

SHIGA BANK

これまでも。  
これからも。



ANNUAL REPORT  
2013

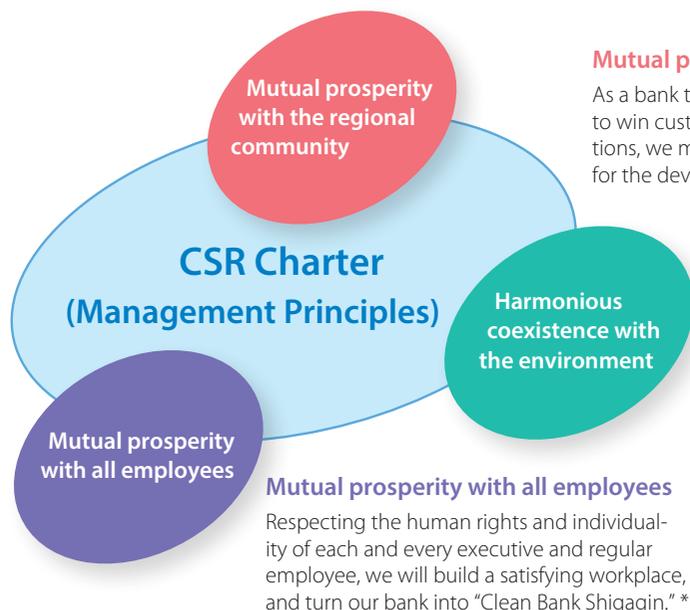
Year ended March 31, 2013



## CSR Charter (Management Principles) (Instituted in April 2007)

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.

行是  
自分にきびしく  
人には親切  
社会につくす



### 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.

### 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.

\*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, 2013, 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: ¥4,640.5 billion  
Deposits (including negotiable certificates of deposits): ¥4,194.5 billion  
Loans: ¥2,829.4 billion  
Common Stock: ¥33.0 billion  
Employees: 2,280  
Offices and Branches: 138 (including 10 agents)  
Rating: JCR A+  
R&I A+

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# Consolidated Financial Highlights

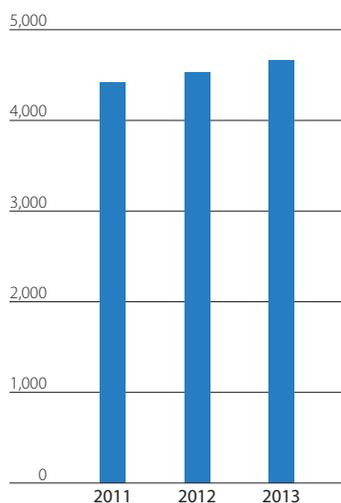
	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
As of March 31				
Total assets	¥4,662,055	¥4,523,309	¥4,420,479	\$49,569,963
Investment securities	1,486,497	1,430,242	1,385,525	15,805,401
Loans and bills discounted	2,822,561	2,743,438	2,768,107	30,011,286
Deposits	4,090,014	3,985,459	3,891,407	43,487,658
Total equity	267,535	248,047	257,531	2,844,607
Years ended March 31				
Total income	88,872	91,082	93,324	944,950
Total expenses	74,991	72,998	81,532	797,362
Income before income taxes and minority interests	13,880	18,084	11,792	147,587
Net income	5,544	8,228	4,676	58,951
Per share data (in yen, dollar)				
Cash dividends	¥ 6.00	¥ 6.00	¥ 6.00	\$ 0.064
Net income	21.00	31.17	17.71	0.223
Net equity	998.62	926.27	886.58	10.62
Ratio				
Capital ratio	14.14%	14.04%	13.01%	—
ROE	2.18	3.43%	1.99%	—

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

2. U.S. dollar amounts represent translation of Japanese yen at the rate of ¥94.05 to US\$1.00 on March 31, 2013, the final business day of the term.

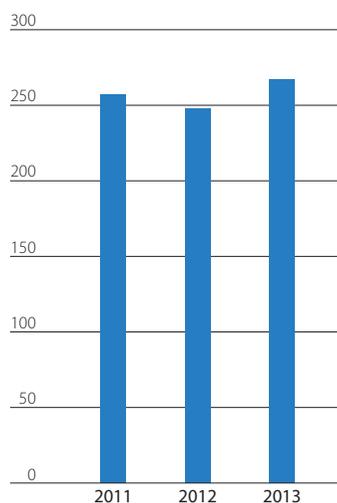
## Total assets

(Billions of yen)



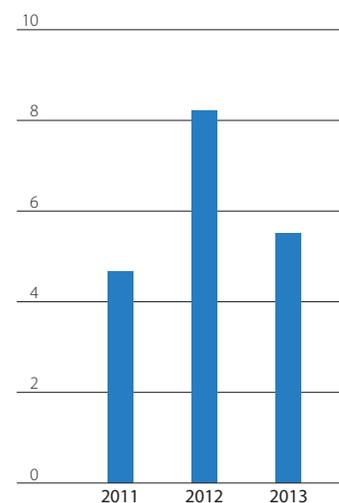
## Total equity

(Billions of yen)



