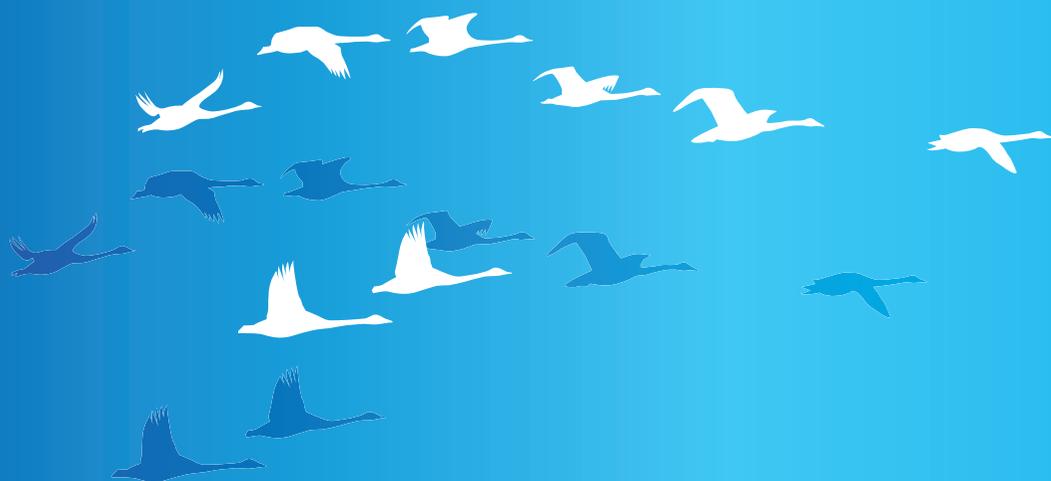


SHIGA BANK



# ANNUAL REPORT 2011

Year ended March 31, 2011

# CSR Charter (Management Principles)

The Shiga Bank has its own motto of “Be tough on ourselves, kind to others and serve society,” which forms the starting point for corporate social responsibility (CSR). As a member of society, the Bank will work for mutual prosperity with society. The Bank’s motto carries on the “Sampo yoshi” philosophy, a management philosophy embraced by Merchants in the Omi region of central Japan, which means to bring happiness to three sides: being good for the seller, the buyer, and society.

## Mutual prosperity with the regional community

As a bank that advances hand-in-hand with society, in order to win customer confidence and meet customer expectations, we maintain a sound and enterprising bank and work for the development of regional communities.

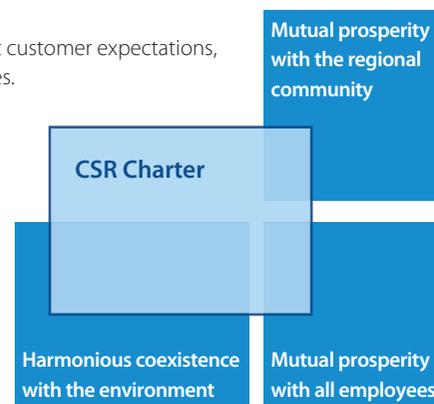
## Mutual prosperity with all employees

Respecting the human rights and individuality of each and every executive and regular employee, we will build a satisfying workplace, and turn our bank into “Clean Bank Shigagin.” \*

## Harmonious coexistence with the environment

The social mission of our company, which is headquartered next to Lake Biwa, is environmental management. We are committed to protection of the global environment and the building of a sustainable society.

(Instituted in April 2009)



### \*Clean Bank Shigagin

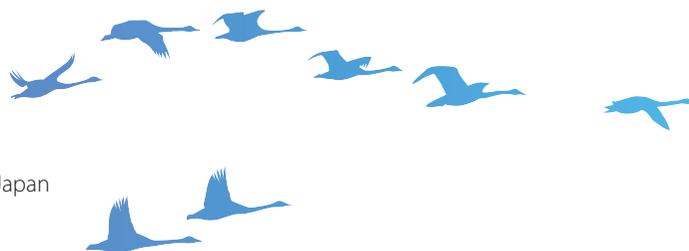
Under its motto Clean Bank Shigagin, since 1999 Shiga Bank has sought to raise environmental awareness among all employees, and is committed to improving transparency of disclosure and realizing its aim of being a “clean bank”

There are four aspects to being clean:

1. Creating “eco-offices” with low resource and energy consumption
2. Promote regional environmental conservation activities through “development and supply of environmentally-responsible financial products and services”
3. Fostering employee with a strong sense of ethics
4. Highly transparent disclosure

## Profile (As of March 31, 2011, on non-consolidated)

Corporate Name: The Shiga Bank, Ltd.  
Head Office: 1-38, Hamamachi, Otsu, Shiga 520-8686, Japan  
Established: October 1, 1933  
Total Assets: ¥4,401.7 billion  
Deposits (including negotiable certificates of deposits): ¥4,008.8 billion  
Loans: ¥2,774.8 billion  
Common Stock: ¥33.0 billion  
Employees: 2,365  
Offices and Branches: 138 (including 10 agents)  
Rating: JCR A+  
R&I A+



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# Consolidated Financial Highlights

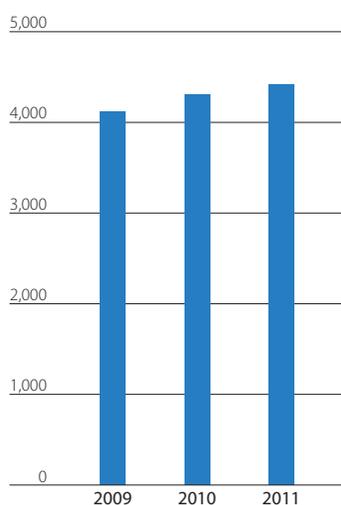
	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
As of March 31				
Total assets	¥4,420,479	¥4,302,261	¥4,123,026	\$53,162,714
Investment securities	1,385,525	1,339,054	1,113,812	16,662,969
Loans and bills discounted	2,768,107	2,714,367	2,710,948	33,290,525
Deposits	3,891,407	3,781,025	3,654,781	46,799,853
Total equity	257,531	257,738	218,948	3,097,193
Years ended March 31				
Total income	93,324	98,269	96,103	1,122,361
Total expenses	81,532	88,490	113,592	980,542
Income (loss) before income taxes and minority interests	11,792	9,779	(17,488)	141,818
Net income (loss)	4,676	4,322	(16,218)	56,238
Per share data (in yen, dollar)				
Cash dividends	¥ 6.00	¥ 6.00	¥ 6.00	\$ 0.072
Net income (loss)	17.71	16.37	(61.40)	0.213
Net equity	886.58	889.50	743.58	10.66
Ratio				
Capital ratio	13.01%	12.42%	10.34%	—
ROE	1.99%	2.00%	(7.53%)	—

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

2. U.S. dollar amounts represent translation of Japanese yen at the rate of ¥83.15 to US\$1.00 on March 31, 2011, the final business day of the term.

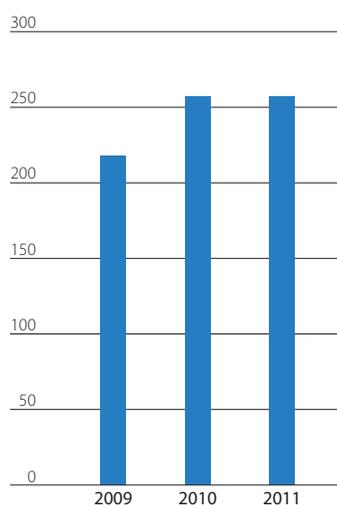
## Total assets

(Billions of yen)



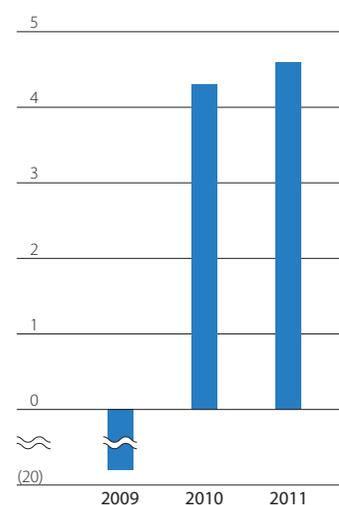
## Total equity

(Billions of yen)



## Net income (loss)

(Billions of yen)



### 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

Yoshio Daido  
President



## 1. The Bank's home market

### (1) The fast-growing Shiga Prefecture market

Shiga Prefecture, the Bank's business base, is situated in the center of Japan in a geographically advantageous position linking the Kinki and Tokai regions. It has high transport accessibility and is also one of the few prefectures in Japan where the population is still growing. The number of colleges offering four-year degree courses is also on the rise, and the ratio of children (up to age 14) to the total population is the second-highest after Okinawa. For these reasons, we can look forward to high growth rates for this market over the near term.

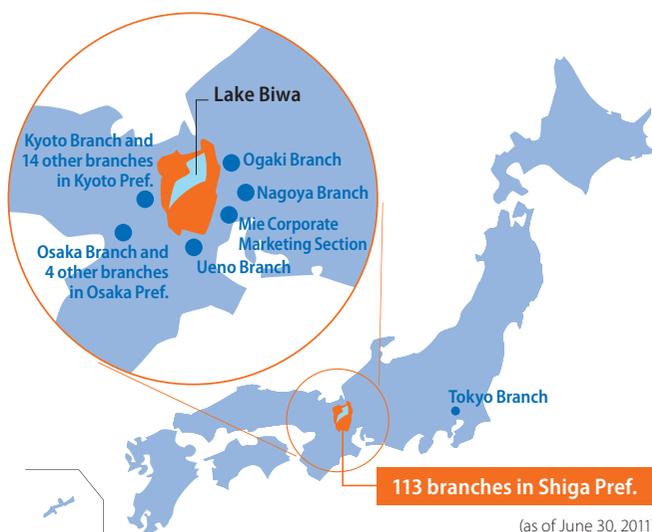
### (2) Business performance improving against the backdrop of market growth

Against the background of the excellent growth prospects for the market in Shiga Prefecture, the Bank, which is the only regional bank with a head office in the prefecture, has a market share of over 40% in both deposits and loans and bills discounted, and we are also enjoying a steady growth in the volume of business transactions.

### (3) The Bank's growth strategy

Leveraging our superior network of branches, which we have built up over many years as a wide-area regional bank, together with the increase in "business currents" \*1 that has been sparked by the partial opening of the Shin-Meishin Expressway, we are pushing ahead with our "seeding strategy." \*2 On June 3 of this year we transferred our Osaka Kita Corporate Marketing Section (dedicated unit set up at our Umeda Branch to serve corporate customers in Kita-ku, Osaka), to its own independent office in front of Shin-Osaka Station.

## Greater Mutual Prosperity



This follows the transfer of our Mie Corporate Marketing Section in June of 2010 from the Tsuchiyama Branch to an independent business location in Yokkaichi. These two offices will enable us to widen and strengthen the “business current” linking the Kinki and Tokai regions. We aim to leverage our extensive know-how in business matching and other banking-related services to expand this business current still further.

Within Shiga Prefecture, where the population continues to grow, new single-family house construction starts are expected to maintain a steady trend. To meet the expected increase in demand for personal loans centered on mortgage loans, we are offering consulting services at 11 e-Shigagin Plazas, which are also open at weekends. We have also opened “personal offices” — branches tailored to individual customers — at Kusatsu and Minami Kusatsu, to meet the diversifying demand for asset management consulting services. In addition to providing consulting services on Saturdays and Sundays, these “personal offices” have also proved very popular with our customers thanks to the wide range of products they offer, and our future branch strategy within Shiga Prefecture will involve leveraging our personal banking functions to meet customer needs even more effectively.

\*1 Business currents: Generating new business activities among our customers  
 \*2 Seeding strategy: Expanding business areas outside prefectural borders based on our existing offices and branches

## 2. Measures taken by the Bank

### (1) Our principle of mutual prosperity and harmonious coexistence

In 1966 Shiga Bank adopted the motto: “Be tough on ourselves, kind to others and serve society.” This motto carries on the “Sampo yoshi”

philosophy, a management philosophy embraced by the merchants of the Omi region (the former name of Shiga), which means to bring happiness to three sides: being good for the seller, the buyer, and society. In April 2007 we instituted our CSR Charter on the basis of this motto. In the Charter, we set forth our management principle of working to realize mutual prosperity with the regional community and with all the Bank’s employees, as well as harmonious coexistence with the global environment. Harnessing the comprehensive strengths of the Shiga Bank Group, we plan to maintain the Bank’s tradition of sound management and work to achieve true mutual prosperity, as laid down in our CSR Charter.

### (2) The 4th Medium-Term Business Plan

To translate our principle of mutual prosperity into concrete reality, in April 2010 we initiated our 4th Medium-Term Business Plan under a basic vision of “Meeting the Challenge of the Next Stage — Greater mutual prosperity through strengthened dialogue.” The Bank aims to bolster dialogue with customers to promote greater mutual understanding. By getting to know our customers even better, we will fully understand their needs, enabling us to resolve their issues and provide high value-added services.

Specifically, we will execute the following Three Brand-Building Strategies:

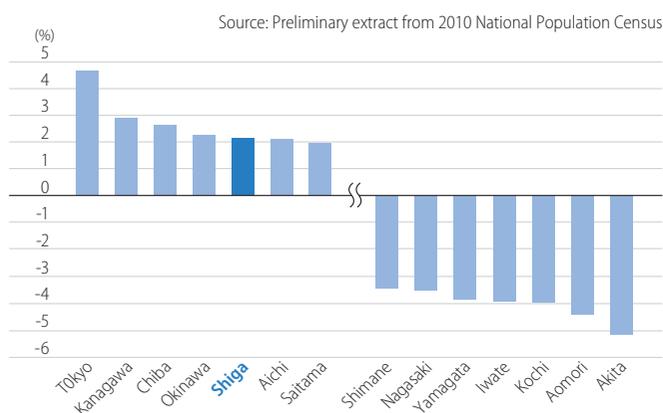
#### Being strong in networks

We actively leverage our network of branches and our solutions proposal capabilities, centered on business matching, to support our corporate clients’ efforts to expand their operational scale. In June this year we held the fourth Eco-Business Matching Fair. In addition to measures to counteract global warming, which are becoming

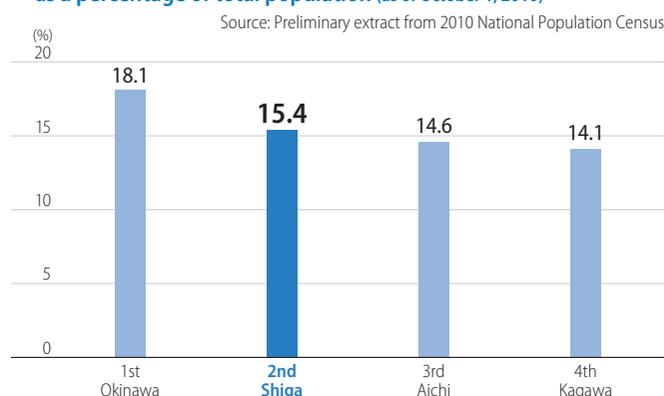
## through Strengthened Dialogue

## NEXT STAGE

■ Population growth/decline rates by prefecture (2005-2010)



■ Breakdown by prefecture of number of children (up to age 14) as a percentage of total population (as of October 1, 2010)



more and more important with each passing year, this year's fair also saw a full-scale upsurge of interest in the "energy revolution," inspired by the aftermath of the Great East Japan Earthquake in March. State-of-the-art technology was on display at the fair by our corporate clients engaged in environment-related businesses, and these technologies were viewed by 2,170 visitors, resulting in 612 business negotiations. We will continue working to opening up new business opportunities for our corporate clients by introducing them to potential partners, as well as providing financial support.

### Being strong in Asia

Shiga Bank is the only regional bank in the Kinki region with an overseas branch — our Hong Kong Branch. We leverage the advantage this gives us to provide strong support for our customers in their development of operations in Asia. In September 2010 we became the first Japanese regional bank to offer settlement services in Renminbi, and we followed this up in February this year by commencing Renminbi-denominated loans, and settlement services in Renminbi, at our Hong Kong Branch. To help us deal with our Japanese clients' business needs in Asia, which are expanding at an accelerating pace, we are currently examining various plans for the establishment of new business bases on the Asian mainland to supplement our Hong Kong Branch and our Shanghai Representative Office.

### Being highly CSR-conscious

In November 2009, Shiga Bank became the first Japanese bank to establish a "Biodiversity Rating," and in October 2010 we opened a booth at the Biodiversity Fair held in Nagoya to coincide with the holding of the 10th Conference of Parties (COP) to the Convention on Biological Diversity. At the booth, we introduced many visitors to



the Bank's wide-ranging efforts to preserve biodiversity, particularly in and around Lake Biwa. We will continue to engage in environmentally conscious management, including through the provision of environmental financing products and services.

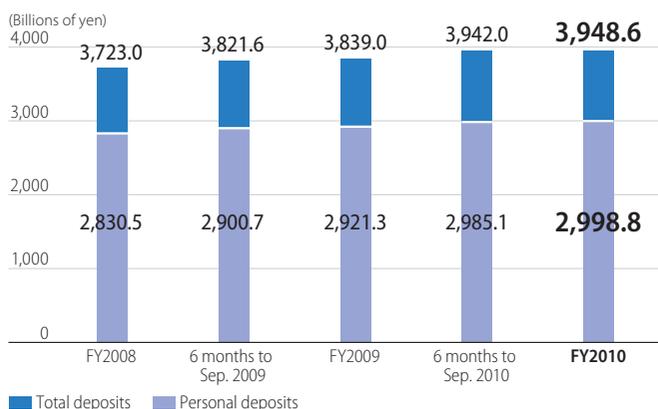
## 3. Measures in response to the Great East Japan Earthquake

### (1) Impact of the disaster on the local economy

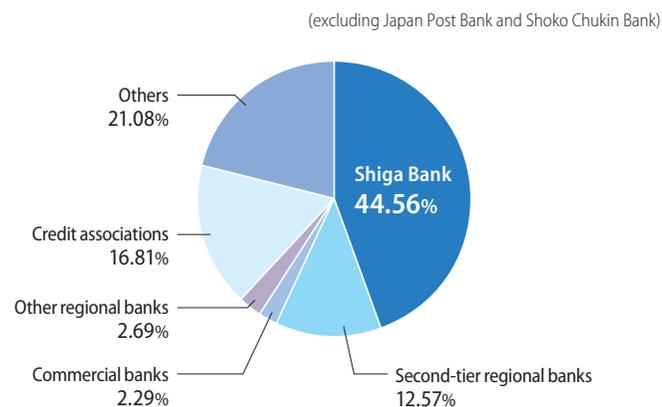
As Shiga Prefecture contains a high proportion of manufacturing enterprises, notably companies in the automotive industry, its economy was particularly susceptible to the disruption of supply chains caused by the massive tsunami that struck the Tohoku coast on March 11. The local construction industry has been affected by a lack of construction materials, and the tourism sector has been damaged by the nationwide trend toward consumption restraint in the aftermath of the disaster. As a result, the impact on the economy of the Bank's operational area, centered on Shiga Prefecture, was considerable.

# Meeting the Challenge of the Next Stage — Greater Mutual Prosperity

**Average deposits balances (including negotiable certificates of deposit) during the period**



**Deposit balances (share in Shiga Prefecture) (as of September 30, 2010)**



Now, more than 5 months after the disaster, supply chains are clearly coming back on line, and most shortfalls in the supply of materials or components are being cleared up. The longer-term impact of the Fukushima Daiichi nuclear disaster, however, is causing foreign tourists to stay away from Japan, and both Eastern and Western Japan are being asked to cut electric power consumption by 15%. In short, the aftermath of the March 11 disaster continues to place a heavy burden on the back of the local economy.

## (2) Specific response to customer needs

Under the motto "We grow with our customers," we engage in relationship banking services, including offering an internal rating disclosure service, as well as planning support for management improvement at client companies.

Immediately following the March 11 earthquake and tsunami, we set up a special consultation service at all our branches to assess the direct and indirect impact of the disaster on our customers. We have also been making full use of our consulting functions, continuously conducting investigations of customer circumstances to maintain a precise grasp of our customers' situation, particularly their cash flows.

