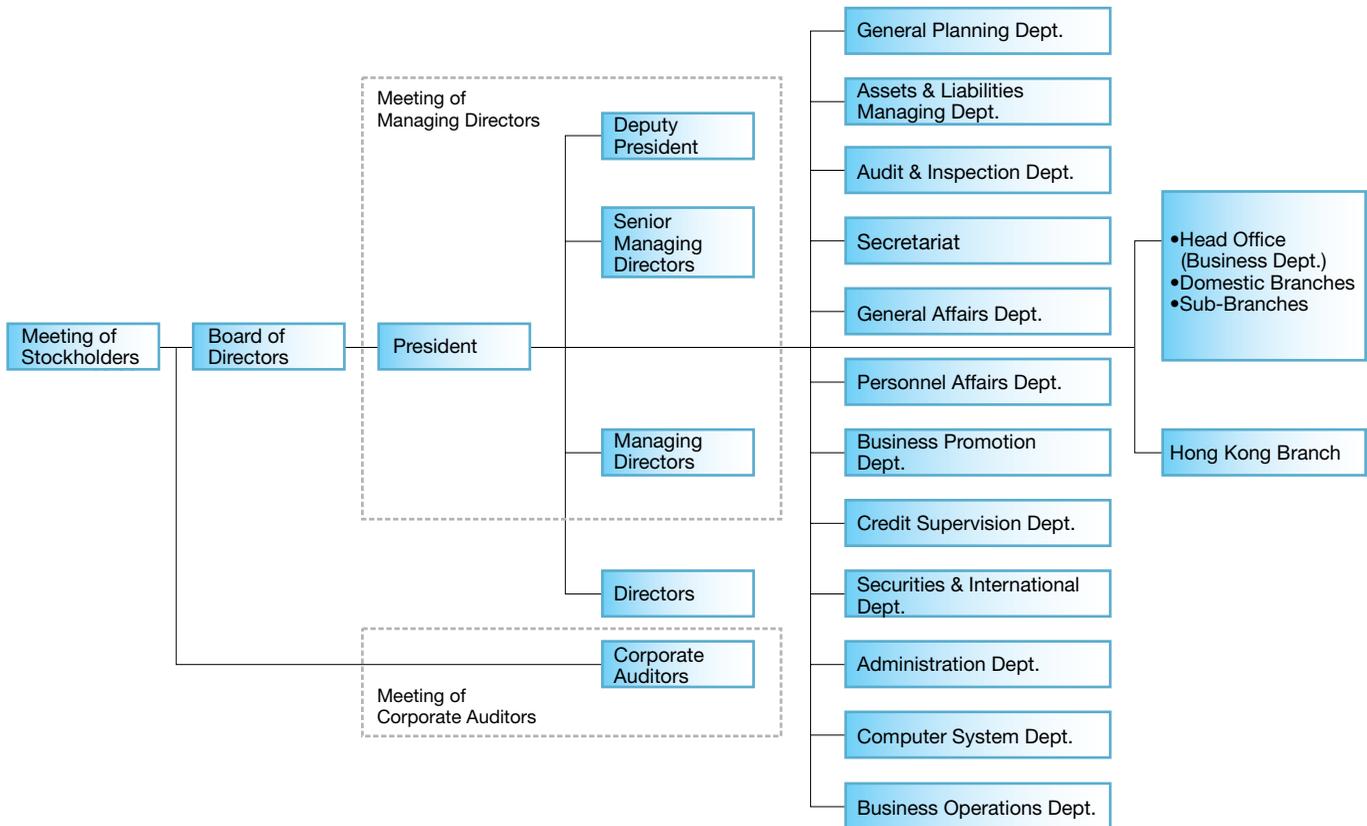


creates opportunities for women to excel, the Women's Activity Promotion Committee was established in December 2006.

The purpose of this committee is to go beyond CSR to develop opportunities for female employees of the Bank to make the most of their abilities against the backdrop of low birthrate and an aging population.

# Organization Chart

As of June 26, 2007



## Board of Directors

As of June 26, 2007

### President

Koichi Takata

### Deputy President

Yoshio Daido

### Senior Managing Directors

Minoru Yamada

Kazuo Isobe

### Managing Directors

Koichiro Yasui

Etsuo Mori

Yasuhiko Inoue

Hiroshi Nakagawa

### Directors

Minoru Fujii

Hideki Natsuhara

Kyozo Sakura

Shinji Fujii

Seizo Nakai

Keizo Mabe

Ikuo Yoshida

Shigeru Tamura

Susumu Ota

Norio Inoue

### Corporate Auditors

Manabu Uematsu

Masamichi Mizutani

Jingoro Nishikawa

Tadashi Yasuhara

# Financial Review (consolidated basis)

The Shiga Bank, Ltd. and Consolidated Subsidiaries

## Consolidated Five-Year Summary

March 31, 2007, 2006, 2005, 2004 and 2003

	Millions of yen				
	2007	2006	2005	2004	2003
As of March 31					
Total assets	<b>¥4,179,335</b>	¥4,082,911	¥4,006,137	¥3,881,599	¥3,826,324
Securities	<b>1,355,021</b>	1,426,683	1,403,630	1,309,334	1,240,423
Loans and bills discounted	<b>2,473,464</b>	2,378,949	2,318,503	2,242,745	2,236,812
Deposits	<b>3,705,751</b>	3,624,279	3,579,204	3,503,759	3,488,676
Total shareholders' equity	<b>283,997</b>	247,333	221,701	207,687	171,447
Years ended March 31					
Total income	<b>99,356</b>	99,914	90,974	85,385	85,754
Total expenses	<b>83,956</b>	77,892	71,544	74,345	79,145
Net income before income taxes and minority interests	<b>15,399</b>	22,021	19,429	11,039	6,609
Net income	<b>8,839</b>	10,209	11,483	6,191	2,346
Cash dividends					
	<b>1,587</b>	1,323	1,320	1,271	1,215
Net income per share (in yen)	<b>¥33.41</b>	¥38.43	¥43.31	¥24.14	¥9.54
Capital ratio	<b>12.20%</b>	11.25%	11.18%	10.99%	10.20%

In fiscal 2006, ended March 31, 2007, Shiga Bank worked to enhance the efficiency of its asset management and fund-raising activities while rationalizing overall business processes. To ensure the soundness of our asset portfolio, we also wrote off bad debts and provided reserves to cover possible losses on non-performing loans. The results of these measures are detailed below.

### Balance Sheets

The year-end balance of deposits, including negotiable certificates of deposit, stood at ¥3,705,751 million (US\$31,391 million), an increase of ¥81,471 million driven mainly by individual customers.

The balance of loans and bills discounted rose ¥94,514 million, to ¥2,473,464 million (US\$20,952

million), reflecting increased demand for loans from consumer borrowers and signs of recovery in corporate demand for funds.

Securities holdings declined ¥71,661 million to end the term at ¥1,355,021 million (US\$11,478 million).

Total assets at fiscal year-end stood at ¥4,179,335 million (US\$35,403 million), an increase of ¥96,424 million from previous term. Total net assets under new accounting standards at the end of the term was ¥283,997 million (US\$2,405 million), an increase of ¥36,663 million.

### Statements of Income

Total income for the year declined ¥558 million to ¥99,356 million (US\$841 million), as increases in fees and commissions and other operating income were outweighed by a fall in extraordinary gains. At the

same time, total expenses increased by ¥6,064 million from the previous term to ¥83,956 million (US\$711 million), due to rising fund procurement and credit costs (consisting mainly of provisions to the reserve for possible loan losses, and write-offs of bad debt). As a result, income before income taxes and minority interests declined ¥6,622 million from the previous year to ¥15,399 million (US\$130 million). Net income declined ¥1,369 million from the previous year to ¥8,839 million (US\$74 million).

### Cash Flows

Cash and cash equivalents at year-end, on a consolidated basis, declined ¥3,766 million from the end of the previous term, to ¥48,420 million (US\$410 million) at the term-end.

#### ■ Cash flow from operating activities

Net cash used in operating activities during the term totaled ¥78,100 million (US\$661 million). The main reason for this increase was a significant rise in loans and bills discounted, driven by robust corporate

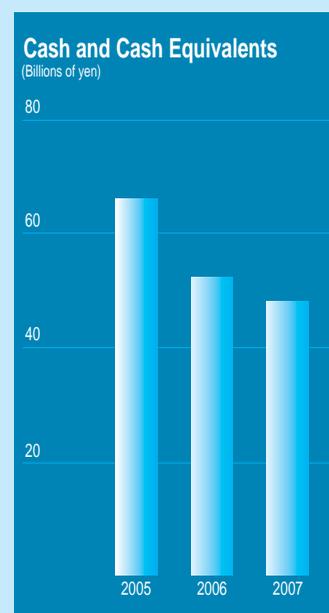
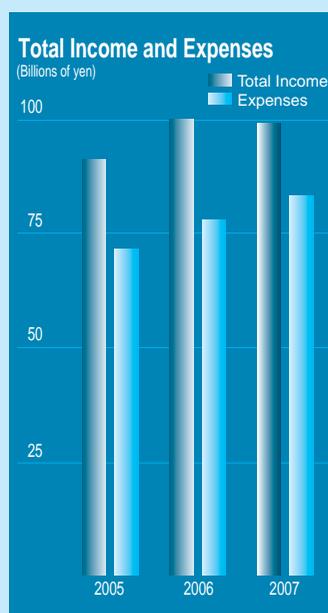
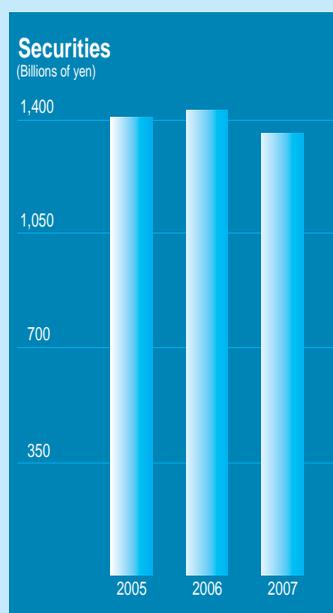
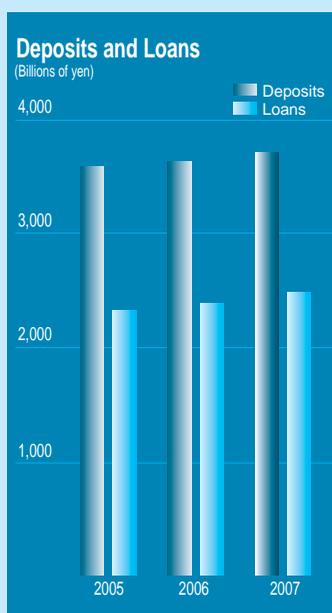
demand, combined with growth in loans for consumer borrowers.

