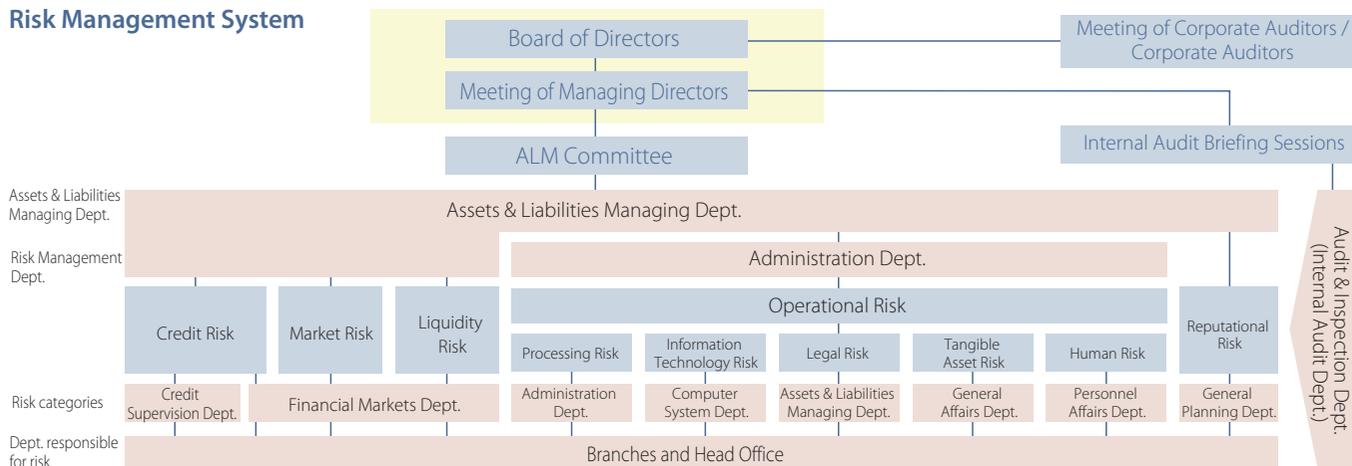


Toward a Stronger Risk Management System

Based on the Bank's policy that "Shiga Bank must be sound in order for the local community to be healthy," we are building a Comprehensive Risk Management System and Internal Rating System in order to accurately assess and control risk using rational criteria without undue reliance on personal intuition or experience.

Risk Management System



Outline of Risk Management System

The Shiga Bank's Board of Directors have established risk management rules, specified the types of risk that should be managed, and defined the roles and responsibilities of the sections responsible for those risks. At the same time, Risk Management Rules prescribe risk management methods.

Furthermore, in light of the Bank's strategic goals and risk status, "risk management policies" are instituted semiannually at the board of directors' meeting.

Risk management status is properly managed by having it reported to management through the ALM Committee, the Meeting of Managing Directors, and the Board of Directors.

Comprehensive risk management

Comprehensive risk management means to appropriately manage risks by looking at various types of risk as a whole, and comparing them to capital adequacy which represents the strength of the financial institution.

The Bank's Assets & Liabilities Managing Department is

responsible for unified monitoring of all risks, including quantitative monitoring and management of loan concentration risk, which is outside the scope of capital adequacy requirements, and interest rate risk in the Bank's own accounts.

Integrative risk management

In our integrative 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.

The Bank conducts its business based on the capital allocation system, controlling risk by keeping it within the specified ratio to both 1) regulatory capital and 2) economic capital.

We are creating a structure that complements the capital allocation system for 1) regulatory capital and 2) economic capital, by additionally controlling price change risk in investments in securities by keeping it within a specified range.

- Regulatory Capital: Amount of risk derived by multiplying the risk asset by 8%
- Economic Capital: Amount of risk calculated using internal control mechanisms such as Value at Risk (VaR)

Credit risk management

Credit risk is the risk that the Bank will suffer losses due to the worsening financial conditions of clients, etc.

(1) Outline of the Corporate Credit Ratings System

In December 1998, the Bank introduced its own corporate credit ratings system as a comprehensive communication tool for the Bank and its customers to use together to raise enterprise value. Over the 11-year period since then, the Bank has added to its management experience and made further improvements. Notably, the Bank adopted Basel II's "Foundation Internal Ratings Based-Approach" in March 2007, thus upgrading its credit risk management and improving its capital ratio.

The Bank has established a rating system that measures credit risk—its main source of risk for sound Bank management. The Bank believes that controlling risk through the use of a rational benchmark is essential in the pursuit of mutual prosperity with regional communities, and is therefore focusing its efforts on the further improvement of the credit rating system.