As a result of these efforts, as of June 30 we had received 348 applications for loans related to the disaster. Out of these, we approved 262 loans at a total value of ¥23.4 billion.

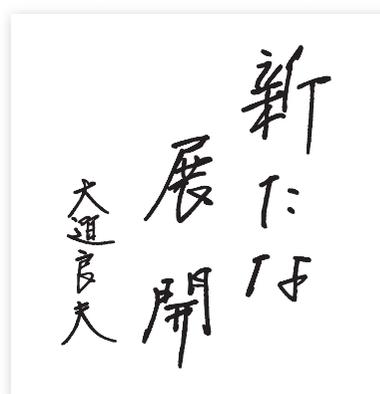
## 4. This year's watchword is "development"

Financial institutions are now being required to cater to an increasingly diverse range of needs, both for individuals and for corporate customers. To meet those needs precisely, this year Shiga Bank aims

to raise its provision of financial services to a new level under the watchword of "development." This concept embraces the following three goals:

- Raising the level of quality of our business operations
- Expanding the scope of our business operations
- Effecting a conceptual breakthrough in the promotion of business operations

The Bank has positioned as the Next Stage the achievement of mutual prosperity through strengthened dialogue, enabling us to get to know our customers even better and understand their viewpoints. The entire management and staff of Shiga Bank will work together to realize "development" as a means of attaining our targets under the Bank's current medium-term business plans.

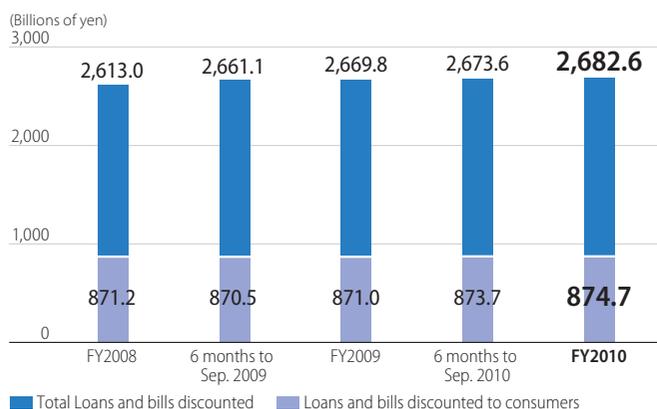


This calligraphy reads "A New Development — Yoshio Daido" and expresses President Daido's feelings about this year's watchword, "development."

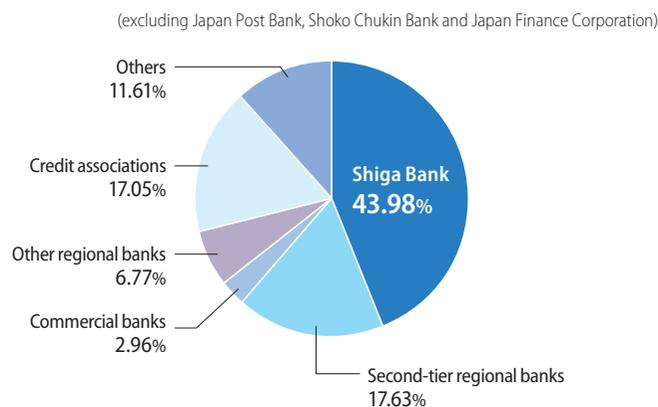
# through Strengthened Dialogue

# NEXT STAGE

### Average balance of loans and bills discounted during the period



### Balances of loans and bills discounted (share in Shiga Prefecture) (as of September 30, 2010)



# Our Services for Corporate Customers

Shiga Bank supports corporate customers with its “solutions business,” which offers management and fund procurement consultations that provide solutions for their day-to-day business operations. In addition, we share and solve problems with our customers in a way that is tailored to their “business life-cycle” (i.e., foundation, growth, and maturity). We seek to create a financial service business that can deliver high added value so that we can achieve even greater mutual prosperity with our customers.

## Support for customers affected by the Great East Japan Earthquake

In order to actively support customers who have been affected by the recent Great East Japan Earthquake, we established a Special Consultation Counter for the Great East Japan Earthquake in our head office and all of our branches nationwide in April 2011.

We are providing meticulous support for fund-procurement for disaster damage and funding needs arising from demands related to the disaster, tailored to the situation of our customers, who are saying “our sales have fallen because our customers were affected by the disaster,” “the supply chain was cut so purchasing is difficult,” “the number of tourists has fallen because of the mood of restraint in the country” and so on.



## Establishment of “the Fund for Communicating Shiga’s Appeal”

We established “the Fund for Communicating Shiga’s Appeal” for investment in the tourism business in May 2011. It supports businesses that are combining Shiga’s local resources including nature, food, history, and industry with tourism to increase the appeal of the regional brand and offer new products and services utilizing local resources.

The first company to benefit from the Fund was Kurokabe Corporation, the operator of Kurokabe Glass Shop, which is visited by more tourists than any other attraction in Shiga Prefecture. A total of ¥750,000 from the Fund was allocated to the Kurokabe Glass Workshop Fund, a fund which solicits small-lot contributions for the company to use to increase its appeal and strengthen its brand power.



## Developing new businesses

With the aspiration that our initiatives will vitalize the economy in the region where we operate, we engage in multifaceted initiatives to assist in the development of new businesses.

Specifically, the Business Support Office in the Business Promotion Department is taking the lead in a wide range of activities including, (i) coordination of new business alliances (industry-industry and industry-university alliances), (ii) support and counseling services to companies working on new businesses, and (iii) holding the Saturday School for Entrepreneurship to provide ideas for new businesses.

## Eco Business Forum “Saturday School for Entrepreneurship”

Every year since 2000, we have been offering a study program called the “Saturday School for Entrepreneurship” in order to support a strong spirit of entrepreneurship. The school presents the latest trends, university seeds, and examples of specific initiatives (best practices) in each field based on themes such as the environment, medical care, tourism, and regional rehabilitation.

## New business incentive “Shigagin Nonohana (Wild Flowers) Prize”

We established the “Shigagin Nonohana (Wild Flowers) Prize” to commemorate the 70th anniversary of the founding of the Bank. The prize is awarded to companies attending the “Saturday School for Entrepreneurship” that are working on new businesses through industry-academia-government (including intra-industry) cooperation and have produced results.

In fiscal 2010, we donated a total of ¥600,000 to six companies, meaning that we have given a total of ¥6,300,000 to 63 companies since the prize was established in 2003.



## Business Matching Service

Leveraging the robust “Shiga Bank Networks,” an extensive network of companies we have built up as a regional bank operating across a wide area, we offer business matching services to help our customers improve their business results.

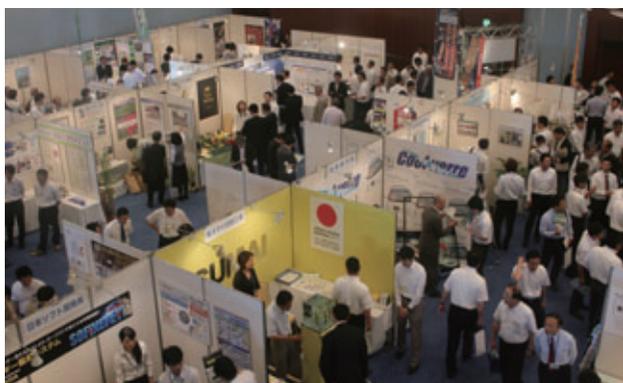
We select companies that satisfy the demands of our customers, including corporations and sole proprietors, and introduce them as candidate partners, making full use of our branch network to create new “business currents” through the matching of enterprise seeds and needs.

In fiscal 2010, there were 1,750 cases of business matching.

### ● “Eco Business Matching Fair 2011” Highly Successful

We held the “Eco Business Matching Fair 2011” on June 21, 2011 to provide a forum for business talks focusing on environmental businesses. We hold the fair every year, and this was the fourth time.

A total of 84 companies presented exhibits on six themes including new energy and energy saving, recycling, and environmentally-friendly civil engineering and construction, with 2,170 visitors and 612 business talks held. All of the booths were extremely busy all day.

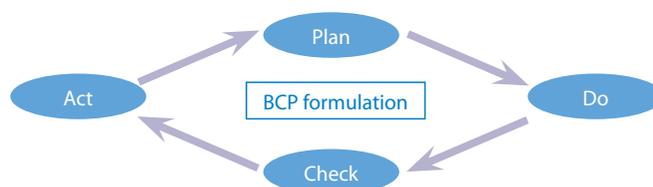


## Offering M&A advisory service

We are proactively resolving the business challenges faced by customers in the field of mergers and acquisitions (M&A), which is one of the management strategies adopted by small and medium sized enterprises. We match diverse customer needs, including the need to buy a company to enter new businesses and strengthen core businesses, the need to sell a company to deal with the absence of a successor and focus on core businesses, and the need to restructure a company to review group relationships and streamline management.

## Consulting on the formulation of a BCP

We are offering “consulting on the formulation of a business continuity plan (BCP)” as preparation for a large-scale earthquake or outbreak of an infectious disease. This consulting supports the formulation of a business continuity plan as preparation for risks such as a natural disaster which may have a major impact on business management, and promotes the quick recovery and smooth continuation of the businesses of our customers after such an event.



## Supporting medical business launch and management

We assist our customers operating in the fields of medical treatment and nursing care with services that encompass the provision of real estate information for those starting practice, fund procurement, medical corporation establishment, and medical services succession (handovers of transferred business).

## Services for business succession

Partly due to the aging of business managers, problems associated with business succession have been attracting interest in recent year.

At the Bank, experienced small and medium enterprise consultants, and financial planners holding top-level qualifications, propose optimum solutions to customers covering areas that include capital policies, business succession plans, and methods for transferring treasury stock.

## Supporting customers' environment management business

Initiatives to prevent global warming and to preserve biodiversity are essential for a company's sustainable development. Under the slogan of "Protecting the global environment through financial flows," Shiga Bank helps its customers develop environmental business to achieve compatibility between their environmental and economic concerns.

### Shiga Bank Principles for Lake Biwa (PLB)

The Bank has established "the Shiga Bank Principles for Lake Biwa (PLB)" for working together with its customers to protect Lake Biwa and the global environment, and is enlisting support for these principles.

#### (The Three Principles of PLB: Declaration by Customers)

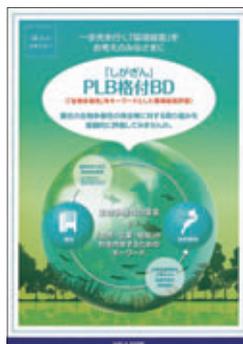
1. We will establish production, sales and service standards that will contribute to environmental conservation.
2. We will aim to achieve a coexistence of environmentally friendly activities and business opportunities.
3. We will seek to develop sustainable communities by reducing risks to the environment.

#### ● Adoption of the PLB rating (environmental rating)

As part of its initiatives for preserving the environment, the Bank rates customers who have agreed with the principles of the PLB and offers interest-rate incentives. It uses five grades (L1 through L5) for the ratings, which are based on its unique evaluation standards developed in accordance with "CSR Management Documents with an Environmental Focus."

#### ● Adoption of biodiversity rating (PLB rating BD)

The Bank has adopted its own unique biodiversity rating out of a desire to support the activities of our customers to preserve biodiversity. The rating uses set indicators to measure and evaluate the "biodiversity-friendliness" of customers that agree with the goal of the rating — "the inheritance of abundant biodiversity and the construction of a symbiotic society" — and wish to obtain a rating.



#### ● Principles for Lake Biwa Support Fund (PLB Fund)

When extending loans to customers who adopt initiatives to preserve the environment and biodiversity, the Bank examines the status of the initiatives and offers a discount up to a maximum of 0.6% per annum on annual interest rates on loans, in accordance with the applicable PLB rating and PLB rating BD.

As of the end of March 2011, a total of 934 loans worth ¥22.2 billion had been extended by the Fund.

### Carbon Neutral Loan, *Mirai-Yoshi* (Bright future)

To preserve the environment and the ecological system of Lake Biwa, the Bank offers a "Carbon Neutral Loan, *Mirai-Yoshi*," which is designed to encourage customers to reduce emissions of greenhouse gas.

Under this initiative, the Bank estimates the reduction in greenhouse gas emissions achieved by its customers through their introduction of solar power generation systems and other environmentally friendly systems made possible by using the Bank's environmental preservation financial products. The Bank then converts the reduced emission amount into a monetary value based on emissions trading prices. This is then used as funds for the release program of *Nigorobuna* and *Wataka* fish, endangered indigenous species of Lake Biwa.



### Support for the reduction of greenhouse gases

The Bank supports initiatives leading to the reduction of running costs (utility costs) and greenhouse gases through its "service to support the reduction of greenhouse gases."

Specifically, the Bank assesses the customers who are aware of the need to reduce emissions of greenhouse gases, examining the equipment they own and their energy usage, and then introduces them to partner companies who have expertise in greenhouse gas reduction. Then, we support customers who have received specific proposals from partner companies by providing them with the funds for the capital investments needed to make the reduction.

# Management Support Initiatives

## Strengthening consulting functions

The Bank positions the full utilization of consulting functions as one of the top priority issues for a financial institution, and is working on “providing expertise and care” and endeavoring to realize “mutual prosperity with regional communities.”

## Ratings Communication Service

The Bank positions the “corporate credit ratings” as a rational communication tool that connects our customers to the Bank, and rationally decides the ratings through quantitative financial analysis based on the financial statements, qualitative evaluations using the Bank’s unique expertise in credit supervision, and comprehensive analyses of large amounts of information.

Using the “Ratings Communication Service,” the Bank shares with its clients their respective “strengths” and “weaknesses” which were discovered through the rating process. The service also aims to support the clients in building sustainable management infrastructures and increasing their corporate value, by working together with them to solve their problems and improve their financial condition. Specifically, after asking the customer about their management vision, we propose and provide support for improvement measures for the challenges and problem areas that the Bank perceives.

This service has been provided a total of 4,721 times to 2,283 customers in the period between its commencement in August 2007 and March 2011. Going forward, the Bank will continue to

## Positioning of the Ratings Communication Service (Concept Diagram)



strengthen the management infrastructures of its customers primarily through the service.

## Assisting in the development of management improvement plans

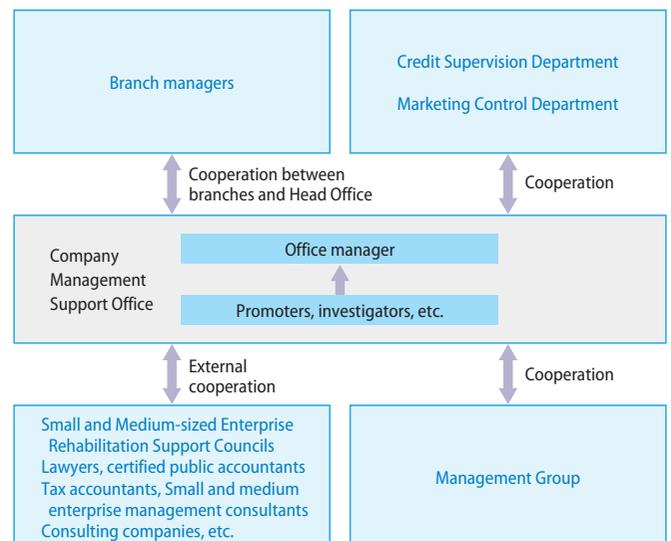
One of the improvement measures for resolving the challenges and problem areas of the customers perceived by the “Ratings Communication Service” is providing assistance for the development of a “management improvement plan.” We support their management improvement initiatives with timely monitoring of the progress of their established management improvement plans.



## Supporting business management

We offer extensive support to customers working to improve their management. The Company Management Support Office, operating within the Credit Supervision Department, is at the center of these activities. Qualified employees, including certified small and medium enterprise management consultants, comprise this Office. The Office members provide management support to our corporate customers by making active use of their expertise and collaborating with external experts.

## Organizational Chart of the Company Management Support Office



# Overseas Business Support

## Asian business support

At Shiga Bank, the International Marketing Group (Asia Desk) in the International Department responds to a variety of consultations. The Asia Desk provides finely-tuned support for its local customers' businesses in other Asian countries through its Overseas Expansion Advisory Services, Asia Seminars, Overseas Study Tours, and other initiatives.

The Asia Desk and the overseas offices (Hong Kong and Shanghai) provided support on 1,572 occasions in fiscal 2010.

## Overseas offices

Our Hong Kong Branch, the only overseas branch of a regional bank from Kinki, supports the overseas subsidiaries of our customers.

In particular, the Branch's lending services meet customer funding needs not only within Hong Kong, but also in mainland China, Southeast Asian countries, and other countries.

Meanwhile, the Shanghai Representative Office offers consultations to the Chinese subsidiaries of more than 400 customer companies as well as to customers that are considering expanding into China. It also holds "business matching" and other initiatives to strongly support their business develop in China.

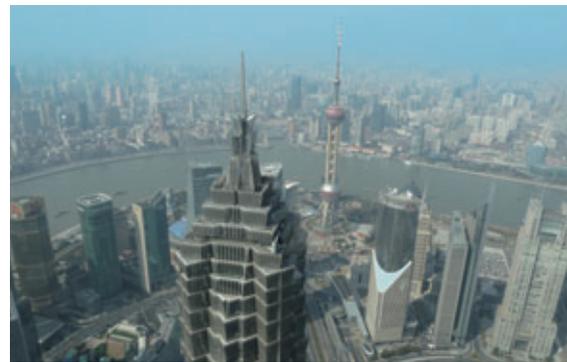
## Asia Network



## Service denominated in Chinese Yuan launched

On September 1, 2010, the Bank began its "settlement service denominated in Yuan" for the first time among regional banks throughout Japan. As a result, the opening of foreign currency savings accounts denominated in Yuan and settlements between companies inside Japan and Chinese companies denominated in Yuan became possible.

Furthermore, from February 22, 2011, the Hong Kong Branch can meet the need for Yuan-denominated services and deposit transactions in Hong Kong.



## Thailand Business Matching

Thailand-Japan Business Matching 2010 was held in Bangkok, Thailand on November 30, 2010. It was held jointly by leading local bank Kasikornbank and 15 Japanese regional banks, and 37 Japanese companies participated. On the day, a large number of local Thai companies came to the event seeking business opportunities with Japanese companies, and lively business talks took place at all of the booths.



# Our Services for Individual Customers

Wishing to support the fruitful lifestyles of our customers, we provide products and services tailored to life stages which take into account the future visions of our customers.

## 20s

Begin managing money independently as a new member of society

## 30s and 40s

Need a lot of money for marriage, purchasing a home, having children

## 50s

Post-retirement planning

## 60s

Reach retirement age, and begin their post-retirement life

### Asset management and insurance

- Installment-type products (installment-deposits fixed-term savings, installment-type investment trust, etc.)

- Retirement benefits special time deposits

- Time deposits (Eco-Plus Time Deposit, etc.)

- Pension time deposits

- Consultations given by asset management advisors or personal offices

- Insurance consulting (reviews of insurance, handling of medical and cancer insurance)

### Personal loans

- Mortgage loans

- Home improvement loans

- Unsecured loans

### Settlement services

- Salary payments

- Pension payments

## Deployment of asset management advisors

Shiga Bank assigned asset management advisors who have extensive expertise in finance, taxes, and inheritance, to all of its branches in Shiga and Kyoto prefectures.

In cooperation with branch and head office staff, these advisors act as specialists in asset management at each branch. Taking a long-term view, they respond to the varied requirements of our customers in regard to their valuable assets.



## Personal office

Shiga Bank has established "personal offices," which are branches tailored to individual customers. Individual customers can simply visit these offices — even on holidays — and receive advice from staff about their asset management. At present, the Bank has

established booths specializing in asset management consulting at two locations: Minami Kusatsu and Kusatsu. The booths offer comprehensive asset management consulting services in a variety of areas including investment trusts, insurance.