#### ■ Cash flow from investing activities

Net cash provided by investing activities totaled ¥74,206 million (US\$628 million), a year-on-year increase of ¥43,468 million, due to reduced purchases of securities and higher proceeds from the sale of securities.

#### ■ Cash flow from financing activities

Net cash provided by financing activities totaled ¥125 million (US\$1 million). The proceeds of an issue of preferred securities were used to fund repayment of subordinated loans and dividend payment.



**Consolidated Balance Sheets**

March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
<b>Assets</b>			
Cash and due from banks (Note 14)	¥ 50,322	¥ 55,324	\$ 426,279
Call loans and bills bought	151,744	57,720	1,285,424
Trading account securities (Notes 3 and 21)	1,012	340	8,574
Money held in trust (Note 22)	13,999	13,807	118,590
Securities (Notes 3, 9, 21 and 23)	1,355,021	1,426,683	11,478,368
Loans and bills discounted (Notes 4 and 16)	2,473,464	2,378,949	20,952,681
Foreign exchange assets (Note 5)	8,460	5,272	71,671
Other assets	22,106	30,376	187,261
Tangible fixed assets (Note 6)	76,255	—	645,956
Intangible fixed assets	8,014	—	67,889
Premises and equipment (Note 6)	—	79,069	—
Customers' liabilities for acceptances and guarantees	36,625	52,945	310,250
Deferred tax assets (Note 13)	315	272	2,671
Reserve for possible losses on loans and other credits	(17,981)	(17,822)	(152,323)
Reserve for possible losses on securities	(23)	(28)	(196)
<b>Total assets</b>	<b>¥4,179,335</b>	<b>¥4,082,911</b>	<b>\$35,403,099</b>
<b>Liabilities</b>			
Deposits (Notes 7 and 9)	¥3,705,751	¥3,624,279	\$31,391,373
Call money	14,166	3,759	120,000
Deposits received for bonds lending/borrowing transactions (Note 9)	38,114	40,188	322,865
Borrowed money (Note 8)	21,552	38,387	182,574
Foreign exchange liabilities (Note 5)	63	93	537
Other liabilities (Note 9)	44,377	36,675	375,920
Accrued bonuses to directors and corporate auditors	35	—	296
Reserve for employee retirement and severance benefits (Note 25)	6,846	8,079	57,997
Reserve for retirement benefits to directors and corporate auditors	251	—	2,126
Reserve for repayment for prescribed deposits	418	—	3,549
Reserve for losses on interest repayment	40	—	344
Acceptances and guarantees	36,625	52,945	310,250
Deferred tax liabilities (Note 13)	14,743	15,012	124,891
Deferred tax liabilities relating to land revaluation (Note 10)	12,292	13,619	104,133
Negative goodwill	59	—	502
Consolidated goodwill	—	21	—
<b>Total liabilities</b>	<b>¥3,895,338</b>	<b>¥3,833,062</b>	<b>\$32,997,362</b>
<b>Minority interest in consolidated subsidiaries</b>	<b>—</b>	<b>2,515</b>	<b>—</b>

**Consolidated Balance Sheets**

March 31, 2007 and 2006

	Millions of yen		Thousands of
	2007	2006	U.S. dollars (Note 1)
<b>Net assets</b>			<b>2007</b>
Common stock	¥ 33,076	—	\$ 280,194
Authorized — 500,000,000 shares in 2007			
Issued — 265,450,406 shares in 2007			
Additional paid-in capital	23,966	—	203,019
Retained earnings (Note 20)	135,261	—	1,145,800
Treasury stock — 1,030,473 shares in 2007	(604)	—	(5,120)
<b>Total stockholders' equity</b>	<b>191,700</b>	<b>—</b>	<b>1,623,893</b>
Unrealized gains on securities available for sale, net of taxes (Note 23)	57,635	—	488,230
Deferred hedge losses, net of taxes	(7)	—	(66)
Excess of land revaluation, net of taxes (Note 10)	11,915	—	100,936
<b>Total valuation and translation adjustments</b>	<b>69,543</b>	<b>—</b>	<b>589,100</b>
<b>Minority interest in consolidated subsidiaries</b>	<b>22,753</b>	<b>—</b>	<b>192,743</b>
<b>Total net assets</b>	<b>283,997</b>	<b>—</b>	<b>2,405,737</b>
<b>Total liabilities and net assets</b>	<b>¥4,179,335</b>	<b>—</b>	<b>\$35,403,099</b>
<b>Shareholders' equity</b>			
Common stock	—	¥ 33,076	—
Authorized — 500,000,000 shares in 2006			
Issued — 265,450,406 shares in 2006			
Additional paid-in capital	—	23,962	—
Retained earnings (Note 20)	—	126,089	—
Excess of land revaluation, net of taxes (Note 10)	—	13,870	—
Unrealized gains on securities available for sale, net of taxes (Note 23)	—	50,804	—
Treasury stock — 864,638 shares in 2006	—	(470)	—
<b>Total shareholders' equity</b>	<b>—</b>	<b>247,333</b>	<b>—</b>
<b>Total liabilities, minority interest and shareholders' equity</b>	<b>¥ —</b>	<b>¥4,082,911</b>	<b>\$ —</b>

See notes to consolidated financial statements.

**Consolidated Statements of Income**

March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
<b>Income</b>			
Interest income			
Interest on loans and bills discounted	¥45,180	¥42,122	\$382,720
Interest and dividends on securities	20,906	24,413	177,101
Other interest income	330	161	2,797
Total interest income	66,417	66,698	562,620
Fees and commissions	14,116	12,978	119,581
Other operating income	12,029	9,203	101,897
Other income (Note 11)	6,793	11,033	57,549
<b>Total income</b>	<b>99,356</b>	<b>99,914</b>	<b>841,648</b>
<b>Expenses</b>			
Interest expenses			
Interest on deposits	5,675	2,594	48,077
Interest on borrowings	1,886	1,448	15,978
Other interest expenses	1,564	2,226	13,254
Total interest expenses	9,126	6,268	77,310
Fees and commissions	3,562	3,459	30,181
Other operating expenses	14,606	14,953	123,729
General and administrative expenses	46,044	45,665	390,044
Other expenses (Note 12)	10,616	7,545	89,932
<b>Total expenses</b>	<b>83,956</b>	<b>77,892</b>	<b>711,198</b>
Net income before income taxes and minority interests	15,399	22,021	130,450
Income taxes — current (Note 13)	7,479	4,401	63,361
Income taxes — deferred (Note 13)	(1,344)	7,254	(11,392)
Minority interests in net income	424	156	3,599
<b>Net income</b> (Note 18)	<b>¥ 8,839</b>	<b>¥10,209</b>	<b>\$74,882</b>

See notes to consolidated financial statements.

**Consolidated Statements of Net Assets**

March 31, 2007

	Millions of yen				
	Stockholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total
<b>As of March 31, 2007</b>					
Balance at beginning of the year	¥33,076	¥23,962	¥126,089	¥(470)	¥182,659
Changes during the year:					
Cash dividends for the last year			(793)		(793)
Interim cash dividends			(793)		(793)
Bonuses to directors and corporate auditors			(35)		(35)
Net income			8,839		8,839
Purchase of treasury stock				(145)	(145)
Sales of treasury stock		3		11	15
Reversal of excess of land revaluation			1,954		1,954
Other changes					—
Total increase (decrease)	—	3	9,172	(134)	9,041
<b>Balance at end of the year</b>	<b>¥33,076</b>	<b>¥23,966</b>	<b>¥135,261</b>	<b>¥(604)</b>	<b>¥191,700</b>

	Millions of yen					
	Valuation and translation adjustments					
	Unrealized gains on securities	Deferred hedge losses	Excess of land revaluation	Total	Minority interest	Total net assets
Balance at beginning of the year	¥50,804	¥ —	¥13,870	¥64,674	¥2,515	¥249,849
Changes during the year:						
Cash dividends for the last year						(793)
Interim cash dividends						(793)
Bonuses to directors and corporate auditors						(35)
Net income						8,839
Purchase of treasury stock						(145)
Sales of treasury stock						15
Reversal of excess of land revaluation						1,954
Other changes	6,831	(7)	(1,954)	4,868	20,237	25,106
Total increase (decrease)	6,831	(7)	(1,954)	4,868	20,237	34,148
<b>Balance at end of the year</b>	<b>¥57,635</b>	<b>¥ (7)</b>	<b>¥11,915</b>	<b>¥69,543</b>	<b>¥22,753</b>	<b>¥283,997</b>

	Thousands of U.S. dollars (Note 1)				
	Stockholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total
<b>As of March 31, 2007</b>					
Balance at beginning of the year	\$280,194	\$202,987	\$1,068,102	\$(3,981)	\$1,547,303
Changes during the year:					
Cash dividends for the last year			(6,723)		(6,723)
Interim cash dividends			(6,722)		(6,722)
Bonuses to directors and corporate auditors			(296)		(296)
Net income			74,882		74,882
Purchase of treasury stock				(1,234)	(1,234)
Sales of treasury stock		32		94	127
Reversal of excess of land revaluation			16,557		16,557
Other changes					—
Total increase (decrease)	—	32	77,697	(1,139)	76,590
<b>Balance at end of the year</b>	<b>\$280,194</b>	<b>\$203,019</b>	<b>\$1,145,800</b>	<b>\$(5,120)</b>	<b>\$1,623,893</b>

	Thousands of U.S. dollars (Note 1)					
	Valuation and translation adjustments					
	Unrealized gains on securities	Deferred hedge losses	Excess of land revaluation	Total	Minority interest	Total net assets
Balance at beginning of the year	\$430,363	\$ —	\$117,494	\$547,857	\$ 21,308	\$2,116,469
Changes during the year:						
Cash dividends for the last year						(6,723)
Interim cash dividends						(6,722)
Bonuses to directors and corporate auditors						(296)
Net income						74,882
Purchase of treasury stock						(1,234)
Sales of treasury stock						127
Reversal of excess of land revaluation						16,557
Other changes	57,866	(66)	(16,557)	41,242	171,434	212,677
Total increase (decrease)	57,866	(66)	(16,557)	41,242	171,434	289,267
<b>Balance at end of the year</b>	<b>\$488,230</b>	<b>\$(66)</b>	<b>\$100,936</b>	<b>\$589,100</b>	<b>\$192,743</b>	<b>\$2,405,737</b>

See notes to consolidated financial statements.