(2) Corporate Credit Rating

Corporate credit ratings are conducted using both quantitative and qualitative assessments. After financial analyses based on the financial statements of client companies (quantitative assessment), qualitative assessments are also performed based on the Bank's proprietary assessment know-how and decisions are made in light of the company's current status.

In addition, the Bank routinely measures the effectiveness of the corporate credit ratings system using statistical methods, and then validates, analyzes and upgrades the system.

(3) Shigagin Ratings Communications Service

As a "rational dialogue tool," the service provides analyses of each client's internal credit rating to each of them. The Bank shares with its clients their respective "strengths" and "weakness" which were discovered through the rating process. The service also supports the clients in enhancing sustainable management infrastructures by working together with them to solve the problems and improve their financial conditions.

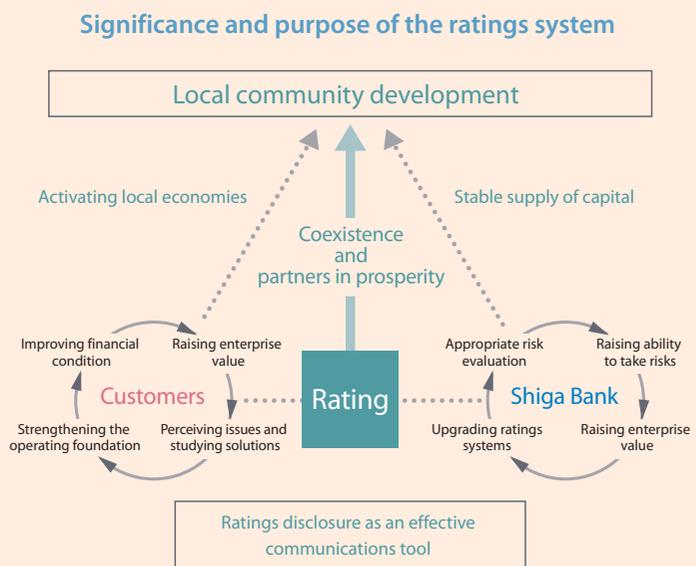
The significance and purpose of the Corporate Credit Rating System

Reasons for adopting Basel II's Foundation Internal Ratings Based-Approach (FIRB)

Based on its conviction to adhere to our "responsible management" system, and with the aim of sophisticating credit risk management, the Bank introduced its own corporate credit ratings system in December 1998 as a rational communication tool for the Bank and its customers to use together to raise enterprise value.

Based on its belief that Basel II is ultimately a tool for pursuing mutual prosperity with regional communities, the Bank recognizes that the building of a solid internal ratings system is essential for consistent implementation of the responsible management model. Therefore, it will do its utmost to further improve its risk management system.

From this viewpoint, the Bank, in adopting Basel II, has selected the Internal Ratings-Based Approach founded on the principle of accountability, has proactively committed itself to a credit-based business and its own credit ratings system, and wants to contribute on a broad basis to the further development of regional communities.



(4) Outline of credit risk management

In managing credit risk, the Bank has regulatory approval to use the Foundation Internal Ratings Based (FIRB) approach under the Basel II framework. The credit risk that the Bank faces is analyzed in its own risk management models from the perspective of controlling “credit loss” as well as from the perspectives of 1) PD: Probability of Default and 2) LGD: Loss Given Default.

- 1) PD: The credit risk that the Bank is exposed to is controlled strictly by assigning internal credit ratings to each client on the basis of the risk management models. Additionally, through “Shigagin ratings Communications Service,” the Bank provides its clients disclosures and analyses of the internal credit ratings.
- 2) LGD: A basic credit policy is not excessively dependent on pledges and guarantees, but rather makes a comprehensive credit judgment based on the clients’ business situations, the proposed uses for the funds and probabilities of recovering the loan.

(5) Credit portfolio management

Regarding management of the credit portfolio, appropriate risk management is carried out through a system which caters to the certain characteristics of various types of risk such as credit concentration risk associated with larger clients and the risk associated with retail dealings typified by home mortgages.

Additionally, from the perspective of forward-looking risk evaluation, the bank assesses the impact of its clients’ financial conditions measured by the stress testing with multiple economic scenarios. Afterwards the result of the assessment is used for credit risk management and capital adequacy ratio management across the entire Bank.

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 Risk-Control-Self-Assessment (RCSA) 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. Furthermore, we are controlling, transferring and avoiding risk to increase the effectiveness of risk management, we are adopting the Plan-Do-Check-Act (PDCA) cycle.

Market risk management

To ensure stability of earnings, 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, front office, back office, and middle office (risk management) operations are conducted by separate departments, each of which checks the operations of the others.

Liquidity risk management

In managing the flows of funds, the Financial Markets 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.

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.