## e-Shigagin Plaza

Shiga Bank has established e-Shigagin Plazas in 11 locations in Shiga Prefecture offering comprehensive services to meet all loan-related needs, including repayment schedule proposals, loan consulting, and loan applications. To meet differing customer lifestyles, e-Shigagin Plazas operate not only on weekdays, but also on weekends and holidays (excluding year-end/New Year holidays which includes bank holidays).

## Shigagin Direct

Customers who hold accounts with cash cards are eligible to use Shigagin Direct, which offers comprehensive services in internet banking, mobile phone banking, and telephone banking.

## The CSR of Shiga Bank

The Bank understands corporate social responsibility (CSR) to be “the responsibilities the Bank must fulfill as a member of society in order to achieve the sustainable development of society.” On that basis, we are developing multifaceted activities based on the three key concepts of “environment,” “welfare,” and “culture” in order to achieve the goals of “mutual prosperity with the regional community,” “mutual prosperity with all employees,” and “harmonious coexistence with the environment” put forth in the CSR Charter (management principles) established in April 2007.

## Aiming to Realize a Sustainable Society through Environmental Conservation

### Aiming to be a top runner in environmental management and environmental finance

In our CSR activities, we have positioned the pursuit of CSR with an environmental focus as the “essence of bank management.” We are applying environmental management, which incorporates the environment into bank management, and environmental finance, which incorporates the environment into finance. These efforts have been widely recognized, and we became the first company in the finance industry to receive “Eco-First Enterprise” certification from the Ministry of the Environment (July 2008).



### Challenging ourselves to reduce emissions of CO<sub>2</sub> by 25%

Shiga Bank made “reduce greenhouse gas (CO<sub>2</sub>) emissions by 25% (from FY2006)” one of the numerical targets in its 4th Medium-Term Business Plan (April 2010 to March 2013), and the Bank is working hard to prevent global warming. Through such measures as reducing our use of energy including electricity, gas, and water, purchasing emissions credits, and switching official bank vehicles to environmentally-designed vehicles, we had achieved a reduction of 56.38%, much more than our target, by the end of March 2011.



### Establishment of Biodiversity Preservation Policies, a first for a regional bank

We established the Biodiversity Preservation Policies (August 2010), which stipulate our policies to preserve biodiversity, which is the blessing of the earth, and achieve a sustainable society, together with the people of the region.

All of the executives and employees of the Bank develop preservation activities themselves with an awareness of the importance of biodiversity. We aim for harmonization of biodiversity and the economy by taking advantage of the characteristics unique to the financial industry, including the enhancement and provision of environmentally-responsible financial products and services.

### Take advantage of the role of finance to contribute to preserving the global environment

Aiming to help realize a sustainable society, the Bank is working on environmental preservation based on the two key concepts of “global warming prevention” and “biodiversity preservation.”

#### ● Creating “eco-offices”

Based on the “Shiga Bank Environmental Policies,” we are proceeding with the creation of “eco-offices” through resource and energy saving activities. In fiscal 2010, we introduced an electric vehicle, a first for the Bank.



When building new branches or renovating old branches, we promote branch design that takes environmental concerns into account.

In fiscal 2010, we built two new branches: the Santo Branch and the Takatsuki Branch. We installed solar panels in both branches, which provide enough electricity to use the ATM corners, while saving electricity by using solar street lights.

### ● Preserving the environment in cooperation with everyone

The Bank is actively developing and providing “environmentally-responsible financial products and services” as it works together with its customers and the people of the region to preserve the environment.

Our transactions with our customers directly and indirectly lead to the preservation of the environment and biodiversity, for example through our interest rate incentives based on the customer’s environmental rating (PLB rating) and biodiversity rating (PLB rating BD) (see page 9), and our donation of funds to the “release program of *Nigorobuna* and *Wataka* fish,” endangered indigenous species of Lake Biwa, based on the reduction of greenhouse gases achieved by the customer (see page 9).

As a bank with its headquarters on the shores of Lake Biwa, going forward we will continue to build a sustainable society through the role of finance in order to preserve the global environment, and in particular the environment of Lake Biwa.

### Initiatives to expand “environmental support”

With a strong desire to protect the natural environment of the region in order to hand it on to future generations, the Bank implements environmental volunteer activities for executives and employees every year.

### ● Reed-cutting volunteers

We held the “reed-cutting volunteering” event twice in fiscal 2010, with the participation of a total of 1,178 people, in order to promote the growth of the clusters of reeds (*Phragmites Australis* reeds) which are essential for preserving the water quality of Lake Biwa and as a spawning ground for fish. The reeds that are cut down are processed into reed paper and this paper is used to make the business cards of the Bank’s executives and employees.



Business card made of reed paper

## Hoping to enhance the welfare of the region

### The Shigagin Welfare Fund

The 27th Subsidy Granting Ceremony of the Shigagin Welfare Fund, a social welfare corporation, was held on April 28, 2011, and subsidies worth a total of ¥10,340,000 were granted to 16 organizations. This means that a total of ¥303,157,830 has been granted through 402 subsidies since fiscal 1985 (the first year of the fund).

The Fund was founded in August 1984 out of a desire to enhance the welfare of the region and in commemoration of the 50th anniversary of the founding of the Bank. The Fund provides a wide range of subsidies to experimental and pioneering welfare programs undertaken in Shiga Prefecture using the income from managing its basic assets (¥446,764,820 as of the end of March 2011) as its resources.



## Revitalization of regional communities through the promotion of culture

### Communicating a wide range of information

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* and a quarterly cultural information magazine called *Mizuumi* (The Lake).

In addition, we offer the Keibun cultural courses to the general public so that the local people can enjoy learning. Courses about history, the arts, and culture are available.



## Business continuity

“Business continuity” refers to measures by a company to avoid any interruptions to its critical business, or if there is an interruption being able to recover from it as quickly as possible, even after suffering damage from a large-scale disaster such as an earthquake or an outbreak of an infectious disease such as a new strain of influenza.

Due to the highly public character of banks, the Banking Act also requires measures for “continuity of operations.” Shiga Bank considers “business continuity” to be one important management issue from the perspective of corporate social responsibility (CSR) as well, so we have constructed a system to enable us to smoothly continue operating even when a crisis occurs.

## Toward operation of an effective “business continuity plan”

The Bank formulated its Business Continuity Plan (BCP) based on the scenario of the occurrence of a major earthquake and its Business Continuity Plan “Infectious Diseases Countermeasures” based on the scenario of an outbreak of a new strain of influenza in March 2007 and December 2009 respectively. Based on these business continuity plans (BCPs), we established regulations regarding crisis management and disaster prevention, and produced manuals, regulations and procedural documents clearly stating what the initial response should be when a disaster occurs. In addition, we implemented a series of emergency drills and provided in-depth education about emergency responses to the executives and employees.

### Business Continuity Plan (BCP)

A BCP is a plan that arranges in advance the methods and techniques for activities that should be carried out in normal times and for business continuity at times of emergency, so that when the company is faced with an emergency situation such as a natural disaster, major fire, etc. it is able to minimize the loss of business assets, achieve continuity of the core business and make a quick recovery.

## Disaster measures

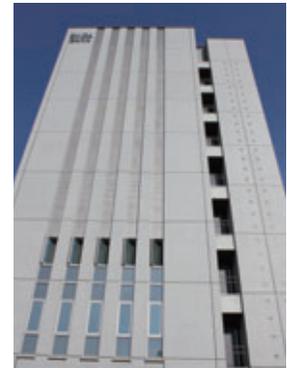
The Bank has taken a number of measures to protect infrastructure functions, so that even when a disaster such as a major earthquake occurs, it can still fulfill its role as a financial institution and maintain the functions necessary for the livelihoods of its customers, the economic activities of the region, and settlements.

### ● Maintaining the functions of on-line systems

The core element of business continuity is maintaining the functions of on-line systems. For this reason, we have installed all of the important computer equipment in an administration building with a base isolation structure that can maintain the functions of the systems center even in a major earthquake; moreover in the Kanto region, we have installed a system backup center.

### Characteristics of the administration building

- Vibration-dampening base structure
- Installation of in-house electricity generating equipment
- Installation of water supply reservoir



### ● Maintaining the functions of branches

At each of the branches, we carry out seismic diagnoses and anti-seismic reinforcement, and in the main branches within a certain area, we have installed equipment that will enable business to continue even when a disaster occurs, including emergency-use power-generating equipment.



### ● Response when a disaster occurs

We are prepared to establish an Emergency Headquarters which will take overall control of disaster response in the event that an earthquake with a greater seismic intensity than was anticipated occurs in the Kyoto and Shiga area. The Headquarters will ensure that the Bank can gather information about the damage sustained and take measures to achieve business continuity quickly.

Furthermore, ensuring sufficient personnel are available is necessary for continuing bank operations. For this reason, the Bank will work hard through its Safety Verification System to confirm the safety of all of the executives and employees at once using mobile phones and other tools, in order to continue operating the branches.

# Initiatives for Relationship Banking

## State of progress (April 2010 to March 2011)

The Bank is committed to enhancement and application of the marketing strategies in the 4th Medium-Term Business Plan we started in April 2010, namely “providing expertise and care under three brand-building strategies” (“being strong in networks,” “being strong in Asia,” and “being highly CSR-conscious”). We have set various specific numerical targets aimed at promoting relationship banking, and we are working hard to achieve them.

### 1. Initiatives for “being strong in networks”

The Bank is utilizing its networks to create new “business currents” and help the development of new businesses going forward by connecting our customers to each other.

### 2. Initiatives for “being strong in Asia”

As the only regional bank in the Kinki region having a branch overseas, we supported the overseas transactions of our customers,

holding business talks in Shanghai and the Asia Seminars which had the theme of the latest business information about India.

### 3. Initiatives for “being highly CSR-conscious”

We have positioned the pursuit of CSR (corporate social responsibility) with an environmental focus as the “essence of bank management.” Under our motto “Clean Bank Shigagin,” we have implemented and enhanced “environmental management,” which incorporates the environment in management, and “environmental finance,” which embeds the environment in finance with such tools as the “Eco-Plus Time Deposit” and the “biodiversity rating (PLB rating BD).”



## Numerical Targets in Our Commitment to Relationship Banking

Specific initiatives	Targets for the year ending March 31, 2013	Results as of March 31, 2011	Progress toward goal as of March 31, 2011 (%)
<b>● Numerical targets in the 4th Medium-Term Business Plan</b>			
Tier 1 ratio (consolidated)	9.0% or higher	9.58%	
ROE (consolidated)	3.5% or higher	1.99%	
OHR (non-consolidated)	65% or lower	65.73%	
Emissions of CO <sub>2</sub> [*1]	25% cut (from FY06)	56.38%	
<b>● Initiatives for “providing expertise and care under three brand-building strategies”</b>			
<b>● Initiatives for “being strong in networks”</b>			
Number of times we provided new business support: acting as coordinator	100	26	26.0%
Number of times we set up business matching meetings	2,400	1,750	72.9%
Number of proposals submitted for business succession	360	128	35.5%
Number of instances of support through our “Communication Service”	3,400	1,589	46.7%
Number of borrowers whose borrower categories have been upgraded [*2]	60	8	13.3%
Number of instances of use of the Small and Medium Enterprise Rehabilitation Support Association	24	5	20.8%
<b>● Initiatives for “being strong in Asia”</b>			
Number of instances of support being provided by our Asia Desk and overseas offices	3,600	1,572	43.6%
Number of advisory contracts with companies entering China	10	1	10.0%
Number of instances of overseas study tours, overseas business talks	3 each	2 each	66.6%
Number of times we arranged business matching meetings with Japanese and overseas companies	100	32	32.0%
<b>● Initiatives for “being highly CSR-conscious”</b>			
Eco-Plus Time Deposit	650,000	193,187	29.7%
Total number of loans under the PLB Fund/Eco-Clean Loan Program [*3]	1,400	170	12.1%
Total amount made under the PLB Fund/Eco-Clean Loan Program	18 billion yen	6.27 billion yen	34.8%
Number of instances of assessment for PLB rating BD purposes [*4]	3,800	1,760	46.3%
Number of risk consulting cases relating to disasters	100	182	182.0%

\* 1 The results for emissions of CO<sub>2</sub> include a cut of 31.45% from the carbon offset effect due to our purchase of emissions credits.

\* 2 Number of borrowers whose borrower categories have been upgraded: Only customers handled by the Company Management Support Office under the Credit Supervision Department are counted (136 customers).

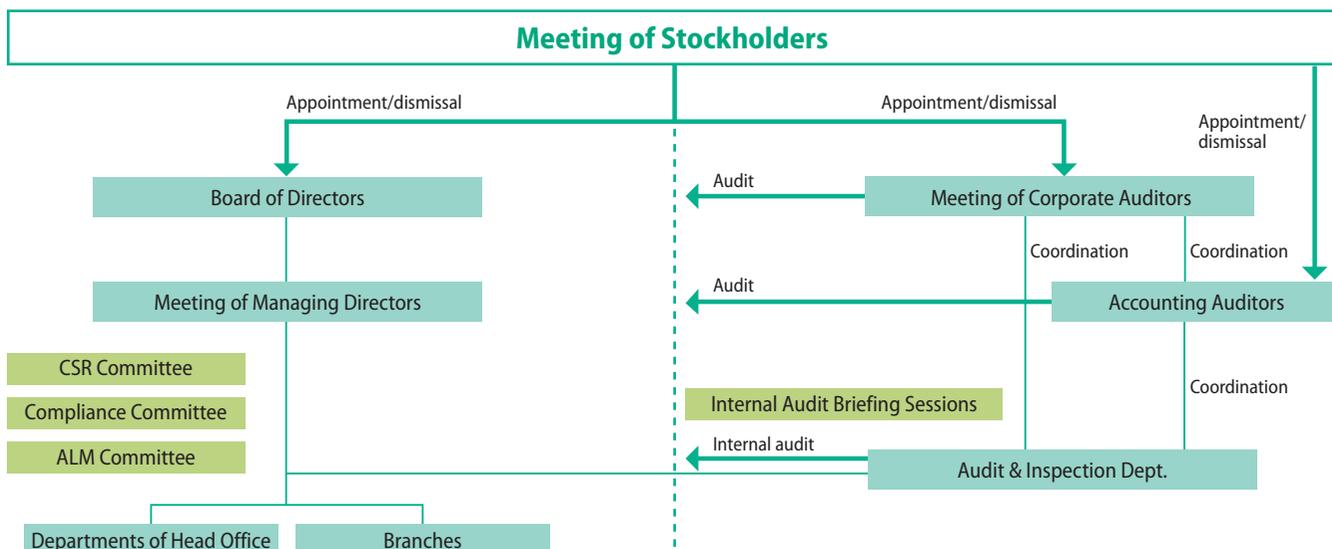
\* 3 PLB Fund: Principles for Lake Biwa Support Fund

\* 4 PLB rating BD: Interest-rate incentive based on rating customers’ measures to protect biodiversity. The aim is to support biodiversity through financial services.

# 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 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 full 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.

Shiga Bank's corporate governance system (as of June 30, 2011) is shown in the chart below.



## Company Organizations

### (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 once a 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.

### (3) Meeting of Managing Directors

The Executive Committee consists of the chairman, 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.

# Internal Control System

## Internal control system status

At the Bank, in accordance with Companies Act and the Regulations for Enforcement of the Companies Act, 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.

## Response to internal control reporting system

According to the Internal Control Reporting System provided in the Financial Instruments and Exchange Law, listed companies are obliged to submit an "Internal Control Report," after receiving external audits and conducting self-evaluation of the validity of internal control systems, to ensure appropriate disclosure on financial matters.

The Bank Group, in order to improve the reliability of its end-of-year financial reporting, established an Internal Controls Group in its Assets & Liabilities Managing Department to plan, supervise and evaluate the internal controls reports.

## Timely and appropriate disclosure

We have made every effort to establish more transparent management and improve communications with customers, shareholders, and regional communities by positively and fairly disclosing management and other information. In April 2008, with the aim of ensuring that information is disclosed in a fair, appropriate and timely manner, Shiga Bank established its "Regulations on the Disclosure of Management Information" and a system overseen by the General Planning Department.

## 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. 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, it 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, uses 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 in their tasks, said employees shall be treated pursuant to stipulations in Article 100, Paragraph 3, Item 1 of the Regulations for Enforcement of the Companies Act. 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.

# Enhancing Legal Compliance

What is important for a company fulfilling its corporate social responsibility is, in addition to legal compliance, a sense of ethics and honest corporate activities.

We are making Company-wide efforts led by the Legal Affairs Office of the Assets and Liabilities Managing Department to tackle these important issues.

## Legal compliance system

The Bank has stipulated the Code of Conduct based on the CSR Charter, our management principles. A Legal Compliance Committee chaired by the senior managing director of the Bank takes the lead in observation of this Code of Conduct and thorough compliance with laws and regulations, based on a Compliance Program that is drawn up once every six months.

Specifically, training is conducted every year at each department, branch and affiliate in accordance with set themes, and the extent to which the training has been understood is monitored by the head office. Departments, branches and affiliates which are determined not to understand it sufficiently redouble their efforts and try to strengthen their legal compliance system by continuously implementing the PDCA cycle.

In fiscal 2011, we conducted training about the management of client information and eliminating transactions with antisocial forces, using DVDs and images from the in-house information distribution system.

## Whistle-blowing system established

To detect violations of laws and regulations in the Bank at an early stage through a whistle-blower function and to solve legal problems appropriately, we have established a legal compliance help line (24 hours a day) in the Legal Affairs Office of the Assets and Liabilities Managing Department.

We have also established a system that allows employees to consult with lawyers and solve problems early when they face legal problems.

## Code of Conduct of the Shiga Bank (established in April 2007)

### 1. Establishing trust and fulfilling corporate social responsibility

Fully aware of the public and social mission of banks and our need to fulfill our corporate social responsibility, we will strive to establish unwavering trust.

### 2. Providing high-quality financial services

We will always provide imaginative and ingenious goods and services and will contribute to the development of society.

### 3. Strictly complying with laws and regulations

Strictly complying with all laws and regulations, we will carry out honest and fair corporate activities.

### 4. Enhancing communication with society

We will communicate with our customers and shareholders, and regional society through the proactive and fair disclosure of management information and will endeavor to achieve transparent management.

### 5. Respecting the human rights of all employees and giving them job satisfaction

We will respect the human rights and individuality of all employees and will strive to create vigorous workplaces where each employee can fully demonstrate his or her abilities.

### 6. Promoting environmentally-friendly management

We will strive to conserve resources and will promote environmentally friendly management to contribute to environmental preservation in cooperation with the regional society.

### 7. Undertaking philanthropic activities

As a good corporate citizen that is close to its local community and operates hand-in-hand with society, we will strive to promote a range of philanthropic activities including cultural and welfare activities.

### 8. Excluding antisocial forces

We will be resolute in our stance against antisocial forces that could threaten sound civil society.

# 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 System

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 System

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.

### VaR (Value at risk)

VaR uses a statistical technique to measure the losses that could potentially be incurred in a fixed period of time (for example one year). The Bank uses risk amounts measured with a confidence interval of 99% and a holding period of one year in its internal management.

### Credit Risk Management System

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

Recognizing credit risk as the most important risk to business management from the standpoint of its size and scope, the Bank believes that controlling risk through the use of a rational benchmark based on the principle of self-responsibility — “protecting one’s own castle oneself” — is essential in the pursuit of mutual prosperity with regional communities.

For this reason, in December 1998 the Bank introduced its own corporate credit ratings system, and then it adopted Basel II’s “Foundation Internal Ratings Based-Approach” beginning from the fiscal year ended March 31, 2008.

Based on this ratings system, we have established the Shigagin Ratings Communication Service, a rational communication tool connecting the Bank and its customers which is used to disclose credit

ratings to the customers. We are working hard to learn about the challenges and risks faced by our customers so that we can make proposals and assist in the development of management improvement plans aimed at strengthening the customers’ management infrastructures.

From the perspective of risk management, we have developed the management system in accordance with risk characteristics such the rating and loan concentration, and we carry out simulations of the degree of impact on our customers under multiple macroeconomic scenarios. Afterwards the result of the assessment is used for credit risk management and capital adequacy ratio management across the entire Bank.