**Consolidated Statements of Shareholders' Equity**

March 31, 2006

	Millions of yen
	2006
<b>Common Stock</b>	
Balance at the beginning of the year	¥ 33,076
<b>Balance at the end of the year</b>	¥ 33,076
<b>Additional paid-in capital</b>	
Balance at the beginning of the year	¥ 23,962
Additions:	
Sale of treasury stock	—
<b>Balance at the end of the year</b>	¥ 23,962
<b>Retained earnings</b> (Note 20)	
Balance at the beginning of the year	¥116,364
Additions:	
Reversal of land revaluation	854
Deductions:	
Cash dividends	(1,323)
Bonuses to directors and corporate auditors	(15)
	(1,338)
Net income	10,209
<b>Balance at the end of the year</b>	¥126,089
<b>Excess of land revaluation, net of taxes</b>	
Balance at the beginning of the year	¥ 14,724
Net increase (decrease)	(854)
<b>Balance at the end of the year</b>	¥ 13,870
<b>Unrealized gains on securities available for sale, net of taxes</b>	
Balance at the beginning of the year	¥ 33,905
Additions:	
Increase (decrease) in unrealized gains	16,898
<b>Balance at the end of the year</b>	¥ 50,804
<b>Treasury stock</b>	
Balance at the beginning of the year	¥ (332)
Net decrease (increase)	(137)
<b>Balance at the end of the year</b>	¥ (470)

See notes to consolidated financial statements.

**Consolidated Statements of Cash Flows**

March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
<b>Cash flows from operating activities</b>			
Net income before income taxes and minority interests	¥ 15,399	¥ 22,021	\$ 130,450
Depreciation	8,868	9,510	75,125
Loss on impairment of fixed assets	3,313	3,533	28,068
Amortization of goodwill (negative goodwill)	37	—	321
Amortization of consolidated goodwill	—	43	—
Increase (decrease) in reserve for possible losses on loans and other credits	159	(5,229)	1,352
Increase (decrease) in reserve for possible losses on securities	(5)	(27)	(47)
Increase (decrease) in reserve for other contingent losses	—	(1)	—
Increase (decrease) in reserve for employee retirement and severance benefits	(1,233)	489	(10,447)
Increase (decrease) in other reserves	710	—	6,019
Interest income	(66,417)	(66,698)	(562,620)
Interest expenses	9,126	6,268	77,310
Net (gain) losses related to securities transactions	(2,054)	1,499	(17,406)
Net (gain) losses from money held in trust	(46)	(247)	(396)
Net exchange (gain) loss	(1)	(15)	(16)
Net (gain) losses from disposition of fixed assets	(1,511)	—	(12,804)
Net (gain) losses from disposition of premises and equipment	—	376	—
Net decrease (increase) in loans and bills discounted	(94,514)	(60,445)	(800,631)
Net increase (decrease) in deposits	83,699	49,314	709,020
Net increase (decrease) in negotiable certificates of deposits	(2,228)	(4,238)	(18,873)
Net increase (decrease) in borrowed money (excluding subordinated borrowings)	1,165	(850)	9,876
Net decrease (increase) in deposits with banks	1,236	(2,801)	10,472
Net decrease (increase) in call loans	(94,023)	(26,299)	(796,475)
Net increase (decrease) in call money	10,406	(3,135)	88,157
Net increase (decrease) in deposits received for bonds lending/borrowing transactions	(2,074)	(17,772)	(17,574)
Net decrease (increase) in foreign exchange (assets account)	(3,188)	(152)	(27,009)
Net increase (decrease) in foreign exchange (liabilities account)	(29)	(19)	(252)
Interest received	65,304	65,472	553,189
Interest paid	(6,651)	(4,870)	(56,343)
Other, net	2,301	(7,392)	19,494
Subtotal	(72,251)	(41,670)	(612,041)
Income taxes paid	(5,848)	(1,307)	(49,545)
<b>Net cash provided by (used in) operating activities</b>	<b>(78,100)</b>	<b>(42,977)</b>	<b>(661,586)</b>
<b>Cash flows from investing activities</b>			
Purchases of securities	(333,142)	(408,357)	(2,822,044)
Proceeds from sale of securities	273,764	218,464	2,319,057
Proceeds from maturity of securities	147,490	209,188	1,249,387
Increase in money held in trust	(1,005)	(2,004)	(8,513)
Decrease in money held in trust	802	21,964	6,796
Purchase of tangible fixed assets	(11,989)	—	(101,559)
Purchases of premises and equipment	—	(8,575)	—
Proceeds from sale of tangible fixed assets	2,300	—	19,490
Proceeds from sale of premises and equipment	—	58	—
Purchase of intangible fixed assets	(4,015)	—	(34,012)
<b>Net cash provided by (used in) investing activities</b>	<b>74,206</b>	<b>30,737</b>	<b>628,600</b>
<b>Cash flows from financing activities</b>			
Repayment of subordinated loans	(18,000)	—	(152,477)
Issuance of subsidiary's securities to minority interests stockholders	20,000	—	169,419
Dividends paid	(1,587)	(1,323)	(13,446)
Dividends paid to minority interest	(156)	(2)	(1,322)
Purchase of treasury stock	(145)	(137)	(1,234)
Proceeds from sale of treasury stock	15	—	127
<b>Net cash provided by (used in) financing activities</b>	<b>125</b>	<b>(1,463)</b>	<b>1,066</b>
Effect of exchange rate changes on cash and cash equivalents	1	12	16
Net change in cash and cash equivalents	(3,766)	(13,690)	(31,902)
Cash and cash equivalents at beginning of the year	52,186	65,877	442,071
<b>Cash and cash equivalents at end of the year</b> (Note 14)	<b>¥ 48,420</b>	<b>¥ 52,186</b>	<b>\$ 410,168</b>

See notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

March 31, 2007 and 2006

### 1. Basis of presentation of consolidated financial statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by THE SHIGA BANK, LTD. (“The Bank”) and its subsidiaries (together “the Companies”) in accordance with the provisions set forth in the Commercial Code of Japan, the Securities and Exchange Law, and the Japanese Banking Law and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of

operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Amounts in yen of respective accounts included in the accompanying consolidated financial statements and notes thereto are stated in millions of yen by discarding fractional amounts less than ¥1 million. Therefore, total or subtotal amounts do not necessarily tie in with the aggregation of such account balances.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥118.05 to U.S.\$1, the rate of exchange at March 31, 2007 has been used in translation. The inclusion of such amounts are not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rates.

### 2. Summary of significant accounting policies

#### (a) Principles of consolidation

The accompanying consolidated financial statements for the years ended March 31, 2007 and 2006 include the accounts of the Bank and the following 15 consolidated subsidiaries, respectively.

The Shigagin Business Service Co., Ltd.

The Shiga Kashiwabara Agency Co., Ltd.

The Shigagin Real Estate Co., Ltd.

The Shiga Yogo Agency Co., Ltd.

The Shigagin Cash Service Co., Ltd.

The Shigagin Assistant Service Co., Ltd.

The Shigagin Computer Service Co., Ltd.

The Shiga Home Loan Guarantee Service Co., Ltd.

The Shigagin Economic & Cultural Center Co., Ltd.

The Shiga DC Card Co., Ltd.

The Shigagin Lease Capital Co., Ltd.

The Shigagin JCB Co., Ltd.

The Shiga Kutsuki Agency Co., Ltd.

The Shiga Nishiazai Agency Co., Ltd.

Shiga Preferred Capital Cayman Limited (established in 2007)

The above 15 subsidiaries’ fiscal period is from April 1 to March 31.

Assets and liabilities of the consolidated subsidiaries at the time of investment are all valued at fair value. The goodwill or negative goodwill (formerly represented as consolidated goodwill) is amortized evenly over a 5-year period.

The Bank had 3 other subsidiaries as of March 31, 2007, which are not consolidated due to their insignificance.

#### (b) Trading account securities

Trading account securities held by the Bank are stated at market value at the fiscal year-end (cost of sales, in principle, is computed by the moving-average method).

#### (c) Securities

i. Marketable securities held for trading purposes are stated at market value (cost of sales, in principle, is computed by the moving-average method).

Securities held to maturity are stated at amortized cost (straight-line method) using the moving-average method. Securities available for sale for which current value can be estimated are stated at market value at fiscal year-end. Securities available for sale of which current value cannot be estimated are stated at cost or amortized cost using the moving-average method. Valuation gains/losses on securities available for sale are included in net assets, net of income taxes (cost of sales, in principle, is computed by the moving-average method).

ii. Marketable securities included in money held in trust by the Bank are treated as trust assets and are stated at market value at fiscal year-end. Marketable securities included in money held in trust by consolidated subsidiaries are treated as trust assets and are stated using the same methods described in (i) above.

iii. Beneficiary rights included in ‘call loans and bills bought’ are stated using the same methods described in (i) above.

#### (d) Derivatives

Under the Accounting Standards for Financial Instruments, derivatives are stated at fair value unless derivatives are

used for hedging purposes.

(e) Hedge accounting

i. Interest rate risk hedge

As for the hedge accounting method applied to hedging transactions against interest rate risk arising from financial assets and liabilities, the Bank applies deferred hedge accounting. The Bank assesses the effectiveness of the hedges in offsetting fluctuation of the fair value caused by changes in interest rates by grouping the hedged items such as deposits and loans and the hedging instruments such as interest rate swaps by their maturity. As to cash flow fixing hedges, the Bank assesses their effectiveness by verifying the correlation between the hedged items and the hedging instruments.

ii. Currency exchange risk hedge

As for the hedge accounting method applied to hedging transactions against currency exchange risk arising from assets and liabilities in foreign currencies, the Bank applies deferred hedge accounting stipulated in 'Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry' (JICPA Industry Audit Committee Report No.25).

The Bank assesses the effectiveness of exchange swaps executed for reducing the risk of changes in currency exchange rates with fund swap transactions by verifying that there exist foreign currency positions of the hedging instruments corresponding to the foreign currency monetary claims and debts to be hedged.

Fund swap transactions are foreign exchange transactions that are contracted for the purpose of lending or borrowing funds in different currencies. These transactions consist of spot foreign exchange either bought or sold and forward foreign exchange either bought or sold.

In addition to these hedge accounting methods, the Bank uses exceptional treatments permitted for interest rate swaps for part of its assets.

(f) Depreciation

i. Tangible fixed assets (former premises and equipment)

Depreciation for buildings and equipment of the Bank is computed using the declining-balance method at rates principally based on the following estimated useful lives. However, buildings purchased on or after April 1, 1998, excluding fittings and equipment, are depreciated using the straight-line method.

Buildings: 3 to 50 years

Equipment and furniture: 3 to 20 years

Depreciation for buildings and equipment of the consolidated subsidiaries is computed principally using the declining-balance method based on the estimated useful lives.

ii. Intangible fixed assets

Intangible fixed assets are depreciated using the straight-line method.

Cost of computer software for internal use is capitalized and amortized using the straight-line method over the estimated useful lives as determined by the Companies (principally 5 years).

(g) Reserve for possible losses on loans and other credits  
Reserve for possible losses on loans and other credits of the Bank is provided as detailed below, pursuant to internal rules for write-offs and reserves.

For debtors who are legally bankrupt (bankrupt, under special liquidation, or subject to legal bankruptcy proceedings) or virtually bankrupt (in a similar situation), reserve is provided based on the amount of claims, after the write-off stated below, net of amounts expected to be collected through disposal of collateral or execution of guarantees. For loans to debtors who are likely to go bankrupt, reserve is provided for the amount considered to be necessary based on an overall solvency assessment performed for the amount of such loans, net of amounts deemed collectible through disposal of collateral or execution of guarantees. For other loans, reserve is provided based on historical loan loss experience over a certain period of time.

All loans are assessed by the branches and the operating divisions based on the Bank's internal rules for self-assessment of assets. The Asset Assessment Division, which is independent from the branches and the operating divisions, subsequently conducts audits of their assessments, and reserve is provided based on audit results.

For collateralized or guaranteed claims to debtors who are legally bankrupt or virtually bankrupt, the amount deemed unrecoverable, that is the amount of claims exceeding the estimated value of collateral or guarantees, has been written off and amounted to ¥21,332 million (U.S.\$ 180,710 thousand), ¥26,107 million as of March 31, 2007 and 2006, respectively.

Reserve for losses on loans and other credits of the Bank's consolidated subsidiaries is provided based on historical loan loss experience in addition to amounts deemed necessary based on estimation of the collectibility of specific claims.

(h) Reserve for possible losses on securities

Reserve for possible losses on securities is provided for possible future losses on securities based on self-assessment by the Bank.

(i) Accrued bonuses to directors and corporate auditors

Formerly, bonuses to directors and corporate auditors were accounted for as disposition of retained earnings when paid. According to the new accounting rule, effective from the year ended March 31, 2007, the bonuses attributable to the year are recorded as expenses. Effect of the change was to

decrease net income before income taxes and minority interests by ¥35 million (U.S.\$296 thousand) for the year ended March 31, 2007.

(j) Reserve for employee retirement and severance benefits  
Under the Accounting Standards for Retirement Benefits, reserve for employee retirement and severance benefits are provided for the payments of employees' retirement benefits based on projected benefit obligation and fair value of pension assets at fiscal year-end.

(k) Reserve for retirement benefits to directors and corporate auditors

Formerly, retirement benefits to directors and corporate auditors were charged to income at the time of payment. According to the new accounting rule, effective from the year ended March 31, 2007, reserve for retirement benefits are provided at the amount required if all such personnel retired at fiscal year-end, calculated based on the internal rules of the board of directors. Effect of the change was to decrease net income before income taxes and minority interests by ¥251 million (U.S.\$2,126 thousand) for the year ended March 31, 2007.

(l) Reserve for repayment for prescribed deposits  
Formerly, dormant accounts satisfying certain conditions were transferred to income as prescribed deposits, while repayments at depositors' claim were charged to income. According to the new accounting rule, effective from the year ended March 31, 2007, reserve for repayment for prescribed deposits is provided at the estimated amount based on payment experience. Effect of the change was to decrease net income before income taxes and minority interests by ¥418 million (U.S.\$3,549 thousand) for the year ended March 31, 2007.

(m) Reserve for losses on interest payment  
Formerly, refund of interest on loans to customers was charged to income at the time of payment. According to the new accounting rule, effective from, reserve for losses on interest payment is provided at the estimated amount based on payment experience, required to refund upon customers' claims. Effect of the change was to decrease net income before income taxes and minority interests by ¥40 million (U.S.\$344 thousand) for the year ended March 31, 2007.

(n) Foreign currency translation  
Receivables and payables in foreign currencies and foreign branch accounts are translated into Japanese yen principally at the rates prevailing at the balance sheet dates.

(o) Lease transactions  
Equipment used under finance lease agreements is accounted for as equipment leased under normal operating leases, except for leases in which the ownership of leased equipment is transferred to the lessee.

(p) Consumption taxes  
Consumption tax and local consumption taxes are excluded from transactions reported by the Bank and its consolidated subsidiaries. However, non-deductible consumption tax on premises and equipment is charged to income for the year of its occurrence.

(q) Income taxes  
Income taxes comprise corporation, enterprise and inhabitants taxes.

Deferred tax assets are recorded based on temporary differences between the financial and tax bases of assets and liabilities.

(r) Appropriation of retained earnings  
Consolidated Statements of Net Assets (formerly Consolidated Statements of Shareholders' Equity) reflect the appropriation resolved by the Shareholders' Meeting when duly resolved and paid.

(s) Statement of cash flows  
Cash and cash equivalents in the Consolidated Statements of Cash Flows represent cash and deposits with the Bank of Japan, which are included in cash and due from banks in the Consolidated Balance Sheets.

(t) Representation of net assets  
Contents of net assets on the balance sheet as of March 31, 2007 are represented under the new accounting rule, effective from the year ended March 31, 2007. Amount of shareholders' equity on that date under the former accounting rule was ¥261,251 (U.S.\$2,213,060 thousand).

(u) Changes in representations on the financial statements  
In conformity with a revision of the Enforcement Regulations of the Banking Law, effective from the year ended March 31, 2007, representations on the financial statements are changed as follows:

i. Balance sheet  
Income (or loss) and valuation difference on hedging instruments, net of taxes, formerly included in other liabilities is represented as deferred hedge income (losses), net of taxes within valuation and translation adjustments of net assets.

Minority interests, formerly shown next to liabilities are included in net assets.

Former premises and equipment are separated into tangible fixed assets, intangible fixed assets and other assets.

Software, formerly included in other assets, is included in intangible fixed assets.

Consolidated goodwill in liabilities is represented as negative goodwill.

ii. Statement of income  
Amortization of consolidated goodwill, formerly included in 'other expenses,' is included in 'other operating expenses.'

iii. Statement of cash flows

'Amortization of consolidated goodwill' is represented as 'amortization of goodwill.'

In response to the above representation change on the balance sheet, 'net (gain) losses from disposition of premises and equipment' is represented as 'net (gain) losses from disposition of fixed assets.'

Also, 'purchase of premises and equipment' is represented as 'purchase of tangible fixed assets,' and 'proceeds from sale of premises and equipment' is represented as

'proceeds from sale of tangible fixed assets.'

(v) Accounting change on acceptances and guarantees  
In conformity with a revision of the Enforcement Regulations of the Banking Law, effective from the year ended March 31, 2007, 'customers' liabilities for acceptances and guarantees' and 'acceptances and guarantees' on private placement bonds are offset on the balance sheet. The effect of the change was to reduce ¥10,567 million (U.S.\$ 89,518 thousand) of both accounts as of March 31, 2007.

### 3. Trading account securities and securities

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Trading account securities:			
Japanese government bonds	¥ 966	¥ 316	\$ 8,185
Others	45	24	388
<b>Total</b>	<b>¥1,012</b>	<b>¥ 340</b>	<b>\$ 8,574</b>
Securities:			
Japanese government bonds	¥ 399,568	¥ 415,861	\$ 3,384,742
Japanese local government bonds	126,027	175,402	1,067,578
Debentures	235,383	234,604	1,993,927
Share stocks	209,433	215,117	1,774,105
Others	384,608	385,697	3,258,014
<b>Total</b>	<b>¥1,355,021</b>	<b>¥1,426,683</b>	<b>\$11,478,368</b>

### 4. Loans and bills discounted

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Bills discounted	¥ 36,262	¥ 34,672	\$ 307,175
Loans on notes	191,064	198,315	1,618,501
Loans on deeds	1,893,463	1,771,134	16,039,504
Overdraft	352,674	374,827	2,987,500
<b>Total</b>	<b>¥2,473,464</b>	<b>¥2,378,949</b>	<b>\$20,952,681</b>

Discounting bills are treated as secured lending transactions. As of March 31, 2007 and 2006, the Bank has right by contact or custom to sell or repledge bills discounted and foreign exchange bills bought and their total face was ¥36,704 million (U.S.\$310,925 thousand) and ¥35,343 million, respectively.

The amount of loans sold through senior certificates under a collateralized loan obligation (CLO) securitization totaled to ¥16,117 million (U.S.\$136,526 thousand) as of March 31, 2007, with the subordinated certificates retained by the Bank amounting to ¥2,723 million (U.S.\$23,066 thousand) as of March 31, 2007 recorded as loans.

## 5. Foreign exchange assets and liabilities

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Foreign exchange assets:			
Due from foreign correspondent banks	¥6,423	¥3,978	\$54,417
Foreign bills of exchange bought	102	97	864
Foreign bills of exchange receivable	1,934	1,196	16,390
<b>Total</b>	<b>¥8,460</b>	<b>¥5,272</b>	<b>\$71,671</b>
Foreign exchange liabilities:			
Foreign bills of exchange sold	¥ 58	¥ 30	\$ 498
Foreign bills of exchange payable	4	62	38
<b>Total</b>	<b>¥ 63</b>	<b>¥ 93</b>	<b>\$ 537</b>

## 6. Tangible fixed assets (former premises and equipment)

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Land, buildings and equipment	¥72,691	¥76,919	\$615,767
Construction in progress	3,563	946	30,188
Leasehold deposits	—	1,203	—
<b>Total</b>	<b>¥76,255</b>	<b>¥79,069</b>	<b>\$645,956</b>

Net of accumulated depreciation of ¥74,176 million (U.S.\$628,348 thousand) and ¥73,836 million for March 31, 2007 and 2006, respectively.