Furthermore, through these initiatives we are establishing a system for rationally assessing risk, and we are actively working on pricing (setting of the interest rate on loans) commensurate to credit risk, in order to ensure an appropriate risk return.

### The Significance and Purpose of the Corporate Credit Rating System

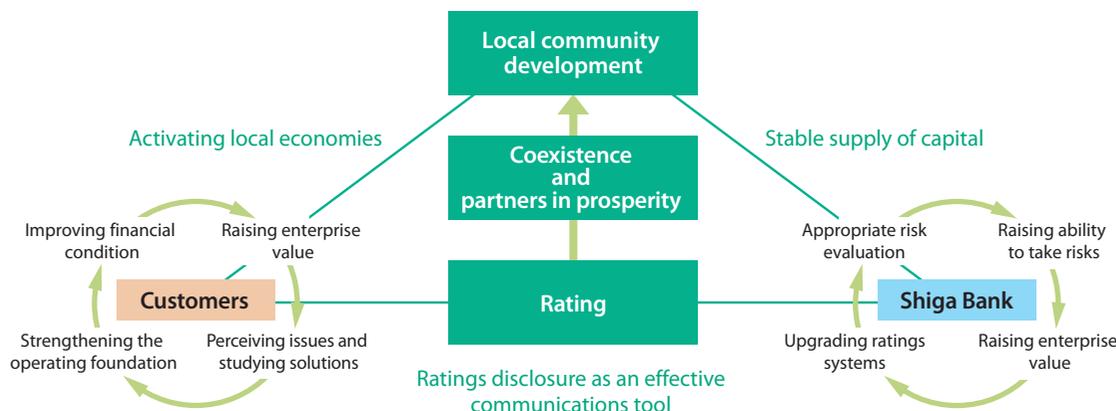
#### Reasons for adopting Basel II’s Foundation Internal Ratings Based-Approach (FIRB)

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.

#### Significance and purpose of the ratings system



## Operational Risk Management System

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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 its impact when it materializes. Risk appraisal is based on the regular implementation of the 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, and we are adopting the Plan-Do-Check-Act (PDCA) cycle.

## Market Risk Management System

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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 System

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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 System

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

## Information Asset Management System

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At Shiga Bank, to enable the efficient and safe use of information assets, we handle information assets in accordance with their importance and an assessment of the risks involved. For this purpose, an Information Management Office has been set up within the Administration Department to maintain and enhance a Bank-wide information security system, as well as to draw up appropriate information management measures and supervise information management activities. We have also established the Information Security Committee, which acts to enhance information asset security by examining and promulgating measures to prevent information leaks, and by taking steps to ensure that the information asset management system is sufficiently secure across the entire Bank.

## Measures to prevent leakage of information

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To help prevent information leaks, when data contained in a personal computer is printed out, the paper is encoded with "watermark characters" that identify the person who printed the document.

In addition, we take the following steps to prevent the leakage of customer information.

1. Data contained in a personal computer cannot be downloaded from that PC without the approval of an Information Management Officer.
2. In principle, no customer information may be taken outside the Bank. In cases where this is unavoidable, prior permission must be received from the branch manager or an officer of equivalent rank, and established safety procedures must be strictly followed.
3. Documents from all the Bank's branches that contain customer information are collected for disposal by shredding facilities at the Bank's head office, after which the paper is recycled.

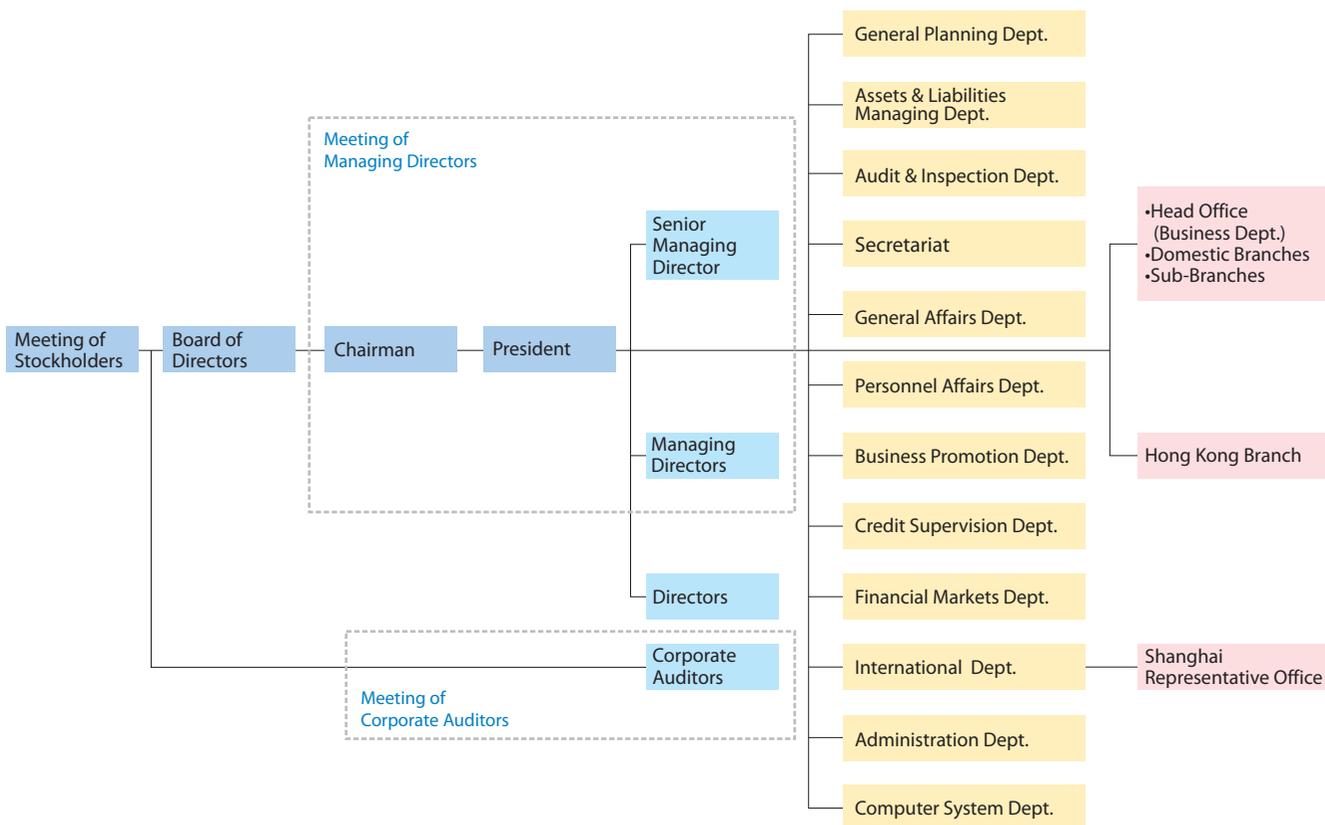
## Personal data protection

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The Bank has laid down a strict seven-point personal data protection policy to guide employees in the handling of customers' personal data. We also use the Bank's website as well as leaflets to explain to our customers the nature and purposes of the Bank's utilization and management of their personal data.

# Organization Chart

As of June 30, 2011



## Board of Directors

As of June 24, 2011

### Chairman

Koichi Takata

### President

Yoshio Daido

### Senior Managing Director

Kazuo Isobe

### Managing Directors

Ikuo Yoshida

Yukio Nishizawa

Shojiro Takahashi

Kenzaburo Nishikawa

Hiroshi Oku

### Directors

Susumu Ota

Shinichi Kodama

Hajime Moroto

Etsuo Imai

Keiichi Moritani

Hiroshi Iwasaki

Kazuhiko Juniri

Kazuyoshi Hayashi

Iwao Wakabayashi

### Corporate Auditors

Minoru Fujii

Masamichi Mizutani

(Outside Auditors)

Tadashi Yasuhara

Shigeru Hikuma

# Financial Section

The Shiga Bank, Ltd. and Consolidated Subsidiaries

## Consolidated Five-year Summary

	Millions of yen				
	2011	2010	2009	2008	2007
As of March 31					
Total assets	¥4,420,479	¥4,302,261	¥4,123,026	¥4,115,109	¥4,179,335
Investment securities	1,385,525	1,339,054	1,113,812	1,225,131	1,355,021
Loans and bills discounted	2,768,107	2,714,367	2,710,948	2,551,368	2,473,464
Deposits	3,891,407	3,781,025	3,654,781	3,595,050	3,705,751
Total equity	257,531	257,738	218,948	256,868	283,997
Years ended March 31					
Total income	93,324	98,269	96,103	116,258	99,356
Total expenses	81,532	88,490	113,592	106,138	83,956
Income (loss) before income taxes and minority interests	11,792	9,779	(17,488)	10,120	15,399
Net income (loss)	4,676	4,322	(16,218)	3,597	8,839
Per share data (in yen)					
Cash dividends	¥ 6.00	¥ 6.00	¥ 6.00	¥ 6.00	¥ 6.00
Net income (loss)	17.71	16.37	(61.40)	13.60	33.41
Net equity	886.58	889.50	743.58	887.14	987.98
Ratio					
Capital ratio	13.01%	12.42%	10.34%	11.16%	12.20%
ROE	1.99%	2.00%	(7.53%)	1.45%	3.47%

### Financial review (Consolidated basis)

The Japanese economy showed signs of rallying during the reporting period, with improved corporate earnings in some industrial sectors and a recovery in consumer spending. The main factors behind these developments were strong exports, principally to emerging markets in Asia, as well as the effects of government stimulus measures. However, there was no improvement in employment figures or incomes, and the positive impact of government measures (such as subsidies to encourage the purchase of eco-friendly vehicles) petered out. On the global stage, meanwhile, new causes of uncertainty appeared, including political unrest in the Arab world. Against this background, the nascent economic recovery in Japan remained limited in extent.

In the country's financial sector, the operating environment remained difficult, with continuing low share prices, a strong yen, and low interest rates. In response to the Cabinet's approval of a "New Growth Strategy," the Bank of Japan began pumping additional money into the economy to support private-sector financial institutions' efforts to strengthen the nation's economic growth base.

### Balance sheets

Deposits, including negotiable certificates of deposit, rose ¥117,156 million from the previous term-end to ¥4,001,087 million (US\$48,118 million), of which ¥3,891,407 million (US\$46,799 million) were deposits only. The balance of loans and bills discounted increased

¥53,739 million to ¥2,768,107 million (US\$33,290 million), while investment securities rose ¥46,471 million to ¥1,385,525 million (US\$16,662 million). Total assets at the fiscal year-end stood at ¥4,420,479 million (US\$53,162 million), a year-on-year increase of ¥118,218 million. Total equity came to ¥257,531 million (US\$3,097 million), a decrease of ¥206 million from the previous term-end.

### Statements of operations

As a result of a decline in interest income due to falling market interest rates, total income posted a year on year decline of ¥4,945 million to ¥93,324 million (US\$1,122 million). Total expenses also declined, by ¥6,958 million to ¥81,532 million (US\$980 million), mainly as a result of decreases in interest expenses and credit costs.

As a result, the Bank posted net income of ¥4,676 million (US\$56 million), up ¥354 million over the previous fiscal year.

### Cash flows

Cash and cash equivalents at the reporting term-end amounted to ¥54,211 million (US\$651 million), an increase of ¥4,544 million over the previous term-end.

### Cash flows from operating activities

Net cash provided by operating activities during the term amounted to ¥72,347 million (US\$870 million), for a decrease of ¥73,225 million from previous term-end, due primarily to an increase in loans and bills discounted.

### Cash flows from investing activities

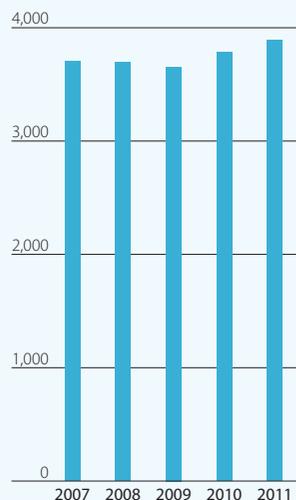
Net cash used in investing activities amounted to ¥65,581 million (US\$788 million), a decline of ¥96,472 million from the investment expenditure for the previous term. This was mainly the result of a decrease in purchases of securities.

### Cash flows from financing activities

Net cash used in financing activities amounted to ¥2,204 million (US\$26 million), a decrease of ¥11,985 million compared with the previous year. This decline was mainly attributable to a decrease in proceeds from the issuance of subordinated corporate bonds.

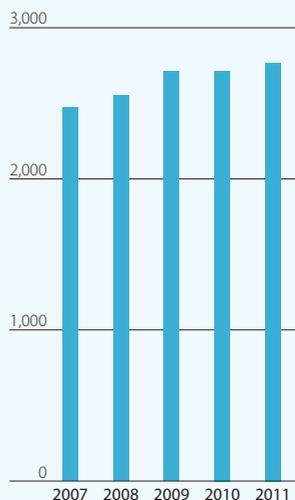
#### Deposits

(Billions of yen)



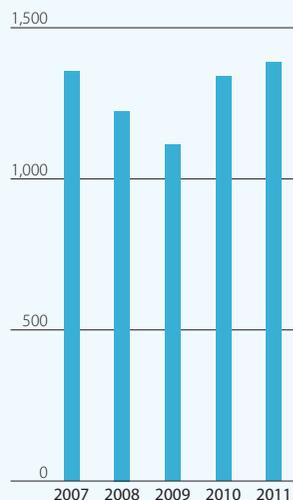
#### Loans and bills discounted

(Billions of yen)



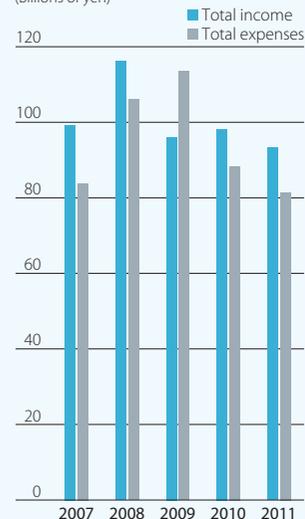
#### Investment securities

(Billions of yen)



#### Total income and expenses

(Billions of yen)



**Consolidated Balance Sheets**

As of March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
<b>Assets</b>			
Cash and due from banks (Note 4) .....	¥ 54,550	¥ 50,063	\$ 656,052
Call loans and bills bought (Note 29) .....	85,259	64,523	1,025,374
Debt purchased .....	16,651	18,122	200,263
Trading securities (Note 5).....	599	1,046	7,215
Money held in trust (Note 6).....	7,876	5,776	94,722
Investment securities (Notes 5, 13 and 29).....	1,385,525	1,339,054	16,662,969
Loans and bills discounted (Notes 8 and 29).....	2,768,107	2,714,367	33,290,525
Foreign exchange assets (Note 9).....	4,970	3,669	59,780
Other assets (Notes 10 and 13).....	40,059	43,341	481,770
Tangible fixed assets (Notes 11, 12 and 15).....	58,037	59,159	697,987
Intangible fixed assets.....	3,020	4,638	36,325
Deferred tax assets (Note 28).....	5,563	1,244	66,911
Customers' liabilities for acceptances and guarantees (Note 20).....	26,990	30,001	324,599
Allowance for possible loan losses.....	(36,092)	(32,735)	(434,067)
Allowance for possible losses on investment securities.....	(641)	(13)	(7,715)
<b>Total assets</b> .....	<b>¥4,420,479</b>	<b>¥4,302,261</b>	<b>\$53,162,714</b>
<b>Liabilities</b>			
Deposits (Notes 13, 16 and 29).....	¥3,891,407	¥3,781,025	\$46,799,853
Negotiable certificates of deposit (Note 29) .....	109,679	102,904	1,319,054
Call money and bills sold .....	—	309	—
Payables under securities lending transactions (Note 13).....	1,534	16,332	18,454
Borrowed money (Notes 13, 17 and 29).....	47,158	30,388	567,149
Foreign exchange liabilities (Note 9) .....	59	43	713
Bonds (Notes 18 and 29).....	20,000	20,000	240,529
Other liabilities (Note 19).....	41,244	39,756	496,022
Liability for employees' retirement benefits (Note 27) .....	12,788	11,092	153,794
Liability for retirement of directors and corporate auditors .....	296	247	3,564
Liability for reimbursement of deposits .....	722	691	8,693
Allowance for repayment of excess interest .....	185	191	2,227
Reserve for other contingent losses .....	429	366	5,161
Deferred tax liabilities (Note 28).....	—	150	—
Deferred tax liabilities for land revaluation (Note 15).....	10,404	10,959	125,128
Negative goodwill .....	47	59	573
Acceptances and guarantees (Note 20).....	26,990	30,001	324,599
<b>Total liabilities</b> .....	<b>4,162,948</b>	<b>4,044,522</b>	<b>50,065,521</b>
<b>Equity</b> (Note 21)			
Common stock, authorized, 500,000,000 shares; issued, 265,450,406 shares as of March 31, 2011 and 2010.....	33,076	33,076	397,798
Capital surplus.....	23,970	23,970	288,276
Treasury stock - at cost 1,517,074 shares and 1,479,844 shares as of March 31, 2011 and 2010, respectively .....	(934)	(916)	(11,241)
Retained earnings .....	127,215	123,762	1,529,949
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities (Notes 5 and 7).....	40,673	44,550	489,154
Deferred gain (loss) on derivatives under hedge accounting .....	0	(0)	2
Land revaluation surplus (Note 15).....	9,999	10,359	120,258
Total.....	234,000	234,802	2,814,197
Minority interests.....	23,531	22,935	282,995
<b>Total equity</b> .....	<b>257,531</b>	<b>257,738</b>	<b>3,097,193</b>
<b>Total liabilities and equity</b> .....	<b>¥4,420,479</b>	<b>¥4,302,261</b>	<b>\$53,162,714</b>

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Income

Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
<b>Income</b>			
Interest income:			
Interest on loans and discounts.....	¥48,491	¥50,650	\$ 583,178
Interest and dividends on securities.....	15,050	15,571	181,004
Other interest income.....	318	230	3,833
Fees and commissions.....	12,152	11,895	146,152
Other operating income (Note 22).....	14,102	14,120	169,606
Other income (Note 23).....	3,208	5,802	38,585
<b>Total income</b> .....	<b>93,324</b>	<b>98,269</b>	<b>1,122,361</b>
<b>Expenses</b>			
Interest expenses:			
Interest on deposits.....	6,501	9,041	78,187
Interest on borrowings and rediscounts.....	564	726	6,788
Other interest expenses.....	401	319	4,832
Fees and commissions.....	3,618	3,619	43,516
Other operating expenses (Note 24).....	6,827	7,395	82,114
General and administrative expenses.....	48,231	48,889	580,060
Other expenses (Notes 2 (s) ii, 12 and 25).....	15,386	18,497	185,042
<b>Total expenses</b> .....	<b>81,532</b>	<b>88,490</b>	<b>980,542</b>
<b>Income before income taxes and minority interests</b> .....	<b>11,792</b>	<b>9,779</b>	<b>141,818</b>
<b>Income taxes</b> (Notes 19 and 28)			
Current.....	6,736	886	81,014
Deferred.....	(816)	3,560	(9,817)
Income before minority interests.....	5,872	—	70,621
Minority interests.....	1,195	1,010	14,382
Net income (Note 32).....	¥ 4,676	¥ 4,322	\$ 56,238

	Yen		U.S. dollars
	2011	2010	2011
<b>Per share information</b> (Notes 2 (v) and 32)			
Basic net income.....	¥17.71	¥16.37	\$0.213
Cash dividends applicable to the year.....	6.00	6.00	0.072

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Comprehensive Income

Year ended March 31, 2011

	Millions of yen	Thousands of U.S. dollars
	2011	2011
<b>Income before minority interests</b> .....	¥5,872	\$70,621
Other comprehensive income:		
Net unrealized gains on available-for-sale securities.....	(3,875)	(46,605)
Deferred loss on derivatives under hedge accounting.....	0	9
Total other comprehensive income.....	(3,874)	(46,595)
Comprehensive income.....	1,997	24,025
Attributable to		
Owners of the parent.....	799	9,620
Minority interests.....	1,197	14,404

See Notes to Consolidated Financial Statements.