Leasehold deposits are included in “intangible fixed assets” or “other assets” on the balance sheet, effective from the year ended March 31, 2007.

Deferred capital gains on sales of tangible fixed assets, which are deducted from book values, amounted to ¥4,144 million (U.S.\$35,105 thousand) as of March 31, 2007.

## 7. Deposits

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Current deposits	¥ 145,813	¥ 124,595	\$ 1,235,182
Ordinary deposits	1,438,403	1,385,989	12,184,698
Deposits at notice	35,633	20,205	301,853
Time deposits	1,847,673	1,828,579	15,651,618
Other deposits	118,277	142,732	1,001,929
Negotiable certificates of deposits	119,949	122,177	1,016,090
<b>Total</b>	<b>¥3,705,751</b>	<b>¥3,624,279</b>	<b>\$31,391,373</b>

## 8. Borrowed money

Borrowed money as of March 31, 2007 and 2006 includes subordinated loans, amounting to ¥14,000 million (U.S.\$118,593 thousand) and ¥32,000 million, respectively.

## 9. Assets pledged

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Assets pledged as collateral are as follows:			
Securities	<b>¥142,361</b>	¥143,481	<b>\$1,205,945</b>
Liabilities related to the above pledged assets are as follows:			
Deposits	<b>8,227</b>	13,024	<b>69,692</b>
Deposits received for bonds lending/borrowing transactions	<b>38,114</b>	40,188	<b>322,865</b>
Other liabilities	<b>60</b>	60	<b>508</b>

In addition, Securities totaling ¥61,541 million (U.S.\$521,317 thousand) and ¥61,372 million were pledged as collateral for the settlement of exchange and derivative transactions or as variation margin as of March 31, 2007 and 2006, respectively.

## 10. Excess of land revaluation

Pursuant to the Law concerning Revaluation of Land, land used for business operations was revalued as of March 31, 1998.

Date of the revaluation March 31, 1998

Pursuant to Article 3, paragraphs 3 of the Enforcement Ordinance for the Law concerning Revaluation of Land (the "Law"), the Bank recorded its owned land at fair value and related net unrealized gain, and applicable income tax portion was presented as "Deferred tax liabilities relating to

land revaluation" in liabilities and net of applicable income taxes was presented as "Excess of land revaluation" in Shareholders' Equity. According to the Law, the Bank is not permitted to revalue the land at any time, even in the event that the fair value of the land declines.

The difference between the revalued carrying amount and fair value of land being revalued pursuant to the Article 10 of the Law is ¥19,530 million (U.S.\$165,442 thousand) as of March 31, 2007.

## 11. Other income

Other income for the years ended March 31, 2007 and 2006 includes recoveries of written-off loans and bills discounted amounting to ¥1,139 million (U.S.\$9,656 thousand) and

¥2,635 million, respectively. Other income for the years ended March 31, 2006 also includes reversal of reserve for possible loan losses amounting to ¥3,926 million.

## 12. Other expenses

Other expenses for the years ended March 31, 2007 and 2006 have the following components:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Write-off of loans and bills discounted	<b>¥3,343</b>	¥2,058	<b>\$28,323</b>
Loss on impairment of fixed assets	<b>3,313</b>	3,533	<b>28,068</b>

## 13. Income taxes

Major components of deferred tax assets and liabilities as of March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Reserve for possible losses on loans and other credits	<b>¥ 12,078</b>	¥ 12,957	<b>\$ 102,313</b>
Valuation losses on securities	<b>4,118</b>	3,947	<b>34,884</b>
Reserve for employee retirement and severance benefits	<b>5,029</b>	4,497	<b>42,603</b>
Depreciation of fixed assets	<b>1,074</b>	746	<b>9,098</b>
Enterprise tax	<b>373</b>	425	<b>3,165</b>
Others	<b>5,271</b>	3,935	<b>44,651</b>
Valuation allowance	<b>(7,805)</b>	(6,587)	<b>(66,117)</b>
Total deferred tax assets	<b>20,139</b>	19,922	<b>170,599</b>
Deferral of capital gain recognition	<b>(246)</b>	(53)	<b>(2,090)</b>
Deferred tax liabilities on valuation of securities available for sale	<b>(34,320)</b>	(34,608)	<b>(290,729)</b>
<b>Deferred tax assets, net</b>	<b>¥(14,428)</b>	¥(14,739)	<b>\$(122,219)</b>

Figures for 2007 are omitted due to insignificance in total difference.

Summary of the significant differences between the statutory tax rate and the effective tax rate for financial statement purposes for the year ended March 31, 2006 is as follows:

Statutory tax rate	<b>40.4%</b>
Adjustment:	
Non-taxable dividend income	<b>(1.6)</b>
Expenses permanently non-deductible for tax purpose	<b>0.3</b>
Inhabitant taxes per capita	<b>0.2</b>
IT investment tax credit	<b>(3.2)</b>
Decrease in deferred tax assets at year-end	<b>18.4</b>
Other	<b>(1.6)</b>
<b>Effective tax rate</b>	<b>52.9%</b>

#### 14. Cash and cash equivalents

The reconciliation of cash and due from banks in the accompanying consolidated balance sheets is reconciled to cash and cash equivalents at end of fiscal year as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash and due from banks	<b>¥50,322</b>	¥55,324	<b>\$426,279</b>
Time deposits in other banks	<b>(1,472)</b>	(2,820)	<b>(12,470)</b>
Other deposits	<b>(429)</b>	(317)	<b>(3,640)</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥48,420</b>	¥52,186	<b>\$410,168</b>

#### 15. Non-cash financing activities

For the years ended March 31, 2007 and 2006, there were no applicable non-cash financing activities.

#### 16. Loans subject to risk management

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Loans subject to risk management			
Loans to bankrupt clients	<b>¥ 2,015</b>	¥ 1,510	<b>\$ 17,069</b>
Loans in arrears	<b>22,785</b>	24,317	<b>193,013</b>
Loans in arrears for three months or longer	<b>1,646</b>	2,251	<b>13,948</b>
Loans for which repayment conditions have been eased	<b>34,613</b>	46,646	<b>293,213</b>
<b>Total</b>	<b>¥61,060</b>	¥74,725	<b>\$517,245</b>

## 17. Finance leases

### (1) As lessee

The Companies leases certain equipment. Total rental expenses under the finance leases for the years ended March 31, 2007 and 2006 were ¥6 million (U.S.\$57 thousand) and ¥4 million, respectively. The corresponding pro forma depreciation was ¥6 million (U.S.\$57 thousand) and ¥4 million, respectively.

Pro forma information on leased property such as acquisition cost, accumulated depreciation and obligations under finance leases that do not transfer ownership of the leased property to the lessee on an “if capitalized” basis as of March 31, 2007 and 2006 was as follows:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Acquisition cost	¥55	¥38	\$471
Accumulated depreciation	(17)	(10)	(152)
<b>Net leased property</b>	<b>¥37</b>	<b>¥27</b>	<b>\$319</b>
Maturities of obligations:			
Due within one year	¥ 6	¥ 5	\$ 58
Due after one year	30	22	261
<b>Total</b>	<b>¥37</b>	<b>¥27</b>	<b>\$319</b>

The depreciation is calculated on the straight-line method over lease terms without residual values. The amounts of acquisition cost and obligations include the imputed interest expense portion.

### (2) As lessor

Information on finance leases of equipment and others without transfer of ownership to lessee was as follows:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Acquisition cost equivalent	¥28,009	¥28,716	\$237,264
Accumulated depreciation equivalent	(12,821)	(13,317)	(108,614)
Book value equivalent	¥15,187	¥15,398	\$128,650

### Minimum future lease payments:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due within one year	¥ 4,698	¥ 4,606	\$ 39,797
Due over one year	11,064	11,464	93,728
<b>Total</b>	<b>¥15,762</b>	<b>¥16,071</b>	<b>\$133,525</b>

### For the year ended March 31, Income and expenses:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Lease revenues	¥6,178	¥6,021	\$52,338
Depreciation	5,196	5,024	44,017
Interest income equivalent	798	770	6,765

Interest income equivalent is computed by deducting acquisition cost of leased properties from the total of aggregated lease payments and estimated residual value and is distributed to respective years by the interest method.

## 18. Per share information

Net income per share and cash dividends per share for the years ended March 31, 2007 and 2006 were as follows:

	Yen		U.S. dollars
	2007	2006	2007
Net income:			
Primary	<b>¥33.41</b>	¥38.43	<b>\$0.283</b>
Fully diluted	—	—	—
Cash dividends	<b>¥ 6.00</b>	¥ 5.50	<b>\$0.050</b>

Computations of net income per share of common stock are based on the average number of shares outstanding during each period.

## 19. Commitment lines

Loan agreements and commitment line agreements are agreements that oblige the Bank to lend funds up to a certain limit agreed in advance. The Bank makes the loans upon the request of an obligor to draw down funds under such loan agreements as long as there is no breach of the various terms and conditions stipulated in the relevant loan agreements. The unused commitment balance relating to these loan agreements at March 31, 2007 and 2006 amounted to ¥836,571 million (U.S.\$7,086,588 thousand) and ¥829,326 million, respectively, and the amounts of unused commitments, whose original contract terms are within one year or unconditionally cancelable at any time, were ¥819,587 million (U.S.\$6,942,717 thousand) and ¥817,518 million at March 31, 2007 and 2006, respectively.

In many cases, the term of the agreement runs its course

without the loan ever being drawn down. Therefore, the unused loan commitment will not necessarily affect future cash flow. Conditions are included in certain loan agreements which allow the Bank to decline the request for a loan draw down or to reduce the agreed limit amount where there is due cause to do so, such as when there is a change in financial conditions or when it is necessary to do so in order to protect the Bank's credit. The Bank takes various measures to protect its credit. Such measures include having the obligor pledge collateral to the Bank in the form of real estate, securities, etc. on signing the loan agreements or, in accordance with the Bank's established internal procedures, confirming the obligor's financial condition etc. at regular intervals.

## 20. Subsequent event

On June 26, 2007, the shareholders of the Bank approved the appropriation of retained earnings as of March 31, 2007 as follows:

	Millions of yen	Thousands of U.S. dollars
	2007	2007
Cash dividends (¥3.0 per share)	<b>¥793</b>	<b>\$6,719</b>

## 21. Securities information

The following is information on trading account securities and securities on the Consolidated Balance Sheets.

### (1) Marketable securities held for trading purposes

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Book value	<b>¥17,326</b>	¥18,412	<b>\$146,771</b>
Valuation gain (loss)	<b>(394)</b>	235	<b>(3,345)</b>

## (2) Securities available for sale with quoted prices

As of March 31, 2007	Millions of yen				
	Acquisition cost	Book value	Valuation gain (loss)		
			Net	Gain	Loss
Stocks	¥ 97,755	¥ 205,917	¥108,162	¥108,602	¥ (439)
Bonds					
Japanese government bonds	405,791	399,568	(6,223)	262	(6,485)
Japanese local government bonds	126,643	126,027	(615)	360	(975)
Corporate bonds	224,982	224,439	(543)	801	(1,345)
Subtotal	757,418	750,035	(7,382)	1,424	(8,806)
Other	385,945	377,273	(8,672)	741	(9,413)
<b>Total</b>	<b>¥1,241,119</b>	<b>¥1,333,227</b>	<b>¥ 92,107</b>	<b>¥110,767</b>	<b>¥(18,659)</b>

As of March 31, 2006	Millions of yen				
	Acquisition cost	Book value	Valuation gain (loss)		
			Net	Gain	Loss
Stocks	¥ 100,696	¥ 211,659	¥110,969	¥111,102	¥ 133
Bonds					
Japanese government bonds	425,838	415,861	(9,976)	108	10,085
Japanese local government bonds	177,240	175,402	(1,837)	955	2,792
Corporate bonds	221,480	219,261	(2,218)	347	2,566
Subtotal	824,558	810,525	(14,033)	1,411	15,444
Other	388,945	377,600	(11,345)	721	12,066
<b>Total</b>	<b>¥1,314,194</b>	<b>¥1,399,785</b>	<b>¥ 85,591</b>	<b>¥113,235</b>	<b>¥27,644</b>

As of March 31, 2007	Thousands of U.S. dollars				
	Acquisition cost	Book value	Valuation gain (loss)		
			Net	Gain	Loss
Stocks	\$ 828,084	\$ 1,744,327	\$916,242	\$919,968	\$ (3,725)
Bonds					
Japanese government bonds	3,437,458	3,384,742	(52,716)	2,222	(54,938)
Japanese local government bonds	1,072,792	1,067,578	(5,214)	3,049	(8,264)
Corporate bonds	1,905,827	1,901,222	(4,604)	6,791	(11,396)
Subtotal	6,416,078	6,353,543	(62,535)	12,063	(74,599)
Other	3,269,340	3,195,879	(73,461)	6,279	(79,741)
<b>Total</b>	<b>\$10,513,504</b>	<b>\$11,293,750</b>	<b>\$780,245</b>	<b>\$938,312</b>	<b>\$(158,066)</b>

(Note) Amounts posted on the Consolidated Balance Sheets are stated at fair value using the market prices at the fiscal year-end.

## (3) Securities available for sale sold off during this fiscal year

For the years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Sales amount	¥246,612	¥172,905	\$2,089,052
Total gains on sale	4,249	2,767	35,994
Total losses on sale	1,265	2,892	10,716

## (4) Securities without quoted prices and amounts posted on the Consolidated Balance Sheets

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Securities held to maturity	¥ —	¥ —	\$ —
Securities available for sale			
Unlisted stocks (excluding stocks traded over the counter)	3,515	3,457	29,778
Unlisted domestic securities excluding publicly offered securities	10,943	15,343	92,705

(5) Redemption schedule for securities available for sale with maturity

As of March 31, 2007	Millions of yen			
	1 year or less	Over 1 year, less than 5 years	Over 5 years, less than 10 years	Over 10 years
<b>Bonds</b>				
Japanese government bonds	¥47,431	¥160,417	¥150,387	<b>¥ 41,331</b>
Japanese local government bonds	8,777	48,729	68,520	—
Corporate bonds	35,269	151,195	28,951	<b>19,967</b>
Subtotal	91,478	360,342	247,859	<b>61,299</b>
Other	1,089	120,416	154,089	<b>46,515</b>
<b>Total</b>	<b>¥92,567</b>	<b>¥480,759</b>	<b>¥401,948</b>	<b>¥107,814</b>

As of March 31, 2006	Millions of yen			
	1 year or less	Over 1 year, less than 5 years	Over 5 years, less than 10 years	Over 10 years
<b>Bonds</b>				
Japanese government bonds	¥ 15,046	¥214,741	¥ 85,200	¥100,873
Japanese local government bonds	14,042	81,231	80,128	—
Corporate bonds	65,673	138,311	18,790	11,828
Subtotal	94,762	434,284	184,119	112,701
Other	13,673	67,731	193,196	52,056
<b>Total</b>	<b>¥108,436</b>	<b>¥502,015</b>	<b>¥377,316</b>	<b>¥164,758</b>

As of March 31, 2007	Thousands of U.S. dollars			
	1 year or less	Over 1 year, less than 5 years	Over 5 years, less than 10 years	Over 10 years
<b>Bonds</b>				
Japanese government bonds	\$401,790	\$1,358,895	\$1,273,934	<b>\$350,121</b>
Japanese local government bonds	74,357	412,787	580,434	—
Corporate bonds	298,764	1,280,777	245,244	<b>169,141</b>
Subtotal	774,911	3,052,459	2,099,613	<b>519,263</b>
Other	9,226	1,020,050	1,305,289	<b>394,028</b>
<b>Total</b>	<b>\$784,137</b>	<b>\$4,072,510</b>	<b>\$3,404,902</b>	<b>\$913,292</b>

22. Money held in trust

(1) Money held in trust for trading purposes

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Book value	<b>¥10,993</b>	¥10,800	<b>\$93,128</b>
Valuation gain (loss)	—	—	—

(2) Other money held in trust (other than money held in trust for trading purposes and money held in trust held to maturity)

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Acquisition cost	<b>¥3,013</b>	¥3,011	<b>\$25,529</b>
Book value	<b>3,005</b>	3,007	<b>25,462</b>
Valuation gain			
Net	<b>(7)</b>	(3)	<b>(66)</b>
Gain	—	2	—
(Loss)	<b>(7)</b>	(5)	<b>(66)</b>

### 23. Unrealized gains (losses) on securities available for sale, net of taxes

A breakdown of unrealized gains (losses) on securities available for sale, net of taxes posted on the Consolidated Balance Sheets is as follows:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Valuation gains (losses)			
Specified marketable securities	<b>¥92,107</b>	¥85,591	<b>\$780,245</b>
Other money held in trust	<b>(7)</b>	(3)	<b>(66)</b>
Deferred tax liabilities	<b>(34,320)</b>	(34,608)	<b>(290,729)</b>
Unrealized gains on specified marketable securities (before equity stake adjustment)	<b>57,779</b>	50,979	<b>489,449</b>
Amount equivalent to minority interests	<b>(143)</b>	(174)	<b>(1,218)</b>
<b>Unrealized gains on securities available for sale, net of taxes</b>	<b>¥57,635</b>	¥50,804	<b>\$488,230</b>

### 24. Derivatives transactions

#### (1) Policies and objectives of derivatives transactions

Derivative instruments which the Bank utilizes are interest rate swaps, currency swaps, currency options, forward foreign exchanges, bond futures, bond options and stock-price index futures.

The Bank enters into derivative transactions to provide customers with financial instruments to hedge their risks on interest rate and foreign exchanges as well as to control the Bank's own market risks properly. The Bank also enters into short-term trading transactions within the predetermined limits of positions and resulting losses which the Bank has established. Speculative transactions utilizing excessive leverage effect are against of its policies.

#### (2) Fair value of derivatives transactions

##### (i) Interest-rate related transactions

There were no applicable transactions as of March 31, 2007 and 2006.

##### (ii) Foreign exchange related transactions

Forward foreign exchange contracts and currency options and cross currency swap are valued on the Consolidated Balance Sheet date, and the relevant valuation gains/losses are posted on the Income Statements. Contract amounts of currency derivatives valued on the Balance Sheet date are as follows:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Over-the-counter transactions:			
Cross currency swap contracts	<b>¥203,858</b>	¥155,859	<b>\$1,726,883</b>
Forward foreign exchange contracts:			
Sold	<b>¥ 5,647</b>	¥ 4,176	<b>\$ 47,841</b>
Bought	<b>5,368</b>	3,858	<b>45,480</b>
Currency options:			
Sold	<b>¥ 1,895</b>	¥ 1,501	<b>\$ 16,054</b>
Bought	<b>1,895</b>	1,501	<b>16,054</b>

(Note) Derivatives transactions under hedge accounting are not included.

## 25. Retirement benefit accounting

### (1) Outline of current retirement benefit systems

The Bank has an unfunded lump-sum severance payment plan in accordance with the in-house regulations and a defined-benefit pension plan. A retirement benefit trust was established during the year ended March 31, 2001.

### (2) The reserve for retirement benefits as of March 31, 2007 and 2006, are as follows:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Projected benefit obligations (A)	¥(39,857)	¥(39,717)	\$(337,631)
Fair value of plan assets (B)	26,234	25,695	222,231
Projected benefit obligation in excess of plan assets (C) = (A) + (B)	(13,622)	(14,021)	(115,400)
Unrecognized net obligation at transition (D)	—	—	—
Unrecognized net actuarial losses (E)	6,895	8,550	58,413
Unrecognized prior service costs (F)	(119)	(135)	(1,010)
Net liability recognized (G) = (C) + (D) + (E) + (F)	(6,846)	(5,606)	(57,997)
Prepaid pension costs (H)	—	2,473	—
Reserve for employee retirement and severance benefits (G) - (H)	¥ (6,846)	¥ (8,079)	\$ (57,997)

(Note) Consolidated subsidiaries have adopted the simplified method for calculation of projected benefit obligations.

### (3) Retirement benefit costs

For the years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service cost	¥1,521	¥1,564	\$12,884
Interest cost	793	804	6,718
Expected return on assets	(327)	(314)	(2,772)
Amortization of prior service costs	(16)	(16)	(137)
Amortization of net actuarial losses	1,601	1,898	13,569
Total	¥3,572	¥3,937	\$30,262

(Note) Retirement benefit costs for consolidated subsidiaries are included in the above service cost.