**Consolidated Statements of Changes in Equity**

Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
<b>Common stock</b>			
Balance at the beginning of the year.....	¥ 33,076	¥ 33,076	\$ 397,798
Changes during the year:			
Net change in the year.....			
Balance at the end of the year .....	¥ 33,076	¥ 33,076	\$ 397,798
<b>Capital surplus</b>			
Balance at the beginning of the year.....	¥ 23,970	¥ 23,970	\$ 288,277
Changes during the year:			
Sales of treasury stock .....	(0)	(0)	(1)
Net change in the year.....	(0)	(0)	(1)
Balance at the end of the year .....	¥ 23,970	¥ 23,970	\$ 288,276
<b>Retained earnings</b>			
Balance at the beginning of the year.....	¥123,762	¥120,936	\$1,488,426
Changes during the year:			
Net income .....	4,676	4,322	56,238
Cash dividends, ¥6.00 (\$0.07) per share.....	(1,583)	(1,584)	(19,047)
Reversal of land revaluation surplus.....	360	88	4,331
Net change in the year.....	3,452	2,826	41,522
Balance at the end of the year .....	¥127,215	¥123,762	\$1,529,949
<b>Treasury stock</b>			
Balance at the beginning of the year.....	¥ (916)	¥ (884)	\$ (11,027)
Changes during the year:			
Purchase of treasury stock.....	(18)	(33)	(222)
Sales of treasury stock .....	0	1	8
Net change in the year.....	(17)	(32)	(214)
Balance at the end of the year .....	¥ (934)	¥ (916)	\$ (11,241)
<b>Accumulated other comprehensive income:</b>			
<b>Net unrealized gains on available-for-sale securities</b>			
Balance at the beginning of the year.....	¥ 44,550	¥ 8,782	\$ 535,781
Changes during the year:			
Net change in the year.....	(3,877)	35,768	(46,627)
Balance at the end of the year .....	¥ 40,673	¥ 44,550	\$ 489,154
<b>Deferred gain (loss) on derivatives under hedge accounting</b>			
Balance at the beginning of the year .....	¥ (0)	¥ (2)	\$ (7)
Changes during the year:			
Net change in the year.....	0	1	9
Balance at the end of the year .....	¥ 0	¥ (0)	\$ 2
<b>Land revaluation surplus</b>			
Balance at the beginning of the year .....	¥ 10,359	¥ 10,448	\$ 124,589
Changes during the year:			
Net change in the year.....	(360)	(88)	(4,331)
Balance at the end of the year .....	¥ 9,999	¥ 10,359	\$ 120,258

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
<b>Total</b>			
Balance at the beginning of the year.....	¥234,802	¥196,326	\$2,823,839
Changes during the year:			
Net income .....	4,676	4,322	56,238
Cash dividends, ¥6.00 (\$0.07) per share .....	(1,583)	(1,584)	(19,047)
Purchase of treasury stock.....	(18)	(33)	(222)
Sales of treasury stock.....	0	1	6
Reversal of land revaluation surplus.....	—	88	—
Other changes.....	(3,876)	35,680	(46,617)
Net change in the year .....	(801)	38,475	(9,641)
Balance at the end of the year .....	¥234,000	¥234,802	\$2,814,197
<b>Minority interests</b>			
Balance at the beginning of the year.....	¥ 22,935	¥ 22,621	\$ 275,838
Changes during the year:			
Net change in the year .....	595	314	7,156
Balance at the end of the year .....	¥ 23,531	¥ 22,935	\$ 282,995
<b>Total equity</b>			
Balance at the beginning of the year.....	¥257,738	¥218,948	\$3,099,678
Changes during the year:			
Net income .....	4,676	4,322	56,238
Cash dividends, ¥6.00 (\$0.07) per share .....	(1,583)	(1,584)	(19,047)
Purchase of treasury stock.....	(18)	(33)	(222)
Sales of treasury stock.....	0	1	6
Reversal of land revaluation surplus.....	360	88	4,331
Other changes.....	(3,641)	35,995	(43,792)
Net change in the year .....	(206)	38,789	(2,484)
Balance at the end of the year .....	¥257,531	¥257,738	\$3,097,193

See Notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
<b>Operating activities:</b>			
Income before income taxes and minority interests.....	¥ 11,792	¥ 9,779	\$ 141,818
Depreciation.....	4,046	4,451	48,668
Losses on impairment of long-lived assets.....	1,383	459	16,643
Amortization of negative goodwill.....	(11)	—	(143)
Increase in allowance for possible loan losses.....	3,357	6,169	40,373
Increase in allowance for possible losses on investment securities.....	628	11	7,555
Increase (decrease) in reserve for other contingent losses.....	62	(765)	752
Increase in liability for employees' retirement benefits.....	1,695	2,114	20,385
Increase (decrease) in liability for retirement of directors and corporate auditors.....	48	(8)	583
Increase in liability for reimbursement of deposits.....	31	81	381
Increase (decrease) in allowance for repayment of excess interest.....	(5)	45	(70)
Interest income.....	(63,860)	(66,451)	(768,016)
Interest expense.....	7,467	10,088	89,808
Gains on sales and write-down of investment securities.....	(3,333)	(5,938)	(40,088)
Losses on money held in trust.....	(126)	(184)	(1,516)
Foreign exchange losses.....	18	8	221
Losses on disposal of fixed assets-net.....	112	247	1,355
Net increase in loans and bills discounted.....	(53,739)	(3,419)	(646,292)
Net increase in deposits.....	110,382	126,244	1,327,509
Net increase (decrease) in negotiable certificates of deposit.....	6,774	(6,970)	81,473
Net increase (decrease) in borrowed money (excluding subordinated loans).....	16,770	(7,138)	201,686
Net decrease in due from banks (excluding deposits in Bank of Japan).....	57	37	694
Net decrease in call loans and others.....	(19,265)	(6,120)	(231,698)
Net increase (decrease) in call money and bills sold.....	(309)	113	(3,727)
Net increase (decrease) in payables under securities lending transactions.....	(14,797)	12,215	(177,962)
Net decrease in foreign exchanges assets.....	(1,300)	(366)	(15,643)
Net increase (decrease) in foreign exchanges liabilities.....	15	(25)	184
Interest received (cash basis).....	64,123	66,249	771,175
Interest paid (cash basis).....	(7,981)	(8,268)	(95,983)
Other.....	9,400	13,632	113,058
Subtotal.....	73,437	146,292	883,188
Income taxes - paid.....	(1,089)	(719)	(13,106)
<b>Net cash provided by operating activities.....</b>	<b>72,347</b>	<b>145,573</b>	<b>870,081</b>
<b>Investing activities:</b>			
Purchases of securities.....	(534,401)	(600,193)	(6,426,952)
Proceeds from sales of securities.....	235,720	215,157	2,834,880
Proceeds from redemptions of securities.....	237,946	222,377	2,861,647
Increase in money held in trust.....	(3,000)	—	(36,079)
Decrease in money held in trust.....	900	3,613	10,823
Purchases of tangible fixed assets.....	(3,055)	(2,616)	(36,747)
Proceeds from sales of tangible fixed assets.....	382	74	4,604
Purchases of intangible fixed assets.....	(74)	(410)	(892)
Purchases of investment in subsidiaries.....	—	(57)	—
<b>Net cash used in investing activities.....</b>	<b>(65,581)</b>	<b>(162,053)</b>	<b>(788,714)</b>
<b>Financing activities:</b>			
Repayment of subordinated loans.....	—	(8,000)	—
Proceeds from issuance of subordinated corporate bonds.....	—	20,000	—
Dividends paid.....	(1,583)	(1,584)	(19,047)
Dividends paid to minority interests.....	(602)	(602)	(7,247)
Purchase of treasury stock.....	(18)	(33)	(222)
Proceeds from sales of treasury stock.....	0	1	6
<b>Net cash provided by (used in) financing activities.....</b>	<b>(2,204)</b>	<b>9,780</b>	<b>(26,510)</b>
Foreign currency translation adjustments on cash and cash equivalents.....	(16)	(7)	(197)
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>4,544</b>	<b>(6,707)</b>	<b>54,659</b>
Cash and cash equivalents, beginning of year.....	49,666	56,373	597,307
<b>Cash and cash equivalents, end of year (Note 4).....</b>	<b>¥ 54,211</b>	<b>¥ 49,666</b>	<b>\$ 651,966</b>

See Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

Years ended March 31, 2011 and 2010

## 1. Basis of presenting 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 Group") in accordance with the provisions set forth in the Companies Act of Japan, the Japanese Financial Instruments and Exchange Act, and the Japanese Banking Act and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

Under Japanese GAAP, a consolidated statement of income and comprehensive income is required from the fiscal year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheet and the consolidated statement of changes in equity. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 31. In addition, "net income before minority interests" is disclosed in the consolidated statement of income from the year ended March 31, 2011.

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.

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 ¥83.15 to U.S.\$1, the rate of exchange at March 31, 2011 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.

Certain reclassifications have been made in the 2010 consolidated financial statements to conform to the classifications used in 2011.

## 2. Summary of significant accounting policies

### (a) Principles of consolidation

The accompanying consolidated financial statements for the years ended March 31, 2011 and 2010 include the accounts of the Bank and the 11 consolidated subsidiaries, respectively.

One consolidated subsidiary's fiscal period ends January 24 and 10 consolidated subsidiaries' fiscal period ends March 31 for the year ended March 31, 2011 and 2010.

Shiga Preferred Capital Cayman Limited financial statements are consolidated based on the provisional financial statements closed as of March 31.

The goodwill or negative goodwill is amortized evenly over a five-year period. The Bank has three other non-consolidated subsidiaries, in which investments are not accounted for by equity method, because their net income (the portion corresponding to the Bank's equity) and retained earnings (as above) have no material impact on the Bank's financial position or business performance.

All significant intercompany transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

### (b) Cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash and due from the Bank of Japan.

### (c) Trading securities

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

### (d) Investment securities

*i.* Marketable securities held for trading purposes are stated at fair 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 fair value at the fiscal year-end. Securities whose fair value cannot be reliably determined are stated at 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 fair value at the fiscal year-end.

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

### (e) Derivatives and hedging activities

Under the Accounting Standards for Financial Instruments, derivatives are stated at fair value unless derivatives are used for hedging purposes.

#### *i. Interest rate risk hedge*

The Bank applies deferred hedge accounting to hedge transactions against interest rate risk arising from financial assets and liabilities. The Bank assesses the effectiveness of the hedges in offsetting the fluctuations of 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.

## **(f) Bills discounted**

Bills discounted are accounted for as financial transactions in accordance with JICPA Industry Audit Committee Report No.24, "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry." The Bank has rights to sell or pledge bank acceptance bought, commercial bills discounted, documentary bills and foreign exchanges bought without restrictions. The total face values at March 31, 2011 and 2010 were ¥17,129 million (\$206,008 thousand) and ¥17,977 million, respectively.

## **(g) Tangible fixed assets (except for lease assets)**

Tangible fixed assets are stated at cost less accumulated depreciation.

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

The range of useful lives is principally from 3 to 50 years for buildings and from 3 to 20 years for equipment.

Depreciation of tangible fixed assets owned by subsidiaries is computed principally using the declining-balance method over the estimated useful lives of the assets.

Under certain conditions such as exchanges of fixed assets of similar kinds and sales and purchases resulting from expropriation, Japanese tax acts permit companies to defer the profit arising from such transactions by reducing the cost of the assets acquired or by providing special reserve in the equity section. The Bank adopted the former treatment and reduced the cost of the assets acquired by ¥3,974 million (\$47,803 thousand) and ¥4,140 million at March 31, 2011 and 2010, respectively.

## **(h) Long-lived assets**

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds

the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

Accumulated impairment loss is directly deducted from the respective fixed assets.

## **(i) Intangible fixed assets (except for lease assets)**

Depreciation for intangible fixed assets is computed under the straight-line method. Development cost for internally used software are capitalized and depreciated under the straight-line method over the estimated useful lives of 5 years.

## **(j) Lease assets**

Lease assets in "Tangible fixed assets" or "Intangible fixed assets" of the finance leases other than those that were deemed to transfer the ownership of leased property to the lessee is computed under the straight-line method over the lease term with zero residual value unless residual value is guaranteed by the corresponding lease contracts.

## **(k) Allowance for possible loan losses**

Allowance for possible loan losses and other credits of the Bank is provided as detailed below, pursuant to internal rules for write-offs and allowances.

For debtors who are legally bankrupt (bankrupt, under special liquidation, or subject to legal bankruptcy proceedings) or virtually bankrupt (in a similar situation), an allowance 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, an allowance 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, an allowance 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 an allowance 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 ¥29,524 million (\$355,075 thousand), ¥30,333 million as of March 31, 2011 and 2010, respectively.

Allowance for possible loan losses 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.

**(l) Allowance for possible losses on investments**

Allowance for possible losses on investments provided for possible future losses on securities based on self-assessment by the Bank.

**(m) Liability for employees' retirement benefits**

The Bank has a contributory funded pension plan and an unfunded lump-sum severance payment plan. They may grant additional benefits in cases where certain requirements are met when employees retire. In addition, the Bank contributed some of its marketable equity securities to employee retirement benefit trusts.

The Bank provides for the liability for employees' retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

Prior service cost is amortized using the straight-line method over the employees' average remaining service period (mainly 10 years) at incurrence. Actuarial gain and loss is amortized using the straight-line method over a period within the employees' average remaining service period (mainly 10 years) commencing from the next fiscal year after incurrence.

**(n) Liability for retirement of directors and corporate auditors**

Liability for retirement of directors and corporate auditors is provided at the amount required if all of them retired at fiscal year-end, calculated based on the internal rules of the Group.

**(o) Liability for reimbursement of deposits**

Liability for reimbursement of deposits which were derecognized as liabilities under certain conditions is provided for the possible losses on the future claims of withdrawal based on the historical reimbursement experience.

**(p) Allowance for repayment of excess interest**

Allowance for repayment of excess interest is provided at the estimated amount based on payment experience that we may be required to refund upon customers' claims.

**(q) Reserve for other contingent losses**

The Bank provides reserves for contingent liabilities not covered by other reserves in an amount deemed necessary based on estimated losses in the future.

**(r) Foreign currency transactions**

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.

**(s) Accounting for leases**

In March 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions," and ASBJ Practical Solutions Report No.16, "Practical Solutions for the Accounting Standard for Lease Transactions" which revised the previous accounting standard for lease

transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

***i. As lessee***

Under the previous accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance-leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

The Group applied the revised accounting standard effective April 1, 2008. In addition, the Group accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. The effect of this change to consolidated financial statements was nil.

***ii. As lessor***

Under the previous accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee were to be treated as sales. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if sold" information is disclosed in the notes to the lessor's financial statements. The revised accounting standard requires that all finance leases that deem to transfer ownership of the leased property to the lessee should be recognized as lease receivables, and all finance leases that deem not to transfer ownership of the leased property to the lessee should be recognized as investments in lease.

**(t) Income taxes**

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax acts to the temporary differences.

**(u) Appropriations of retained earnings**

Consolidated Statements of Net Assets reflect the appropriation resolved by the Shareholders' Meeting when duly resolved and paid.

### (v) Per share information

Basic net income per share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share is not disclosed because no dilutive securities are outstanding.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year.

### (w) New accounting pronouncements

**Accounting Changes and Error Corrections** — In December 2009, ASBJ issued ASBJ Statement No.24 “Accounting Standard for Accounting Changes and Error Corrections” and ASBJ Guidance No.24 “Guidance on Accounting Standard for Accounting Changes and Error Corrections.” Accounting treatments under this standard and guidance are as follows:

(1) Changes in Accounting Policies — When a new accounting policy is applied with revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions. (2) Changes in Presentations — When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates — A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior Period Errors — When an error in prior period financial statements is discovered, those statements are restated. This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

## 3. Accounting change

### Asset retirement obligations

In March 2008, the Accounting Standards Board of Japan (the “ASBJ”) published the accounting standard for asset retirement obligations, ASBJ Statement No.18 “Accounting Standard for Asset Retirement Obligations” and ASBJ Guidance No.21 “Guidance on Accounting Standard for Asset Retirement Obligations.” Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is

recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard was effective for fiscal years beginning on or after April 1, 2010. The Group applied this accounting standard effective April 1, 2010. The effect of this change was to decrease income before income taxes and minority interests by ¥15 million (\$181 thousand).

## 4. Cash and cash equivalents

The reconciliation of “Cash and cash equivalents” and “Cash and due from banks” in the consolidated balance sheets at March 31, 2011 and 2010, is as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Cash and due from banks.....	¥54,550	¥50,063	\$656,052
Time deposits due from banks....	(63)	(132)	(762)
Other due from banks.....	(276)	(265)	(3,323)
<b>Cash and cash equivalents...</b>	<b>¥54,211</b>	<b>¥49,666</b>	<b>\$651,966</b>

## 5. Investment securities

Investment securities at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Japanese government bonds.....	¥ 525,531	¥ 493,194	\$ 6,320,276
Japanese local government bonds.....	278,861	223,177	3,353,719
Japanese corporate bonds.....	316,443	293,272	3,805,692
Corporate stocks.....	113,954	126,543	1,370,464
Other securities.....	150,735	202,867	1,812,816
<b>Total.....</b>	<b>¥1,385,525</b>	<b>¥1,339,054</b>	<b>\$16,662,969</b>

Fair value and other information on securities at March 31, 2011 and 2010 is as follows:

## Securities

### (1) Trading securities

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
	Gain included in profit/(loss) during the fiscal year	Gain included in profits/(loss) during the fiscal year	Gain included in profit/(loss) during the fiscal year
Trading securities .....	¥83	¥170	\$1,002

(2) No bonds classified as held-to-maturity securities that have fair value were held by the Group.

### (3) Available-for-sale securities

Available-for-sale securities as of March 31, 2011, were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2011		Unrealized gains (losses)	2011		Unrealized gains (losses)
	Consolidated balance sheet amount	Cost		Consolidated balance sheet amount	Cost	
Consolidated balance sheet amount exceeding cost:						
Stocks .....	¥ 105,347	¥ 57,496	¥47,851	\$ 1,266,958	\$ 691,473	\$575,485
Bonds: .....	834,908	819,319	15,589	10,040,995	9,853,507	187,487
Japanese government bonds .....	339,609	333,385	6,223	4,084,295	4,009,451	74,843
Japanese local government bonds .....	231,922	226,996	4,926	2,789,206	2,729,960	59,246
Japanese corporate bonds .....	263,377	258,937	4,440	3,167,493	3,114,095	53,397
Others .....	68,129	67,636	493	819,357	813,426	5,931
<b>Subtotal</b> .....	<b>¥1,008,386</b>	<b>¥ 944,451</b>	<b>¥63,934</b>	<b>\$12,127,312</b>	<b>\$11,358,407</b>	<b>\$768,904</b>
Consolidated balance sheet amount not exceeding cost:						
Stocks .....	¥ 5,438	¥ 6,345	¥ (906)	\$ 65,408	\$ 76,312	\$ (10,903)
Bonds: .....	285,927	287,823	(1,895)	3,438,693	3,461,493	(22,800)
Japanese government bonds .....	185,921	187,032	(1,110)	2,235,981	2,249,336	(13,355)
Japanese local government bonds .....	46,939	47,402	(463)	564,513	570,086	(5,572)
Japanese corporate bonds .....	53,066	53,388	(321)	638,198	642,070	(3,872)
Others .....	83,800	85,065	(1,265)	1,007,823	1,023,038	(15,215)
<b>Subtotal</b> .....	<b>¥ 375,166</b>	<b>¥ 379,234</b>	<b>¥ (4,067)</b>	<b>\$ 4,511,926</b>	<b>\$ 4,560,844</b>	<b>\$ (48,918)</b>
<b>Total</b> .....	<b>¥1,383,552</b>	<b>¥1,323,685</b>	<b>¥59,866</b>	<b>\$16,639,238</b>	<b>\$15,919,252</b>	<b>\$719,985</b>

Available-for-sale securities that have fair value as of March 31, 2010, were as follows:

	Millions of yen		
	2010		Unrealized gains (losses)
	Consolidated balance sheet amount	Cost	
Consolidated balance sheet amount exceeding cost:			
Stocks .....	¥ 118,147	¥ 60,233	¥57,913
Bonds: .....	829,203	815,653	13,550
Japanese government bonds .....	416,173	409,806	6,367
Japanese local government bonds .....	157,903	154,515	3,388
Japanese corporate bonds .....	255,125	251,331	3,794
Others .....	85,829	84,915	914
<b>Subtotal</b> .....	<b>¥1,033,180</b>	<b>¥ 960,801</b>	<b>¥72,378</b>
Consolidated balance sheet amount not exceeding cost:			
Stocks .....	¥ 5,047	¥ 6,048	¥ (1,001)
Bonds: .....	180,439	181,209	(769)
Japanese government bonds .....	77,020	77,268	(248)
Japanese local government bonds .....	65,273	65,613	(340)
Japanese corporate bonds .....	38,146	38,327	(181)
Others .....	119,309	121,961	(2,652)
<b>Subtotal</b> .....	<b>¥ 304,797</b>	<b>¥ 309,220</b>	<b>¥ (4,422)</b>
<b>Total</b> .....	<b>¥1,337,977</b>	<b>¥1,270,021</b>	<b>¥67,955</b>

(4) Bonds classified as held-to-maturity were not sold.