### (4) Assumptions used in the above calculation for projected benefit obligations are as follows:

As of March 31, 2007	
Discount rate:	2.0%
Expected return on assets rate:	2.0%
Periodical distribution of estimated amount of retirement benefits:	Evenly amortized over the period
Period of recognition of prior service obligation	Principally 10 years (using the straight-line method over a predetermined period within the average remaining service period of the employees)
Period of recognition of actuarial differences	Principally 10 years (using the straight-line method over a predetermined period within the average remaining service period of the employees, beginning with the next year of occurrence of the difference)

## 26. Segment information

Information about industry segments of the Bank and its consolidated subsidiaries for the years ended March 31, 2007 and 2006 is as follows:

Year ended March 31, 2007	Millions of yen					
	Banking	Leasing & investing	Other	Total	Elimination or corporate	Consolidated
Revenues and operating income:						
Revenues from customers	¥84,283	¥ 9,718	¥2,633	¥96,635	¥ —	¥96,635
Intersegment revenues	475	482	2,053	3,011	(3,011)	—
Total revenues	84,758	10,201	4,687	99,646	(3,011)	96,635
Operating expenses	69,813	9,606	4,141	83,561	(2,988)	80,573
Operating income	¥14,945	¥ 594	¥ 545	¥16,084	¥ (23)	¥16,061

Assets, depreciation,

Loss on impairment of premise and equipment and capital expenditures:

Assets at year end	¥4,163,923	¥42,451	¥11,846	¥4,218,222	¥(38,886)	¥4,179,335
Depreciation	3,684	5,157	26	8,868	—	8,868
Impairment losses	3,313	—	—	3,313	—	3,313
Capital expenditures	8,763	7,199	35	15,998	—	15,998

Year ended March 31, 2006	Millions of yen					
	Banking	Leasing & investing	Other	Total	Elimination or corporate	Consolidated
Revenues and operating income:						
Revenues from customers	¥83,199	¥7,703	¥2,442	¥93,345	¥ —	¥93,345
Intersegment revenues	469	236	1,896	2,602	(2,602)	—
Total revenues	83,669	7,940	4,338	95,948	(2,602)	93,345
Operating expenses	65,007	7,770	3,911	76,688	(2,713)	73,975
Operating income	¥18,662	¥ 169	¥ 427	¥19,259	¥ 110	¥19,370

Assets, depreciation,

Loss on impairment of premise and equipment and capital expenditures:

Assets at year end	¥4,070,229	¥22,296	¥9,631	¥4,102,157	¥(19,245)	¥4,082,911
Depreciation	4,391	5,097	21	9,510	—	9,510
Impairment losses	3,533	—	—	3,533	—	3,533
Capital expenditures	3,629	5,572	59	9,261	—	9,261

Year ended March 31, 2007	Thousands of U.S. dollars					
	Banking	Leasing & investing	Other	Total	Elimination or corporate	Consolidated
Revenues and operating income:						
Revenues from customers	\$713,960	\$82,329	\$22,305	\$818,595	\$ —	\$818,595
Intersegment revenues	4,024	4,086	17,398	25,509	(25,509)	—
Total revenues	717,985	86,415	39,703	844,105	(25,509)	818,595
Operating expenses	591,385	81,379	35,085	707,850	(25,312)	682,537
Operating income	\$126,600	\$ 5,036	\$ 4,618	\$136,255	\$ (197)	\$136,057

Assets, depreciation,

Loss on impairment of premises and equipment and capital expenditures:

Assets at year end	\$35,272,545	\$359,610	\$100,349	\$35,732,504	\$(329,405)	\$35,403,099
Depreciation	31,213	43,687	224	75,125	—	75,125
Impairment losses	28,068	—	—	28,068	—	28,068
Capital expenditures	74,232	60,989	298	135,519	—	135,519

(Notes) 1. Leasing and investing segment comprises leasing business and venture capital business.

2. Other segment comprises credit card business and data processing business.

3. The above revenues and operating income do not comprise extra-ordinary items which are included in other income or other expenses on the consolidated statements of income.

## 27. Loss on impairment fixed assets

As the Bank does not expect recovery of investment due to continuous declines in land price and in operating cash flows, book values of the following assets were reduced to recoverable amounts. Loss on impairment of premises and equipment amounted to ¥3,313 (U.S.\$28,068 thousand) and ¥3,533 million for the years ended March 31, 2007 and 2006, respectively.

	Millions of yen				Thousands of U.S. dollars	
	2007		2006		2007	
	Operating assets	Idle assets	Operating assets	Idle assets	Operating assets	Idle assets
Land, buildings and equipment:						
Shiga Prefecture	¥1,137	¥ —	¥ 264	¥1,215	\$ 9,634	\$ —
Other	2,176	—	2,053	—	18,433	—
Total	¥3,313	¥ —	¥2,317	¥1,215	\$28,068	\$ —

## 28. Related party transactions

Transactions with directors and principal individual shareholders for the years ended March 31, 2007 and 2006 were as follows:

For the year ended March 31, 2007:

Attribute	Name	Address	Capital Stock (in millions)	Operations or occupation	Holding equity of the Bank (%)	Concurrent director	Transactions	Transaction amount (in millions)	Account	Balance at year-end (in millions)
Director & relative	Chiyoko Yamakage	—	—	Real estate leasing	—	—	Lending	¥(7)	Loans	¥186
							Interest receiving	¥4	Accrued income	¥0
Companies, majority held by director & relative	Nishikawa Sangyo Co., Ltd.	Tokyo	¥901	Bedclothes wholesale	0.04	1	Lending	¥295	Loans	¥1,145
							Interest receiving	¥10	Unearned income	¥0
	Nishikawa Living Inc.	Osaka	¥400	Bedclothes wholesale	0.36	1	Lending	¥(277)	Loans	¥1,459
							Payment guarantee	¥(86)	Guarantees	¥178
							Interest receiving	¥15	Accrued income	¥2
									Unearned income	¥0

For the year ended March 31, 2006:

Attribute	Name	Address	Capital Stock (in millions)	Operations or occupation	Holding equity of the Bank (%)	Concurrent director	Transactions	Transaction amount (in millions)	Account	Balance at year-end (in millions)
Director & relative	Chiyoko Yamakage	—	—	Real estate leasing	—	—	Interest receiving	¥4	Loans	¥193
									Accrued income	¥0
	Toshiko Nakakita	—	—	Retail	—	—	Lending	¥4	Loans	¥4
							Interest receiving	¥0		
Companies, majority held by director & relative	Nishikawa Sangyo Co., Ltd.	Tokyo	¥901	Bedclothes wholesale	0.04	1	Lending	¥12,814	Loans	¥850
							Interest receiving	¥8	Unearned income	¥0
	Nishikawa Living Inc.	Osaka	¥400	Bedclothes wholesale	0.36	1	Lending	¥2,900	Loans	¥1,736
							Payment guarantee	¥707	Guarantees	¥257
							Foreign exchanges	¥7	Foreign exchanges	¥7
							Interest receiving	¥23	Accrued income	¥0
								Unearned income	¥0	

## Report of Independent Auditors

To the Board of Directors and Shareholders of  
THE SHIGA BANK, LTD.

We have audited the accompanying consolidated balance sheet of THE SHIGA BANK, LTD. and its subsidiaries as of March 31, 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the year then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of THE SHIGA BANK, LTD. and its subsidiaries as of March 31, 2007, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.



Misuzu Audit Corporation  
Kyoto, Japan



Yamaguchi Audit Corporation  
Yamaguchi, Japan

June 26, 2007

## Report of Independent Auditors

To the Board of Directors and Shareholders of  
THE SHIGA BANK, LTD.

We have audited the accompanying consolidated balance sheet of THE SHIGA BANK, LTD. and its subsidiaries as of March 31, 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of THE SHIGA BANK, LTD. and its subsidiaries as of March 31, 2006, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Effective from the year ended March 31, 2006, THE SHIGA BANK, LTD. and its subsidiaries adopted a new accounting standard for impairment of fixed assets.



Misuzu Audit Corporation  
(formerly ChuoAoyama PricewaterhouseCoopers)  
Kyoto, Japan  
June 27, 2006

**Non-Consolidated Balance Sheets (Unaudited)**

March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
<b>Assets</b>			
Cash and due from banks	¥ 50,292	¥ 55,308	\$ 426,029
Call loans and bills bought	151,744	57,720	1,285,424
Trading account securities	1,012	340	8,574
Money held in trust	13,985	13,796	118,474
Securities	1,354,903	1,426,020	11,477,366
Loans and bills discounted	2,481,394	2,388,924	21,019,861
Foreign exchange assets	8,460	5,272	71,671
Other assets	13,373	22,489	113,290
Tangible fixed assets	61,512	—	521,070
Intangible fixed assets	7,967	—	67,492
Premises and equipment	—	63,878	—
Customers' liabilities for acceptances and guarantees	36,625	53,745	310,250
Reserve for possible losses on loans and other credits	(17,404)	(17,317)	(147,431)
Reserve for possible losses on securities	(0)	(2)	(3)
<b>Total assets</b>	<b>¥4,163,868</b>	<b>¥4,070,175</b>	<b>\$35,272,073</b>
<b>Liabilities</b>			
Deposits	¥3,710,201	¥3,627,405	\$31,429,066
Call money	14,166	3,759	120,000
Deposits received for bonds lending/borrowing transactions	38,114	40,188	322,865
Borrowed money	34,600	32,000	293,096
Foreign exchange liabilities	63	93	537
Other liabilities	35,337	29,757	299,344
Accrued bonuses to directors and corporate auditors	35	—	296
Reserve for employee retirement and severance benefits	6,784	8,021	57,470
Reserve for retirement benefits to directors and corporate auditors	235	—	1,996
Reserve for repayment for prescribed deposits	418	—	3,549
Acceptances and guarantees	36,625	53,745	310,250
Deferred tax liabilities	14,739	14,983	124,856
Deferred taxes liabilities relating to land revaluation	12,292	13,619	104,133
<b>Total liabilities</b>	<b>¥3,903,613</b>	<b>3,823,573</b>	<b>\$33,067,461</b>