(5) Available-for-sale securities sold

	Millions of yen			Thousands of U.S. dollars		
	2011			2011		
	Sales amount	Gains on sales	Losses on sales	Sales amount	Gains on sales	Losses on sales
Stocks.....	¥ 1,473	¥ 31	¥427	\$ 17,725	\$ 377	\$5,135
Bonds: .....	193,209	3,846	3	2,323,621	46,263	38
Japanese government bonds.....	144,891	2,810	—	1,742,526	33,804	—
Japanese local government bonds.....	39,702	868	—	477,474	10,439	—
Japanese corporate bonds.....	8,615	167	3	103,619	2,020	38
Others.....	37,509	720	21	451,108	8,664	263
<b>Total.....</b>	<b>¥232,192</b>	<b>¥4,598</b>	<b>¥452</b>	<b>\$2,792,455</b>	<b>\$55,306</b>	<b>\$5,437</b>

	Millions of yen		
	2010		
	Sales amount	Gains on sales	Losses on sales
Stocks.....	¥ 9,505	¥2,730	¥ 177
Bonds: .....	139,924	3,828	104
Japanese government bonds.....	43,595	895	—
Japanese local government bonds.....	81,660	2,682	—
Japanese corporate bonds.....	14,667	251	104
Others.....	61,061	1,018	763
<b>Total.....</b>	<b>¥210,490</b>	<b>¥7,577</b>	<b>¥1,045</b>

(6) Impairment loss on securities

For available-for-sale securities with market quotations, in cases where the fair value has fallen substantially from the acquisition cost and there is believed to be little likelihood of a recovery to the acquisition cost level, said securities are shown on the balance sheets at fair value and the difference between the fair value and the acquisition cost is posted as a loss (hereinafter "impairment loss").

Impairment losses amounted to ¥626 million (\$7,535 thousand) of which equities accounted for ¥574 million (\$6,911 thousand) and bonds for ¥51 million (\$623 thousand) for the year ended March 31, 2011.

Impairment losses amounted to ¥788 million of which equities accounted for the same amount for the year ended March 31, 2010.

In addition, the Bank recognizes that fair value has fallen significantly based on standards that have been set out in the self-assessment standards for assets by the issuing companies of securities. The details are as follows.

The Bank recognizes that the fair value of available-for-sale securities of legally bankrupt debtors, virtually bankrupt debtors, or debtors who are likely to go bankrupt, has fallen significantly when the fair value of such instruments as of the consolidated balance sheet date has decreased from the acquisition cost. For debtors on close watch, the Bank recognizes that the fair value has fallen significantly when the fair value as of the consolidated balance sheet date has decreased 30% or more from the acquisition cost. For normal debtors, it recognizes this when the fair value as of the consolidated balance sheet date has fallen 50% or more from the acquisition cost or when the fair value as of the consolidated balance sheet date has fallen 30% or more from the acquisition cost and the market prices remain below certain levels.

Debtors on close watch are defined as those who will require close monitoring in the future, and normal debtors are defined as those other than legally bankrupt debtors, virtually bankrupt debtors, debtors who are likely to go bankrupt, or debtors on close watch.

## 6. Money held in trust

(1) Money held in trust classified as trading

	Millions of yen				Thousands of U.S. dollars	
	2011		2010		2011	
	Consolidated balance sheet amount	Gains included in profits/(loss) during the fiscal year	Consolidated balance sheet amount	Gains included in profits/(loss) during the fiscal year	Consolidated balance sheet amount	Gains included in profits/(loss) during the fiscal year
Money held in trust classified as trading.....	¥7,876	¥30	¥4,880	¥11	\$94,722	\$371

(2) No money held in trust was classified as held-to-maturity.

**(3) No other money held in trust (other than money held in trust for trading purposes and money in trust held-to-maturity) as of March 31, 2011.**

Other money held in trust (other than money held in trust for trading purposes and money in trust held-to-maturity) as of March 31, 2010 was as follows:

	Millions of yen				
	2010				
	Cost	Consolidated balance sheet amount	Net unrealized gains (losses)	Unrealized gains	Unrealized losses
Money held in trust.....	¥900	¥895	¥(4)	—	¥(4)

## 7. Net unrealized gains/losses on available-for-sale securities

Available-for-sale securities were valued at market and net unrealized gains/losses on valuation were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Net unrealized gains on investment securities.....	¥59,866	¥67,955	\$719,985
Other money held in trust.....	—	(4)	—
Deferred tax liabilities.....	(19,159)	(23,369)	(230,424)
Minority interests.....	(33)	(31)	(406)
Net unrealized gains on available-for-sale securities.....	¥40,673	¥44,550	\$489,154

## 8. Loans and bills discounted

Loans and bills discounted at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Bills discounted.....	¥ 16,703	¥ 17,627	\$ 200,884
Loans on bills.....	147,242	156,562	1,770,803
Loans on deeds.....	2,252,857	2,182,841	27,093,893
Overdrafts.....	351,304	357,335	4,224,943
<b>Total.....</b>	<b>¥2,768,107</b>	<b>¥2,714,367</b>	<b>\$33,290,525</b>

Loans in legal bankruptcy totaled ¥2,119 million (\$25,495 thousand) and ¥3,862 million as of March 31, 2011 and 2010, respectively. Nonaccrual loans totaled ¥52,526 million (\$631,711 thousand) and ¥46,139 million as of March 31, 2011 and 2010, respectively. Loans in legal bankruptcy are loans in which the interest accrual is discontinued (excluding the portion recognized as bad debts), based on management's judgement as to the collectibility of principal or interest resulting from the delay in payments of interest or principal for a considerable period of time and other factors. Nonaccrual loans are loans in which the interest accrual is discontinued, other than loans in legal bankruptcy and loans granting deferral of interest payment to the debtors in financial difficulties to assist them in their recovery.

Accruing loans contractually past due three months or more as to principal or interest payments totaled ¥1,615 million (\$19,427 thousand) and ¥2,109 million as of March 31, 2011 and 2010, respectively. Loans classified as loans in legal bankruptcy and past due loans are excluded.

Restructured loans totaled ¥11,988 million (\$144,184 thousand) and ¥11,981 million as of March 31, 2011 and 2010, respectively. Such restructured loans are loans on which creditors grant concessions (e.g., reduction of the stated interest rate, deferral of interest payment, extension of maturity date, waiver of the face amount, or other concessive measures) to the debtors to assist them to recover from the financial difficulties and eventually be able to pay creditors. Loans classified as loans in legal bankruptcy, nonaccrual loans and accruing contractually past due three months or more are excluded.

## 9. Foreign exchanges

Foreign exchange assets and liabilities at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
<b>Assets:</b>			
Due from foreign correspondents.....	¥4,027	¥3,128	\$48,433
Foreign bills of exchange purchased.....	112	58	1,342
Foreign bills of exchange receivable.....	831	482	10,004
<b>Total</b> .....	<b>¥4,970</b>	<b>¥3,669</b>	<b>\$59,780</b>
<b>Liabilities:</b>			
Foreign bills of exchange sold.....	¥ 49	¥ 38	\$ 599
Accrued foreign bills of exchange.....	9	5	113
<b>Total</b> .....	<b>¥ 59</b>	<b>¥ 43</b>	<b>\$ 713</b>

## 10. Other assets

Other assets at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Prepaid expenses.....	¥ 47	¥ 52	\$ 576
Accrued income.....	4,807	5,326	57,815
Derivatives.....	3,345	7,145	40,229
Other (Note 13).....	31,858	30,816	383,149
<b>Total</b> .....	<b>¥40,059</b>	<b>¥43,341</b>	<b>\$481,770</b>

## 11. Tangible fixed assets

Tangible fixed assets at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Buildings.....	¥14,716	¥14,863	\$176,991
Land.....	39,444	40,178	474,373
Construction in progress.....	2	58	25
Other.....	3,874	4,059	46,597
<b>Total</b> .....	<b>¥58,037</b>	<b>¥59,159</b>	<b>\$697,987</b>

Accumulated depreciation on tangible fixed assets at March 31, 2011 and 2010 amounted to ¥45,126 million (\$542,712 thousand) and ¥44,801 million, respectively.

## 12. Long-lived assets

The Group recognized impairment losses for the year ended March 31, 2011 and 2010 as follows:

The Bank groups assets by branch, which are the minimum unit for management accounting. Subsidiaries group their assets by unit, which periodically manages profit and loss. The Bank wrote down the carrying amounts to the recoverable amounts, and recognized impairment losses of ¥1,383 million (\$16,643 thousand) and ¥459 million for the years ended March 31, 2011 and 2010, respectively, since the carrying amounts of the assets held by the above branches and other exceeded the sum of the undiscounted future cash flows. The recoverable amounts of these assets were measured at their net realizable selling prices, which were determined by quotations from real estate appraisal information, less estimated costs to dispose.

Location	Description	Classification	Impairment losses		
			Millions of yen		Thousands of U.S. dollars
			2011	2010	2011
Shiga Prefecture	Branch offices and other	Land, buildings and equipment.....	¥ 226	¥157	\$ 2,729
Other	Branch offices and other	Land, buildings and equipment.....	1,157	301	13,914
<b>Total</b> .....			<b>¥1,383</b>	<b>¥459</b>	<b>\$16,643</b>

Impairment losses are included in other expenses (Note 25).

## 13. Assets pledged

Assets pledged as collateral and related liabilities at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
	Investment securities.....	¥144,336	¥148,345
Other assets (investments in lease).....	3,226	3,533	38,803

Related liabilities	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
	Deposits.....	¥19,270	¥14,376
Payables under securities lending transactions.....	1,534	16,332	18,454
Borrowed money.....	2,558	3,087	30,771

In addition, investment securities totaling ¥76,201 million (\$916,438 thousand) and ¥67,486 million at March 31, 2011 and 2010, respectively were pledged as collateral for settlement of exchange and as securities for futures transactions and others.

Other assets (Note 10) include guarantee deposits of ¥818 million (\$9,846 thousand) and ¥916 million at March 31, 2011 and 2010, respectively.

## 14. Overdrafts and commitment lines

Overdraft 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, 2011 and 2010 amounted to ¥811,020 million (\$9,753,701 thousand) and ¥835,741 million, respectively, and the amounts of unused commitments, whose original contract terms are within one year or unconditionally cancelable at any time, were ¥788,463 million (\$9,482,426 thousand) and ¥814,363 million at March 31, 2011 and 2010, 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.

## 15. Land revaluation

Under the "Act of Land Revaluation," promulgated on March 31, 1998 (final revised on May 30, 2003), the Bank elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2002. The resulting land revaluation surplus represented unrealized appreciation of land and was stated, net of income taxes, as a component of equity. There was no effect on consolidated statement of income.

Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation surplus account and related deferred tax liabilities. At March 31, 2011 and 2010, the carrying amount of the land after the above one-time revaluation was more than the fair value by ¥10,745 million (\$129,226 thousand) and ¥9,259 million, respectively.

### Method of revaluation

The fair values were determined by applying appropriate adjustments for land shape and analysis on the appraisal specified in Article 2-4 of the Enforcement Ordinance of the Act of Land Revaluation effective March 31, 1998.

## 16. Deposits

Deposits at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Current deposits.....	¥ 133,257	¥ 120,175	\$ 1,602,613
Ordinary deposits.....	1,484,368	1,425,009	17,851,691
Deposits at notice.....	12,223	13,440	146,999
Time deposits.....	2,149,252	2,114,937	25,847,893
Other deposits.....	112,307	107,462	1,350,655
<b>Total.....</b>	<b>¥3,891,407</b>	<b>¥3,781,025</b>	<b>\$46,799,853</b>

## 17. Borrowed money

At March 31, 2011 and 2010, the weighted average interest rates applicable to the borrowed money were 1.21% and 1.88%, respectively.

Borrowed money at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Subordinated loans.....	¥20,000	¥20,000	\$240,529
Borrowing from banks and other.....	27,158	10,388	326,620
<b>Total.....</b>	<b>¥47,158</b>	<b>¥30,388</b>	<b>\$567,149</b>

Annual maturities of borrowed money at March 31, 2011, were as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2012.....	¥22,011	\$264,722
2013.....	2,295	27,603
2014.....	1,481	17,818
2015.....	1,005	12,086
2016.....	365	4,389
2017 and thereafter.....	20,000	240,529
<b>Total.....</b>	<b>¥47,158</b>	<b>\$567,149</b>

## 18. Bonds

Bonds at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	Interest rate	Due
	2011	2010	2011		
Subordinated bonds .....	¥20,000	¥20,000	\$240,529	1.89%	July 27, 2019

## 19. Other liabilities

Other liabilities at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Accrued income taxes.....	¥ 6,339	¥ 638	\$ 76,239
Accrued expenses.....	9,155	10,729	110,108
Unearned income .....	5,956	5,549	71,630
Derivatives .....	3,530	2,288	42,455
Other .....	16,263	20,551	195,588
<b>Total.....</b>	<b>¥41,244</b>	<b>¥39,756</b>	<b>\$496,022</b>

## 20. Acceptances and guarantees

All contingent liabilities arising from acceptances and guarantees are reflected in "Acceptances and guarantees." As a contra account, "Customers' liabilities for acceptances and guarantees," is shown as an asset representing the Bank's right of indemnity from the applicants.

The amounts "Acceptances and guarantees" and "Customers' liabilities for acceptances and guarantees," amounting to ¥7,370 million (\$88,634 thousand) and ¥9,224 million as of March 31, 2011 and 2010, were set off because those which were relevant to corporate bonds, and the guaranteed bonds were held by the Bank itself.

## 21. Equity

### (1) Capital stock and capital surplus

Changes in the number of common shares of the years ended March 31, 2011 and 2010, consisted of the following:

	Thousands	
	Common stock	
	Issued number of shares	
	2011	2010
Beginning of the year .....	265,450	265,450
Increase.....	—	—
Decrease.....	—	—
End of the year.....	265,450	265,450

### (2) Companies Act and Banking Act of Japan

Through May 1, 2006, Japanese banks were subject to the Commercial Code of Japan (the "Code") and the Banking Act of Japan (the "Banking Act").

On and after May 1, 2006, Japanese companies are subject to a new companies act of Japan (the "Companies Act"), which reformed and replaced the Code with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Companies Act that affect financial and accounting matters are summarized below:

### (a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Bank cannot do so because it does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### (b) Increases/decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% (20% for banks pursuant to the Banking Act) of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% (100% for banks pursuant to the Banking Act) of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

### (c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Companies Act, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

### (3) Appropriations of retained earnings

On June 24, 2011, the Bank's general stockholders' meeting will approve the payments of cash dividends to stockholders of record at March 31, 2011 of ¥3.00 (\$0.036) per share or a total of ¥791 million (\$9,522 thousand).

## 22. Other operating income

Other operating income for the years ended March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Gains on foreign exchange transactions-net.....	¥ 839	¥ 592	\$ 10,101
Gains on sales of bonds.....	4,657	5,155	56,013
Other .....	8,605	8,372	103,490
<b>Total.....</b>	<b>¥14,102</b>	<b>¥14,120</b>	<b>\$169,606</b>

## 23. Other income

Other income for the years ended March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Gains on sales of securities.....	¥ 33	¥2,730	\$ 400
Recovery of claims previously charged-off .....	1,459	874	17,557
Other .....	1,715	2,197	20,627
<b>Total.....</b>	<b>¥3,208</b>	<b>¥5,802</b>	<b>\$38,585</b>

## 24. Other operating expenses

Other operating expenses for the years ended March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Losses on sales of government bonds.....	¥ 43	¥ 990	\$ 527
Losses on redemption of bonds.....	51	—	623
Losses on financial derivatives.....	59	56	709
Other.....	6,673	6,347	80,253
<b>Total.....</b>	<b>¥6,827</b>	<b>¥7,395</b>	<b>\$82,114</b>

## 25. Other expenses

Other expenses for the years ended March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Provision of allowance for possible loan losses.....	¥ 8,646	¥ 9,045	\$103,981
Write-off of loans and bills discounted.....	2,251	6,324	27,072
Losses on impairment of long-lived assets (Note 12).....	1,383	459	16,643
Valuation loss of investment in stocks.....	859	802	10,337
Other.....	2,245	1,865	27,007
<b>Total.....</b>	<b>¥15,386</b>	<b>¥18,497</b>	<b>\$185,042</b>

## 26. Leases

### Lessee

The Group leases certain equipment. Total rental expense under the finance leases for the years ended March 31, 2011 and 2010, was ¥5 million (\$67 thousand) and ¥6 million, respectively.

Finance lease transactions which commenced prior to April 1, 2008 are accounted for based on the former accounting standard.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations, under financial lease, depreciation expense and interest expense under finance leases that do not transfer ownership of the leased property to the lessee on a 'as if capitalized' basis for the years ended March 31, 2011 and 2010 were as follows:

	Tangible fixed assets		Thousands of U.S. dollars
	Millions of yen		2011
	2011	2010	
Acquisition cost.....	¥36	¥46	\$443
Accumulated depreciation.....	(29)	(33)	(359)
<b>Net leased property.....</b>	<b>¥ 6</b>	<b>¥12</b>	<b>\$ 84</b>

Obligations under finance leases at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Due within one year.....	¥3	¥ 5	\$45
Due after one year.....	3	6	38
<b>Total.....</b>	<b>¥6</b>	<b>¥12</b>	<b>\$84</b>

The amounts of acquisition cost and obligations include the imputed interest expense portion.

Lease payments and depreciation expense under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Lease payments.....	¥5	¥6	\$67
Depreciation expense .....	5	6	67

### Lessor

One subsidiary leases certain equipment and other assets.

As stated in Note 2 (s) ii, finance lease transactions other than those of which ownership is fully transferred to the lessee are accounted for in the similar manner to ordinary sales and transactions, effective from the year ended March 31, 2009.

Investments in lease included in other assets on the balance sheets as of March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Gross lease receivables .....	¥17,964	¥16,954	\$216,046
Unguaranteed residual values .....	783	788	9,424
Unearned interest income.....	(2,856)	(3,415)	(34,353)
Investments in lease .....	¥15,891	¥14,327	\$191,117

Maturities of lease receivables for finance leases that deem to transfer ownership of the leased property to the lessee are as of March 31, 2011 are as follows:

	Millions of yen	Thousands of U.S. dollars
2012 .....	¥ 3	\$47
2013 .....	1	23
2014 .....	0	8
2015 .....	0	7
2016 .....	0	0
2017 and thereafter.....	—	—

Maturities of gross lease receivables related to investments in lease as of March 31, 2011 are as follows:

	Millions of yen	Thousands of U.S. dollars
2012 .....	¥5,645	\$67,897
2013 .....	4,680	56,284
2014 .....	3,563	42,852
2015 .....	2,280	27,421
2016 .....	1,138	13,692
2017 and thereafter.....	656	7,896

With regard to finance lease transactions entered into prior to April 1, 2008, that do not deem to transfer ownership of the property to the lessee, leased investment assets are recognized at the book value of leased assets as of March 31, 2008.

As a result, income before income taxes and minority interests for the fiscal years ended March 31, 2011 and 2010 was increased by ¥774 million (\$9,319 thousand) and ¥970 million more than it would have been if the revised accounting standard was applied retroactively to all the finance lease transactions.

The minimum rental commitments under noncancelable operating leases as of March 31, 2011 and 2010, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Due within one year .....	¥ 5	¥ 4	\$ 68
Due after one year .....	10	10	124
<b>Total</b> .....	<b>¥16</b>	<b>¥14</b>	<b>\$193</b>

## 27. Employees' retirement benefits

The Bank has a contributory funded pension plan and an unfunded lump-sum severance payment plan. Subsidiaries have unfunded lump-sum severance payment plans.

The liability for employees' retirement benefits at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Projected benefit obligation .....	¥(43,938)	¥(43,644)	\$(528,430)
Plan assets (fair value) .....	22,293	22,642	268,116
Unfunded projected benefit obligation .....	(21,645)	(21,002)	(260,313)
Unrecognized actuarial net loss .....	8,911	9,979	107,170
Unrecognized prior service cost .....	(54)	(70)	(652)
<b>Liability for employees' retirement benefits .....</b>	<b>¥(12,788)</b>	<b>¥(11,092)</b>	<b>\$(153,794)</b>

The components of net periodic benefit costs for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Service cost .....	¥1,721	¥1,594	\$20,704
Interest cost .....	653	810	7,858
Expected return on plan assets .....	(266)	(179)	(3,205)
Amortization of prior service cost .....	(16)	(16)	(195)
Recognized actuarial net loss .....	2,251	2,454	27,079
<b>Net periodic retirements benefit costs .....</b>	<b>¥4,343</b>	<b>¥4,662</b>	<b>\$52,240</b>

Assumptions used for the years ended March 31, 2011 and 2010 were set forth as follows:

	2011	2010
Discount rate .....	1.50%	1.50%
Expected rate of return on plan assets .....	1.76%	1.25%
Amortization period of prior service cost .....	10 years	10 years
Recognition period of actuarial gain or loss .....	10 years	10 years

## 28. Income taxes

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
<b>Deferred tax assets:</b>			
Allowance for possible loan losses .....	¥ 20,921	¥ 19,356	\$ 251,611
Liability for employees' retirement benefits .....	7,573	6,856	91,083
Accrued enterprise tax .....	501	85	6,033
Devaluation of stocks and other securities .....	7,046	7,200	84,738
Depreciation .....	1,716	1,629	20,640
Tax loss carryforwards .....	—	946	—
Other .....	3,256	2,988	39,167
Less valuation allowance .....	(16,077)	(14,340)	(193,352)
<b>Total .....</b>	<b>¥ 24,938</b>	<b>¥ 24,723</b>	<b>\$ 299,922</b>
<b>Deferred tax liabilities:</b>			
Net unrealized gains on available-for-sale securities .....	(19,159)	(23,369)	(230,426)
Reserve for advanced depreciation of fixed assets .....	(208)	(208)	(2,511)
Other .....	(6)	(52)	(73)
<b>Total .....</b>	<b>¥(19,374)</b>	<b>¥(23,630)</b>	<b>\$(233,011)</b>
<b>Net deferred tax assets .....</b>	<b>¥ 5,563</b>	<b>1,244</b>	<b>\$ 66,911</b>
<b>Net deferred tax liabilities .....</b>	<b>—</b>	<b>¥ (150)</b>	<b>—</b>

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of operations for the years ended March 31, 2011 and 2010 is as follows:

	2011	2010
Normal effective statutory tax rate.....	40.4%	40.4%
Permanent differences - income.....	(3.1)	(4.1)
Increase in valuation allowance for deferred tax assets.....	14.7	10.3
Tax rate difference in special purpose entities.....	(2.1)	(2.5)
Other .....	0.3	1.4
<b>Actual effective tax rate .....</b>	<b>50.2%</b>	<b>45.5%</b>

## 29. Financial instruments and related disclosures

On March 10, 2008, the ASBJ revised ASBJ Statement No.10 "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No.19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010 with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Group applied the revised accounting standard and the new guidance effective March 31, 2010.

### 1. Overall situation concerning financial instruments

#### (1) Basic policy for financial instruments

As a regional financial institution, The Group provides financial services centered on banking operations within its main business base of Shiga Prefecture.

The Group's main operations are to extend loans to customers, including corporations and individuals in its business area, and make investments in securities by mainly using funds that are received as deposits from local customers and those that are obtained through the financial market.

To carry out these operations, the Group has financial assets and financial liabilities that are largely subject to interest rate volatility. To prevent adverse effects from such interest rate volatility, the Group conducts Asset Liability Management (ALM), the comprehensive management of assets and liabilities.

#### (2) Nature and extent of risks arising from financial instruments

The financial assets held by the Group are primarily loans to corporations and individuals within its business area and are subject to credit risk caused by the contractual default of its customers. The Group's domestic loan portfolio attempts to distribute risk by industry sector to eliminate its exposure to credit risk caused by changes in the business environment in certain industries.

The Group holds investment securities for the following purposes: to sell them to customers, for investment, and for policy investment. For the purpose of selling them to customers the Group holds Japanese government bonds and Japanese local government bonds. For investment, the Group holds bonds, especially Japanese government bonds, Japanese local government bonds, and highly-rated corporate bonds as well as investment trusts, while the Group holds corporate stocks as policy investment. These are subject to interest-rate volatility risks, market price volatility risks, and the credit risks of the issuer. Foreign currency-denominated bonds held as investments are managed so as to reduce foreign exchange risk. This is done by procuring foreign currency funds through currency swaps, repurchase transactions, or call transactions.

Borrowed money and corporate bonds are — under certain conditions such as when the Group is unable to access the market — subject to risks that losses are incurred due to an inability to secure required funds or being forced to raise funds at significantly higher than normal interest rates. Moreover, some of the Group's borrowings are made at variable interest rates and are subject to risks of losses from increasing fund procurement costs associated with rising interest rates.

To respond to customer needs and hedge market risks for assets and liabilities, the Group uses derivatives transactions, including interest rate swaps, currency swaps, currency options, and forward exchange contracts. To some of these transactions, the Group applies hedge accounting based on internal regulations that comply with "Practical Guidelines for Financial Instruments" of the Japanese Institute of Certified Public Accountants and the Group's own hedging policies.

To obtain short swing profits, the Group transacts bond futures contracts, bond options, and stock price index futures trading after setting position limit and loss limit amounts.

These derivative transactions include the market risk of incurring potential losses from market fluctuations, such as fluctuations in interest rates and exchange rates, as well as the credit risk of incurring potential losses when the counterparty to the transaction defaults on a contract.

### **(3) Risk management for financial instruments**

#### ***(i) Credit risk management***

Recognizing credit risk as the most important risk to business management from the standpoint of its size and scope, the Group has established regulations and standards pertaining to such risk. It has also developed a borrower rating system based on a Foundation Internal Ratings Based-approach and has built a credit risk management system appropriate to its needs.

Notably, the Group has developed a rating system that involves asset self-assessments. Under this system, for example, the Business Management Department reports the results of its own asset rating to meetings such as Meeting of Managing Directors.

With respect to individual credit management, the Group has instituted its "Basic Rules of Loan Business," in which it has clearly defined the way of thinking and a code of conduct to which all employees involved in the loan business should adhere. It has also established basic procedures to follow when making credit decisions or managing credit, along with putting in place a system that enables executives and employees to make credit decisions in accordance with the principles of public benefit, security, profitability, liquidity, and growth potential. More specifically, the Group has developed and is operating a credit management system that handles credit assessment, credit limits, credit information management, and internal ratings; sets guarantees and collateral; and deals with problem debts of companies (or corporate groups) or individual projects. This credit management system is being implemented in every bank branch and the Credit Supervision Department.

When extending credit to overseas borrowers, the Group sets a credit limit for each country at the Meeting of Managing Directors each fiscal year, after taking into account the foreign currency conditions and the political and economic situation of the country in which the borrower resides. The Group manages this credit limit on a day-to-day basis.

When conducting market transactions for securities or other instruments, a limit is set semiannually at the Meeting of Managing Directors for bond issuer credit risk and counterparty risk for derivative and financial transactions, and the credit status and the market prices are managed on a daily basis. The Group has established a system in which reports about those risks are routinely given to the Meeting of Managing Directors.

#### ***(ii) Market risk management***

The Group has compiled a set of Market Risk Management Rules with the goal of upgrading market risk management, strengthening internal controls, and ensuring sound management. To achieve stable profits, the Group institutes an ALM plan and risk management policy semiannually and is working to build an appropriate risk management system.

##### ***1) Interest-rate risk management***

As interest-rate risk inevitably arises in banking business operations, the Group manages all assets and liabilities (including off-balance transactions), such as deposits, loans, and securities, in a comprehensive manner through ALM.

Along with the aforementioned Market Risk Management Rules, the Group has established standards for risk management methods and reporting procedures. The Group conducts monitoring through such models as Value at Risk (VaR) and the maturity ladder approach, and reports to the ALM Committee on a regular basis.

##### ***2) Exchange rate risk management***

For exchange rate volatility risk, the Group sets position limits at the Meeting of Managing Directors to manage positions that are subject to exchange rate risk. The Group controls positions by using derivative transactions, including foreign currency transactions and currency swaps.

The Group establishes an acceptable level of risk using VaR and manages the level of risk on a daily basis so that it stays within an acceptable range.

##### ***3) Price volatility risk management***

To rigorously manage price volatility risk for transactions, including securities, the Group has divided the market sector organization into front office (market transaction sector), back office (business management sector), and middle office (risk management sector).

For market transactions including securities, the Group takes into account overall Group risk and return, based on an ALM plan drawn up by the Board of Directors and a risk management policy, and formulates a business management plan in the market sector.

When making investments, the Group calculates position amounts, gains, and losses as well as VaR and Basis Point Value (BPV) based on the above-mentioned policy and plan. The extent to which the Group is complying with the established acceptable risk limit and other risk limits is monitored on a daily basis and is reported to the management.

##### ***4) Derivative transaction management***

With respect to derivative transactions, the divisions concerned with the execution of transactions, the evaluation of hedge effectiveness, and business management have been separated, and an internal checking system has been established. Because a majority of the Group's derivative transactions are for hedging purposes, market risks are managed so that derivative transaction risks and asset and liability risks offset each other.

##### ***5) Quantitative information regarding the market risks***

Of the market risks, the Group measures the quantitative risk amounts of interest-rate risks and stock price volatility risks through VaR, a statistical method. Principally by reporting these risk amounts to the ALM Committee and other organizations on a regular basis, the Group ensures appropriate monitoring and management. In calculating the risk amounts, the Group adopts a historical simulation method (a holding period of one year, a confidence interval of 99%, and an observing period of two years).

### Interest-rate risks

The Group measures interest-rate risks of all its assets and liabilities, including loans, securities and deposits, and derivatives transactions.

The Group's interest-rate risk amounts as of March 31, 2011, stood at ¥10,380 million (\$124,842 thousand).

Regarding liquid deposits, such as ordinary deposits, the Group handles some as deposits that remain with the Group for an extended period and manages them by allocating them to each period category based on the internal model.

### Stock price volatility risks

The Group holds certain shares for the policy investment purpose. The volatility risk amounts of the prices of such shares as of March 31, 2011, stood at ¥36,068 million (\$433,782 thousand).

### Back-testing

To verify the appropriateness of the risk amounts that are measured through VaR, the Group carries out back-testing in which VaR is compared with gains and losses. In this way, the Group analyzes the effectiveness of the risk measurement method. However, because VaR statistically measures the amounts based on the historical market volatility, results may vary due to assumptions, measuring methods, and other factors. In addition, risks may not be able to be appropriately captured when the market environment is changing drastically.

Interest-rate risks and stock price volatility risks that are held by the Bank's consolidated subsidiaries are excluded from the calculation of the market risk amount, as the impact from such risks on the Group is limited.

### (iii) Liquidity risk management related to financing

The Group has compiled a set of Liquidity Risk Management Rules, under a basic policy of clearly understanding its cash position and ensuring stable financing. In this way, it strives to establish an appropriate risk management system.

With respect to daily financing, the Group monitors and manages the financial environment, the balance of realizable current assets, the expected amount of cash outflows, and other such factors. The Group reports the financing situation and other related matters to the ALM Committee on a regular basis.

## 2. Fair value of financial instruments

Fair value and Consolidated balance sheet amount of as of March 31, 2011 and 2010 are shown below. Immaterial accounts on the consolidated balance sheet are not included in the table below. Some instruments, such as unlisted stocks, whose fair value cannot be reliably determined, are not included in the table below (see note 2).

	Millions of yen					
	2011			2010		
	Consolidated balance sheet amount	Fair value	Difference	Consolidated balance sheet amount	Fair value	Difference
Call loans and bills bought .....	¥ 85,259	¥ 85,259	¥ —	¥ 64,523	¥ 64,523	¥ —
Investment securities						
Trading securities.....	3,857	3,857	—	3,768	3,768	—
Available-for-sale securities.....	1,378,500	1,378,500	—	1,331,935	1,331,935	—
Loans and bills discounted.....	2,768,107	—	—	2,714,367	—	—
Allowance for possible loan losses (*1).....	(35,022)	—	—	(31,183)	—	—
	2,733,084	2,751,205	18,121	2,683,184	2,698,166	14,982
Assets total.....	4,200,701	4,218,823	18,121	4,083,412	4,098,394	14,982
Deposits.....	3,891,407	3,894,742	3,334	3,781,025	3,786,596	5,571
Negotiable certificates of deposit.....	109,679	109,709	30	102,904	102,948	43
Borrowed money.....	47,158	47,449	291	30,388	30,672	284
Bonds .....	20,000	20,545	545	20,000	20,391	391
Liabilities total.....	4,068,245	4,072,447	4,201	3,934,318	3,940,609	¥ 6,290
Derivative transactions (*2)						
Deferred hedge accounting is not applied.....	(13)	(13)	—	(32)	(32)	—
Deferred hedge accounting is applied.....	(171)	(171)	—	4,947	4,947	—
Derivative transactions total.....	¥ (185)	¥ (185)	¥ —	¥ 4,914	¥ 4,914	¥ —

Thousands of U.S. dollars			
2011			
	Consolidated balance sheet amount	Fair value	Difference
Call loans and bills bought.....	\$ 1,025,374	\$ 1,025,374	\$ —
Investment securities			
Trading securities.....	46,392	46,392	—
Available-for-sale securities.....	16,578,473	16,578,473	—
Loans and bills discounted.....	33,290,525	—	—
Allowance for possible loan losses (*1).....	(421,200)	—	—
	32,869,325	33,087,262	217,936
Assets total.....	50,519,564	50,737,501	217,936
Deposits.....	46,799,853	46,839,952	40,098
Negotiable certificates of deposit.....	1,319,054	1,319,418	363
Borrowed money.....	567,149	570,655	3,505
Bonds.....	240,529	247,090	6,561
Liabilities total.....	48,926,587	48,977,116	50,529
Derivative transactions (*2)			
Deferred hedge accounting is not applied.....	(163)	(163)	—
Deferred hedge accounting is applied.....	(2,062)	(2,062)	—
Derivative transactions total.....	\$ (2,226)	\$ (2,226)	\$ —

(\*1) General allowance for loan losses and specific allowance for loan losses provided to "Loans and bills discounted" are separately presented in the above table.

(\*2) Derivatives transactions recorded in "Other assets" and "Other liabilities" are aggregated and shown herein. Assets and liabilities attributable to the derivative transactions are totally offset and the net liability position as a consequence of offsetting would be represented with brackets.

## (Note 1) Valuation method of financial instruments

### Assets

#### (1) Call loans and bills bought

Since contractual terms of these instruments are short (i.e., less than one year) and fair values of these instruments approximate book values, the Group deem the book values to be fair values.

#### (2) Investment securities

Fair values of securities that have market prices are based on their market prices. However, taking into account recent market conditions, a judgement has been made by management that current market prices of floating Japanese government bonds are not indicative of fair value. The fair values of these bonds were determined based on the values reasonably estimated by a broker dealer. The effect of the decision was to increase investment securities by ¥3,138 million (\$37,746 thousand) and ¥ 5,387 million, to decrease deferred tax assets by ¥1,268 million (\$15,260 thousand) and ¥2,178 million and to increase net unrealized gains on available-for-sale securities by ¥1,869 million (\$22,485 thousand) and ¥ 3,209 million compared to the valuation based on the market price as of March 31, 2011 and 2010.

As the rationally calculated amounts cannot be estimated by the Group, those are obtained from a broker dealer.

It is difficult for the Group to reasonably estimate fair values of the floating rate Japanese government bonds by itself. Accordingly, the Group employs theoretical floating rate Japanese government bonds prices based on values reasonably estimated by a securities broker for the determination of fair values of the floating rate Japanese government bonds. The simulation model used for the calculation of reasonably estimated fair values and the price decision variables are summarized below.

##### i. Simulation model

The model enables the calculation of present values of the floating rate Japanese government bonds based on future cash flows. Future cash flows, in turn, are estimated using an interest fluctuation model, which is primarily based on discount rates that are compatible with price movements of the government bonds and dispersion of interest rates that are consistent with the implied volatility of swaptions.

##### ii. Price decision variables

The principal price decision variables are yields on and prices of Japan's treasury bills, and the government bonds with maturities of 10 years, 20 years, and 30 years. Swaption volatility is calculated on the assumption of maturities from 1 month to 10 years and swap periods ranging from 1 to 10 years.

With respect to market prices of securities that do not have market prices, the Group use the present value calculated by discounting the future cash flows of the principal based on contracts, using an interest rate obtained by adjusting interest rates available in the interbank market in accordance with categories of internal ratings and terms, taking into account the credit risk premium and the liquidity risk premium.

The information for investment securities by classification is included in Note 5 (Investment securities).

### (3) Loans and bills discounted

As fair values of loans and bills discounted with short contractual terms (i.e., less than one year) approximate book values, the Group deem the book values to be fair values.

Of loans with long contract terms (i.e., 1 year or longer), those with floating interest rates reflect the market rate in the short term. Consequently, unless the credit conditions of borrowers have not significantly changed after the execution of loans, the book value of the loans is presented as the fair value, as the fair value approximates the book value. With respect to fair values of loans with long contract terms with fixed interest rates, the Group use the present value that is calculated by discounting the future cash flows of the principal based on contracts, using an interest rate obtained by adjusting interest rates available in the interbank market in accordance with categories of internal ratings and terms, taking into account the credit risk premium and the liquidity risk premium. Meanwhile, the fair value of certain loans (including consumer loans) is calculated by discounting the future cash flows of the principal based on contracts, using an interest rate considered to be applicable in cases when similar loans are executed.

With respect to claims against legally bankrupt debtors, virtually bankrupt debtors and debtors who are likely to go bankrupt (potentially bankrupt debtors), since credit loss is calculated based on the present value of the expected future cash flows or the estimated amounts that the Group would be able to collect from collateral and guarantees, fair values approximate the consolidated balance sheet amount net of the currently expected credit loss amount, and the Group thus deems such amounts to be fair values.

Of loans, for those without a fixed maturity due to loan characteristics such as limiting loans to within the value of collaterals, the Group deems the book value to be the fair value, since the fair value is expected to approximate the book value based on the estimated repayment period, interest rate, and other conditions.

### Liabilities

#### (1) Deposits and (2) Negotiable certificates of deposit

For demand deposits, the Group deems the payment amounts required on the consolidated balance sheet date (i.e., book values) to be the fair value.

The fair value of time deposits and negotiable certificates of deposit with short deposit terms (i.e., less than one year) approximate the book value, and the Group deem the book value to be the fair value. With respect to deposits with long deposit terms (i.e., one year or longer), the Group use the present value calculated by discounting future cash flows of the principal based on contracts, using the interest rate that would apply to newly accepted deposits in accordance with the categories of deposit terms.