**Non-Consolidated Balance Sheets (Unaudited)**

March 31, 2007 and 2006

	Millions of yen		Thousands of
	2007	2006	U.S. dollars (Note 1)
<b>Net assets</b>			<b>2007</b>
Common stock	¥ 33,076	—	\$ 280,194
Additional paid-in capital	23,946	—	202,847
Legal reserve	7,641	—	64,731
Voluntary reserves	115,619	—	979,411
Retained earnings	11,083	—	93,884
Treasury stock	(604)	—	(5,120)
<b>Total stockholders' equity</b>	<b>190,762</b>	<b>—</b>	<b>1,615,948</b>
Unrealized gains on securities available for sale, net of taxes (Note 23)	57,584	—	487,793
Deferred hedge losses, net of taxes	(7)	—	(66)
Excess of land revaluation, net of taxes (Note 10)	11,915	—	100,936
<b>Total valuation and translation adjustments</b>	<b>69,491</b>	<b>—</b>	<b>588,663</b>
<b>Total net assets</b>	<b>260,254</b>	<b>—</b>	<b>2,204,611</b>
<b>Total liabilities and net assets</b>	<b>¥4,163,868</b>	<b>—</b>	<b>\$35,272,073</b>
<b>Shareholders' equity</b>			
Common stock	—	33,076	—
Additional paid-in capital	—	23,942	—
Legal reserve	—	7,317	—
Voluntary reserves	—	106,634	—
Retained earnings	—	11,488	—
Excess of land revaluation, net of taxes	—	13,870	—
Unrealized gains on securities available for sale, net of taxes	—	50,741	—
Treasury stock	—	(470)	—
<b>Total shareholders' equity</b>	<b>—</b>	<b>246,602</b>	<b>—</b>
<b>Total liabilities and shareholders' equity</b>	<b>¥ —</b>	<b>¥4,070,175</b>	<b>\$ —</b>

**Non-Consolidated Statements of Income and Retained Earnings (Unaudited)**

March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
<b>Income</b>			
Interest income			
Interest on loans and bills discounts	¥44,948	¥41,893	\$380,759
Interest and dividends on securities	20,888	24,395	176,944
Other interest income	330	161	2,797
Total interest income	66,167	66,450	560,501
Fees and commissions	12,481	11,462	105,732
Other operating income	2,051	1,307	17,376
Other income	6,711	11,023	56,855
<b>Total income</b>	<b>87,412</b>	<b>90,243</b>	<b>740,466</b>
<b>Expenses</b>			
Interest expenses			
Interest on deposits	5,677	2,594	48,098
Interest on borrowings and rediscounts	2,054	1,361	17,401
Other interest expenses	1,564	2,226	13,254
Total interest expenses	9,296	6,182	78,754
Fees and commissions	3,744	3,571	31,720
Other operating expenses	5,604	7,746	47,475
General operating expenses	44,150	44,096	373,995
Other expenses	10,330	7,262	87,511
<b>Total expenses</b>	<b>73,126</b>	<b>68,859</b>	<b>619,456</b>
Income before income taxes	14,285	21,384	121,009
Income taxes — current	7,028	4,117	59,534
Income taxes — deferred	(1,313)	7,266	(11,128)
<b>Net income</b>	<b>¥ 8,570</b>	<b>¥10,000</b>	<b>\$ 72,603</b>
<b>Retained earnings</b>			
Balance at the beginning of year	¥ —	¥12,740	\$ —
Reversal on excess of land revaluation	—	854	—
Appropriation of retained earnings			
Transfer to legal reserve	—	267	—
Cash dividends	—	1,323	—
Bonuses to directors and corporate auditors	—	15	—
Transfer to voluntary reserves	—	10,500	—
<b>Total appropriations</b>	<b>—</b>	<b>12,106</b>	<b>—</b>
<b>Balance at the end of year</b>	<b>¥ —</b>	<b>¥11,488</b>	<b>\$ —</b>

**Non-Consolidated Statements of Net Assets (Unaudited)**

March 31, 2007

As of March 31, 2007	Millions of yen						Total
	Stockholders' equity						
	Common stock	Additional paid-in capital	Legal reserve	Voluntary reserves	Retained earnings	Treasury stock	
Balance at beginning of the year	¥33,076	¥23,942	¥7,317	¥106,634	¥11,488	¥(470)	¥181,990
Changes during the year:							
Cash dividends for the last year			158		(952)		(793)
Interim cash dividends			158		(952)		(793)
Transfer to voluntary reserves				8,984	(8,984)		
Bonuses to directors and corporate auditors			7		(42)		(35)
Net income					8,570		8,570
Purchase of treasury stock						(145)	(145)
Sales of treasury stock		3				11	15
Reversal of excess of land revaluation					1,954		1,954
Other changes							—
Total increase (decrease)	—	3	324	8,984	(405)	(134)	8,772
<b>Balance at end of the year</b>	<b>¥33,076</b>	<b>¥23,946</b>	<b>¥7,641</b>	<b>¥115,619</b>	<b>¥11,083</b>	<b>¥(604)</b>	<b>¥190,762</b>

As of March 31, 2007	Millions of yen				
	Valuation and translation adjustments				
	Unrealized gains on securities	Deferred hedge losses	Excess of land revaluation	Total	Total net assets
Balance at beginning of the year	¥50,741	¥—	¥13,870	¥64,612	¥246,602
Changes during the year:					
Cash dividends for the last year					(793)
Interim cash dividends					(793)
Transfer to voluntary reserves					—
Bonuses to directors and corporate auditors					(35)
Net income					8,570
Purchase of treasury stock					(145)
Sales of treasury stock					15
Reversal of excess of land revaluation					1,954
Other changes	6,842	(7)	(1,954)	4,879	4,879
Total increase (decrease)	6,842	(7)	(1,954)	4,879	13,652
<b>Balance at end of the year</b>	<b>¥57,584</b>	<b>¥ (7)</b>	<b>¥11,915</b>	<b>¥69,491</b>	<b>¥260,254</b>

As of March 31, 2007	Thousands of U.S.dollars (Note 1)						Total
	Stockholders' equity						
	Common stock	Additional paid-in capital	Legal reserve	Voluntary reserves	Retained earnings	Treasury stock	
Balance at beginning of the year	\$280,194	\$202,815	\$61,982	\$903,301	\$97,322	\$(3,981)	\$1,541,636
Changes during the year:							
Cash dividends for the last year			1,344		(8,068)		(6,723)
Interim cash dividends			1,344		(8,066)		(6,722)
Transfer to voluntary reserves				76,109	(76,109)		
Bonuses to directors and corporate auditors			59		(355)		(296)
Net income					72,603		72,603
Purchase of treasury stock						(1,234)	(1,234)
Sales of treasury stock		32				94	127
Reversal of excess of land revaluation					16,557		16,557
Other changes							—
Total increase (decrease)	—	32	2,748	76,109	(3,438)	(1,139)	74,312
<b>Balance at end of the year</b>	<b>\$280,194</b>	<b>\$202,847</b>	<b>\$64,731</b>	<b>\$979,411</b>	<b>\$93,884</b>	<b>\$(5,120)</b>	<b>\$1,615,948</b>

As of March 31, 2007	Thousands of U.S.dollars (Note 1)				
	Valuation and translation adjustments				
	Unrealized gains on securities	Deferred hedge losses	Excess of land revaluation	Total	Total net assets
Balance at beginning of the year	\$429,833	\$—	\$117,494	\$547,327	\$2,088,963
Changes during the year:					
Cash dividends for the last year					(6,723)
Interim cash dividends					(6,722)
Transfer to voluntary reserves					—
Bonuses to directors and corporate auditors					(296)
Net income					72,603
Purchase of treasury stock					(1,234)
Sales of treasury stock					127
Reversal of excess of land revaluation					16,557
Other changes	57,960	(66)	(16,557)	41,336	41,336
Total increase (decrease)	57,960	(66)	(16,557)	41,336	115,648
<b>Balance at end of the year</b>	<b>\$487,793</b>	<b>\$(66)</b>	<b>\$100,936</b>	<b>\$588,663</b>	<b>\$2,204,611</b>

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

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	<b>11.35%</b>	11.25%	0.10%
Tier I capital ratio	<b>8.49%</b>	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.

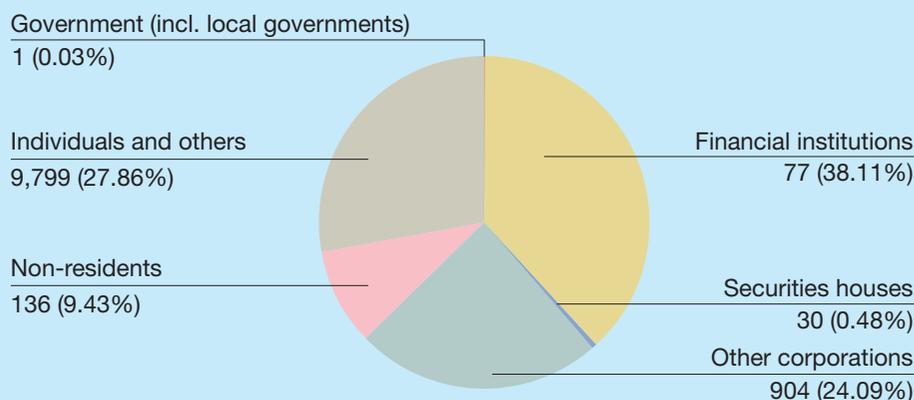
# Stock Information

As of March 31, 2007

## Major shareholders

	Number of shares held (thousand)	As a percentage of total number of issued shares (%)
Nipponkoa Insurance Co., Ltd.	11,651	4.38
Nippon Life Insurance Company	9,475	3.56
Mizuho Corporate Bank, Ltd.	8,895	3.35
Japan Trustee Service Bank, Ltd.	7,224	2.72
Meiji Yasuda Life Insurance Company	6,199	2.33
Shiga Bank Employees' Shareholding Association	5,997	2.25
The Dai-ichi Mutual Life Insurance Company	5,626	2.11
The Chuo Mitsui Trust & Banking Co., Ltd.	5,521	2.07
The Master Trust Bank of Japan, Ltd.	5,466	2.05
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,461	2.05
<b>Total</b>	<b>71,518</b>	<b>26.94</b>

## Number of shares held by type of shareholder



**Total voting rights: 261,612**

Note: Figures in parentheses represent voting rights as a percentage of the total voting rights held by each shareholder segment.

## Monthly Share Price Movements



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