#### (3) Borrowed money

As the fair value of borrowed money with short contractual terms (i.e., less than one year) approximates the book value, the Group deems the book value to be the fair value.

Of borrowed money with long contractual terms (i.e., one year or longer), for floating rate borrowings, the book value is presented as the fair value, because the fair value approximates book value. This is because the basis that floating rate borrowings reflect the market interest rate in a short period and that there has been no significant change in our credit conditions or in the credit conditions of our consolidated subsidiaries before and after the borrowings were made. With respect to fixed rate borrowings, the Group uses the present value calculated by discounting the future cash flows of the principal based on contracts, using an interest rate obtained by adjusting interest rates available in the interbank market in accordance with categories of terms, taking into account the Bank's credit risk premium.

Meanwhile, fair values of borrowings of consolidated subsidiaries are calculated by discounting the future cash flows of the principal based on contracts, using interest rates considered to be applicable in cases when the similar borrowings are made.

#### (4) Bonds

The fair value of corporate bonds issued by the Group is determined based on their market price.

### Derivatives

The information of the fair value for derivatives is included in Note 30 (Fair value information on derivative transactions).

#### (Note 2) Financial instruments whose fair value cannot be reliably determined

The following instruments are not included in "Assets Available-for-sales securities" in the above table showing the fair value of financial instruments.

	Consolidated balance sheet amount		
	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Unlisted stocks (*1)(*2).....	¥3,168	¥3,349	\$38,104

(\*1) Fair value of unlisted stocks is exempt from disclosure because they do not have a market price and their fair value cannot be reliably determined.

(\*2) For the year ended March 31, 2011 and 2010, impairment losses for unlisted stocks amounted to ¥284 million (\$3,425 thousand) and ¥14 million.

(Note 3) Maturity analysis for financial assets and securities with contractual maturities

	Millions of yen					
	2011					
	1 year or less	1 to 3 years	3 to 5 years	5 to 7 years	7 to 10 years	Over 10 years
Call loans and bills bought.....	¥ 85,259	¥ —	¥ —	¥ —	¥ —	¥ —
Investment securities (*1).....	165,615	226,327	252,449	198,344	336,342	67,297
Japanese government bonds.....	53,000	68,280	82,206	148,300	164,000	—
Japanese local government bonds.....	15,146	41,727	84,028	19,775	113,508	—
Japanese corporate bonds.....	49,329	72,138	60,193	30,091	49,143	51,029
Others.....	48,140	44,181	26,021	177	9,691	16,268
Loans and bills discounted (*2).....	876,693	513,179	350,491	218,574	225,583	501,686
<b>Total</b> .....	<b>¥1,127,569</b>	<b>¥739,506</b>	<b>¥602,940</b>	<b>¥416,918</b>	<b>¥561,926</b>	<b>¥568,983</b>

	Millions of yen					
	2010					
	1 year or less	1 to 3 years	3 to 5 years	5 to 7 years	7 to 10 years	Over 10 years
Call loans and bills bought.....	¥ 64,523	¥ —	¥ —	¥ —	¥ —	¥ —
Investment securities (*1).....	112,191	268,389	213,365	140,804	353,183	99,865
Japanese government bonds.....	58,000	61,830	66,450	87,706	189,800	21,000
Japanese local government bonds.....	8,599	34,863	53,107	27,439	95,775	—
Japanese corporate bonds.....	31,531	75,056	57,819	14,267	49,695	60,604
Loans and bills discounted (*2).....	839,167	545,391	330,674	208,347	218,776	493,616
<b>Total</b> .....	<b>¥1,015,882</b>	<b>¥813,780</b>	<b>¥544,040</b>	<b>¥349,152</b>	<b>¥571,960</b>	<b>¥593,482</b>

	Thousands of U.S. dollars					
	2011					
	1 year or less	1 to 3 years	3 to 5 years	5 to 7 years	7 to 10 years	Over 10 years
Call loans and bills bought.....	\$ 1,025,374	\$ —	\$ —	\$ —	\$ —	\$ —
Investment securities (*1).....	1,991,771	2,721,917	3,036,070	2,385,376	4,045,014	809,350
Japanese government bonds.....	637,402	821,166	988,647	1,783,523	1,972,339	—
Japanese local government bonds.....	182,152	501,832	1,010,568	237,831	1,365,101	—
Japanese corporate bonds.....	593,256	867,571	723,908	361,888	591,016	613,704
Others.....	578,959	531,346	312,946	2,133	116,558	195,646
Loans and bills discounted (*2).....	10,543,522	6,171,732	4,215,172	2,628,674	2,712,971	6,033,505
<b>Total</b> .....	<b>\$13,560,667</b>	<b>\$8,893,649</b>	<b>\$7,251,242</b>	<b>\$5,014,050</b>	<b>\$6,757,985</b>	<b>\$6,842,856</b>

(\*1) Bonds classified as held-to-maturity are not included in securities.

(\*2) Loans in legal bankruptcy, virtual bankruptcy and potential bankruptcy amounting to ¥54,646 million (\$657,206 thousand) and ¥50,001 million loans and bills discounted without contractual maturities amounting to ¥27,251 million (\$327,740 thousand) and ¥28,391 million are excluded from the table above as of March 31, 2011 and 2010.

(Note 4) Maturity analysis for bonds, borrowed money and other interesting bearing liabilities

	Millions of yen					
	2011					
	1 year or less	1 to 3 years	3 to 5 years	5 to 7 years	7 to 10 years	Over 10 years
Deposits (*).....	¥3,308,472	¥562,311	¥20,624	¥—	¥ —	¥—
Negotiable certificates of deposit.....	109,679	—	—	—	—	—
Borrowed money.....	22,011	3,776	1,370	—	20,000	—
Bonds.....	—	—	—	—	20,000	—
<b>Total</b> .....	<b>¥3,440,163</b>	<b>¥566,087</b>	<b>¥21,994</b>	<b>¥—</b>	<b>¥40,000</b>	<b>¥—</b>

	Millions of yen					
	2010					
	1 year or less	1 to 3 years	3 to 5 years	5 to 7 years	7 to 10 years	Over 10 years
Deposits (*).....	¥3,180,021	¥567,839	¥33,164	¥—	¥ —	¥—
Negotiable certificates of deposit.....	102,904	—	—	—	—	—
Borrowed money.....	5,075	3,985	1,301	25	20,000	—
Bonds.....	—	—	—	—	20,000	—
<b>Total</b> .....	<b>¥3,288,002</b>	<b>¥571,824</b>	<b>¥34,466</b>	<b>¥25</b>	<b>¥40,000</b>	<b>¥—</b>

	Thousands of U.S. dollars					
	2011					
	1 year or less	1 to 3 years	3 to 5 years	5 to 7 years	7 to 10 years	Over 10 years
Deposits (*).....	\$39,789,205	\$6,762,612	\$248,035	\$—	\$ —	\$—
Negotiable certificates of deposit.....	1,319,054	—	—	—	—	—
Borrowed money.....	264,722	45,421	16,476	—	240,529	—
Bonds.....	—	—	—	—	240,529	—
<b>Total</b> .....	<b>\$41,372,983</b>	<b>\$6,808,033</b>	<b>\$264,512</b>	<b>\$—</b>	<b>\$481,058</b>	<b>\$—</b>

(\*) Demand deposits are included in "1 Year or less."

### 30. Fair value information on derivative transactions

#### Derivative transactions to which hedge accounting is not applied

The following is the fair value information for derivative transactions to which hedge accounting is not applied at March 31, 2011.

The contractual value of swap agreements and the contract amounts of forward exchange contracts, option agreements and other derivatives do not necessarily measure the Bank's exposure to market risk.

(1) Interest-rate-related transactions are not performed.

#### (2) Currency-related transactions

	Millions of yen							
	2011				2010			
	Contractual value	Contractual value due after one year	Fair value	Net unrealized gains (losses)	Contractual value	Contractual value due after one year	Fair value	Net unrealized gains (losses)
Over-the-counter:								
Currency swap: .....	¥176,464	¥133,277	¥ (216)	¥(216)	¥236,520	¥146,000	¥4,955	¥4,955
Forward exchange contracts:								
Sold.....	6,824	—	(52)	(52)	3,528	—	(84)	(84)
Bought.....	6,443	—	97	97	3,893	—	76	76
Currency options:								
Sold.....	33,597	20,279	(1,819)	(132)	30,692	17,250	(1,235)	31
Bought.....	33,597	20,279	1,819	520	30,692	17,250	1,235	278
<b>Total .....</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ (171)</b>	<b>¥ 216</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥4,947</b>	<b>¥5,257</b>

	Thousands of U.S. dollars			
	2011			
	Contractual value	Contractual value due after one year	Fair value	Net unrealized gains (losses)
Over-the-counter:				
Currency swap: .....	\$2,122,247	\$1,602,854	\$ (2,606)	\$(2,606)
Forward exchange contracts:				
Sold.....	82,076	—	(633)	(633)
Bought.....	77,492	—	1,178	1,178
Currency options:				
Sold.....	404,064	243,893	(21,879)	(1,588)
Bought.....	404,064	243,893	21,879	6,260
<b>Total .....</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (2,062)</b>	<b>\$ 2,609</b>

Notes: 1. The above transactions were revalued at the end of each of the years and the related gain and loss are reflected in the accompanying consolidated statements of operations.

2. Fair value is calculated using discounted cash flow.

(3) Stock-related transactions are not performed.

(4) Bond-related transactions are not performed.

(5) Financial product-related transactions are not performed.

(6) Credit derivative transactions are not performed.

#### Derivative transactions to which hedge accounting is applied

The following is the fair value information for derivative transactions to which hedge accounting is applied at March 31, 2011.

The contract amounts do not necessarily measure the Bank's exposure to market risk:

**(1) Interest-rate-related transactions are not performed as of March 31, 2011.**

Interest-rate-related transactions are as follows as of March 31, 2010.

Millions of yen				
2010				
Hedged items	Contractual value	Contractual value due after one year	Fair value	
Interest rate swaps:				
Receive floating rate/pay fixed rate.....	Deposits	¥174	—	¥(1)
Other				

Notes: 1. Deferred hedge accounting is mainly applied in accordance with the JICPA Industry Audit Committee Report No.24.

2. The fair values of above derivatives are principally based on quoted market prices, such as those of Tokyo Financial Exchange Inc., or discounted values of future cash flows.

**(2) Currency-related transactions**

Millions of yen								
2011					2010			
Hedged items	Contractual value	Contractual value due after one year	Fair value		Hedged items	Contractual value	Contractual value due after one year	Fair value
Forwards exchange contract.....	Loans denominated in foreign currencies	¥1,870	—	¥(13)	Loans denominated in foreign currencies	¥2,085	—	¥(31)

Thousands of U.S. dollars				
2011				
Hedged items	Contractual value	Contractual value due after one year	Fair value	
Forwards exchange contract.....	Loans denominated in foreign currencies	\$22,495	—	\$(163)

Notes: 1. Deferred hedge accounting is mainly applied in accordance with the JICPA Industry Audit Committee Report No.25.

2. Fair value is calculated using discounted cash flow.

(3) Stock-related transactions are not performed.

(4) Bond-related transactions are not performed.

## 31. Comprehensive income

(1) Other comprehensive income for the fiscal year ended March 31, 2010 was the following:

Millions of yen	
2010	
Net unrealized gains on available-for-sale securities.....	¥35,791
Deferred gain or loss on derivatives under hedge accounting.....	1
<b>Total</b> .....	<b>¥35,793</b>

(2) Total comprehensive income for the fiscal year ended March 31, 2010 was the following:

Millions of yen	
2010	
Comprehensive income attributable to owners of the parent.....	¥40,090
Comprehensive income attributable to minority shareholders.....	1,035
<b>Total</b> .....	<b>¥41,125</b>

## 32. Net income per share

Calculation of net income per share ("EPS") for the years ended March 31, 2011 and 2010 is as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Net income	Weighted average shares	EPS	
<b>For the year ended March 31, 2011</b>				
Basic EPS				
Net income available to common stockholders.....	¥4,676	263,954	¥17.71	\$0.213
<b>For the year ended March 31, 2010</b>				
Basic EPS				
Net income available to common stockholders.....	¥4,322	263,994	¥16.37	\$0.175

## 33. Segment information

In March 2008, the ASBJ revised ASBJ Statement No.17 "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No.20 "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

### For the year ended March 31, 2011

Because the Shiga Bank Group has only one segment, banking, the description has been omitted.

#### Related Information

##### (1) Information about services

	Millions of Yen				
	2011				
	Lending services	Securities investment	Fee and commissions	Other	Total
Operating income from outside customers.....	¥48,140	¥19,740	¥12,152	¥11,779	¥91,812

	Thousands of U.S. Dollars				
	2011				
	Lending services	Securities investment	Fee and commissions	Other	Total
Operating income from outside customers.....	\$578,956	\$237,403	\$146,152	\$141,670	\$1,104,183

##### (2) Information about geographical areas

###### (a) Operating income

Operating income from outside domestic customers exceeded 90% of total operating income on the consolidated statements of operation for the fiscal year ended March 31, 2011, therefore geographical operating income information is not presented.

###### (b) Tangible fixed assets

The balance of domestic tangible fixed assets exceeded 90% of total balance of tangible fixed assets on the consolidated balance sheet as of March 31, 2011, therefore geographical tangible fixed assets information is not presented.

##### (3) Information about major customers

Operating income to a specific customer did not reach 10% of total operating income on the consolidated statements of operation for the fiscal year ended March 31, 2011, therefore major customer information is not presented.

For the year ended March 31, 2010

(1) Business segment information

Information about industry segments of the Group as of and for the year ended March 31, 2010 is as follows:

(a) Operating Income

	Millions of yen					
	2010					
	Banking	Leasing	Other	Total	Eliminations/ Corporate	Consolidated
Operating income:						
Outside customers.....	¥86,002	¥8,074	¥2,584	¥ 96,662	¥ —	¥96,662
Intersegment income.....	336	739	2,424	3,500	(3,500)	—
Total.....	86,339	8,813	5,009	100,162	(3,500)	96,662
Operating expenses.....	79,446	7,308	4,479	91,234	(3,453)	87,781
<b>Net operating income.....</b>	<b>¥ 6,893</b>	<b>¥1,505</b>	<b>¥ 529</b>	<b>¥ 8,927</b>	<b>¥ (46)</b>	<b>¥ 8,881</b>

(b) Total Assets, Depreciation, Impairment Loss and Capital Expenditures

	Millions of yen					
	2010					
	Banking	Leasing	Other	Total	Eliminations/ Corporate	Consolidated
Total assets.....	¥4,285,699	¥42,235	¥13,795	¥4,341,730	¥(39,469)	¥4,302,261
Depreciation.....	4,384	27	39	4,451	—	4,451
Impairment loss.....	459	—	—	459	—	459
Capital expenditures.....	2,761	17	76	2,855	—	2,855

Notes: 1. "Other" consists of other banking related activities such as credit guarantee, venture capital and entrusted account.

2. Operating income means total income less certain special income included in other income in the accompanying consolidated statements of operations.

3. Operating expenses mean total expenses less certain special expenses included in other expenses in the accompanying consolidated statements of operations.

(2) Segment information by geographic area

Segment information by geographic area is not presented herein for the years ended March 31, 2011 and 2010, as such information is permitted not to be disclosed if domestic share of both total income and total assets exceeds 90%.

(3) Operating income from international operations

Disclosure of operating income arising from international operations for the years ended March 31, 2011 and 2010 are not presented herein, as such information is permitted not to be disclosed if operating income arising from international operations is less than 10% of consolidated operating income.

## 34. Related party transactions

Transactions of the Bank with related parties for the years ended March 31, 2011 and 2010 were as follows:

Related party	Category	Description of transactions	Millions of yen		Thousands of U.S. dollars
			2011	2010	2011
Yoshihisa Fujita	Director and relative	Lending operation loan.....	¥ 28	¥ 29	\$ 339
Nishikawa Sangyo Co., Ltd.	Companies majority held by auditor and relative	Lending operation loan.....	1,460	1,270	17,572
Nishikawa Living Co., Ltd.	Companies majority held by auditor and relative	Lending operation loan.....	1,283	1,183	15,446
		Customer's liabilities for acceptances and guarantees.....	79	25	961

Related party transactions involving consolidated subsidiaries of the Bank for the years ended March 31, 2011 and 2010 were as follows:

Related party	Category	Description of transactions	Millions of yen		Thousands of U.S. dollars
			2011	2010	2011
Nishikawa Living Co., Ltd.	Companies, majority held by auditor or relative	Receiving lease payments.....	¥107	¥128	\$1,290

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of The Shiga Bank, Ltd.:

We have audited the accompanying consolidated balance sheets of The Shiga Bank, Ltd. and consolidated subsidiaries (the "Company") as of March 31, 2011 and 2010, and the related consolidated statements of income for the years then ended, the consolidated statement of comprehensive income for the year ended March 31, 2011, and the related consolidated statements of changes in equity, and cash flows for the years 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 audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 consolidated subsidiaries as of March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatsu LLC*

June 6, 2011

## Capital Ratios (BIS Standard; Consolidated Basis)

As of March 31, 2011

In March 2007, together with other top-rank Japanese regional banks, the Bank was authorized to employ the Foundation IRB approach for the calculation of its credit risk under the Basel II regulatory capital framework, with the aim of realizing higher-level risk management.

At the end of the term ended March 2011 the Bank's capital ratio stood at 13.01% on consolidated basis and at 12.87% on non-consolidated basis. Tier I capital ratio stood at 9.58% on consolidated basis and at 9.40% on non-consolidated basis.

### Capital Ratio (consolidated basis)

	Millions of yen	Thousands of U.S. dollars
	2011	2011
(a) Capital ratio.....	13.01%	
Tier I capital ratio.....	9.58%	
(b) Tier I capital.....	¥ 203,922	\$ 2,452,469
50% of the excess amount of expected future loss over qualified reserve.....	1,906	22,932
(c) Tier II capital.....	76,498	920,000
45% of the difference between balance sheet values and book values of securities available for sale.....	26,940	323,995
45% of the surplus from land revaluation.....	9,181	110,424
Reserve for possible loan losses, excluding specific reserve.....	376	4,522
Subordinated debt.....	40,000	481,058
(d) Deductions.....	3,608	43,397
Shareholding by other financial institutions to ensure fund procurement capability.....	1,000	12,026
Investments outside the scope of consolidation.....	646	7,774
50% of the excess amount of expected losses over qualified reserves.....	1,906	22,932
Expected future loss on exposure (primarily of equity shares) under PD/LGD approach.....	55	663
On-balance sheet exposure to securitization and credit-enhancing IO strips.....	—	—
(e) Total regulatory capital (b + c - d).....	276,812	3,329,072
(f) Risk-weighted assets.....	2,127,460	25,585,818

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

For reference:	2011	2010	Comparison
(on consolidated basis)			
Capital ratio.....	13.01%	12.42%	0.59%
Tier I capital ratio.....	9.58%	8.99%	0.59%
(on non-consolidated)			
Capital ratio.....	12.87%	12.31%	0.56%
Tier I capital ratio.....	9.40%	8.86%	0.54%

# Stock Information

As of March 31, 2011

## Major shareholders

	Number of shares held (Thousand shares)	As a percentage of total number of issued shares (%)
Japan Trustee Services Bank, Ltd.	14,574	5.49
Northern Trust Co. (AVFC) Sub A/C American Clients	14,168	5.33
NIPPONKOA Insurance Co., Ltd.	11,651	4.38
Nippon Life Insurance Company	9,475	3.56
Shiga Bank Employees' Shareholding Association	6,960	2.62
Mizuho Corporate Bank, Ltd.	6,500	2.44
Meiji Yasuda Life Insurance Company	6,199	2.33
The Dai-ichi Mutual Life Insurance Co., Ltd.	5,626	2.11
Northern Trust Co. AVFC Re U.S. Tax Exempted Pension Funds	5,580	2.10
The Chuo Mitsui Trust & Banking Co., Ltd.	5,521	2.07
<b>Total</b>	<b>86,256</b>	<b>32.49</b>

## Number of shares held by type of shareholder (Thousand shares)



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

## Monthly share price movements



# SHIGA BANK

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