## Net income

(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



### Starting of the 5th Medium-Term Business Plan

# For the Future with You

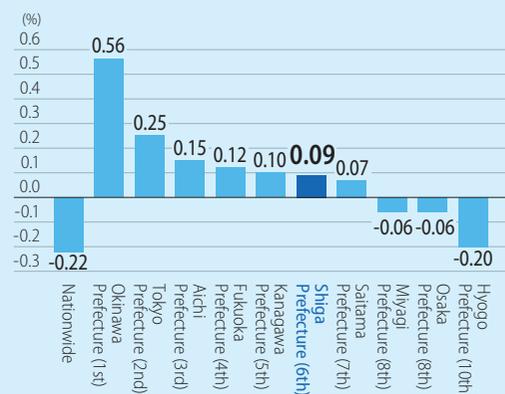
Aiming for the sustainable growth of  
our region with our customers

### Looking back at fiscal year 2012

Looking back at the Japanese economy in fiscal year 2012, in the first half of the fiscal year a recovery was seen due to the demand stimulated by the reconstruction after the Great East Japan Earthquake and the effects of government policy, but overall the economy weakened against the background of a slowdown in the world economy and other factors. In the second half of the fiscal year an improvement in share prices and confidence was seen due to the sense of expectation caused by the government's economic policy and monetary easing by the Bank of Japan but the ripple effect of this on the real economy was limited due to the steep rise in prices for raw materials caused by the depreciation of the yen and the uncertainties in overseas economies, so renewal and strong rejuvenation of the economy is still needed.

### ■ Rates of population change for prefectures (as of October 1, 2012)

Source: 2012 Population Estimates / Ministry of Internal Affairs and Communications



Rate of population change (%) = the population change (from October the previous year to September this year) / population as of October 1 the previous year × 100

In this context, the bank performed well in the fiscal year ended March 31, 2013, with both average deposits balances during the period and the balance of loans and bills discounted during the period increasing strongly, to ¥4,114.5 billion (an increase of ¥63.9 billion year on year) and ¥2,752.5 billion (an increase of ¥36.0 billion year on year) respectively. Meanwhile, application of the new Basel III capital adequacy requirements was gradually commenced from the fiscal year ended March 31, 2013. However, the consolidated total capital adequacy ratio is 14.14%, and the Tier 1 ratio and common equity Tier 1 ratio are both 9.44%, much higher than the minimum required ratios (consolidated total capital adequacy ratio of 8.0%, Tier 1 ratio of 4.5%, common equity Tier 1 ratio of 3.5% or more), and we will continue to maintain this high level of soundness at the bank.

## The market in Shiga Prefecture

Our main business base of Shiga Prefecture is located in the geographic center of Japan, and is also blessed with outstanding traffic accessibility because it is connected to the Kinki and Tokai regions so many production plants of leading manufacturers are located here. Furthermore, Shiga Prefecture is a leading prefecture in terms of population growth, with both its birth rate and percentage of the child population ranked second in the nation\*1, so going forward further high growth is expected.

In addition to these advantages, the Bank is working hard to use the characteristics of a region that offers history, culture and natural environment, and the “growth strategy” implemented by the government, to develop and promote our customers and the regional community by creating new businesses and generating employment.

\*1 Birth rate (2012 Vital Statistics / Ministry of Health, Labour and Welfare)  
Percentage of the child population (2012 Population Estimates / Ministry of Internal Affairs and Communications)

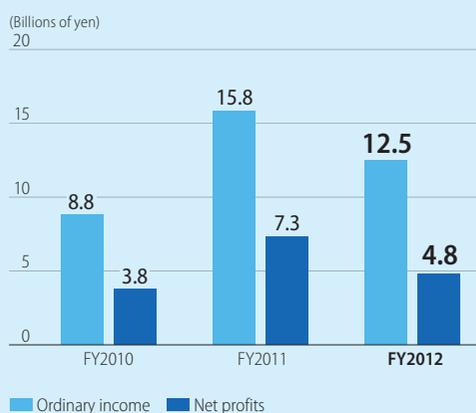
## The “determination” incorporated in our 5th Medium-Term Business Plan

On April 1, 2013 we started the 5th Medium-Term Business Plan with the aim of making further contributions to our regional community. The name of the plan is “For the Future with You” and we added the sub-title “Aiming for the sustainable growth of our region with our customers.” “For the Future” incorporates the strong determination to be “future-oriented;” that is, to overcome present challenges and open up a bright future, and “with You” incorporates the strong determination to progress toward sustainable growth together with our customers, our regional community, all of the Shiga Bank Group’s employees, and the global environment. Furthermore, we have adopted “a bank journeying into the future together with its customers and region” as our vision for the next ten years and as the first stage of that vision we are going to revise all of our operations with “the customers as the starting point” and work on “awareness-raising and behavioral improvement for improving customer satisfaction.”

Specifically, on May 7 we launched the new SUCCESS\*2 system which revises and standardizes the workflows in the lending operation and consolidates and systemizes the lending operation to the Head Office. The biggest objective of this system is to build stronger relationships of trust by providing financial services with higher added value to our customers, for example by reducing the administrative procedures and processing time for loans as much as possible, increasing points of contact and interview time with customers, offering consultations about business management, and making proposals aimed at the resolution of issues.

It is my belief that “the foundation of bank management is ‘people’ and ‘people’.” We will thoroughly implement this idea, and all of the employees will work hard to improve themselves and realize “mutual prosperity” with our customers and our region through “faithfulness (the feeling of thinking about customers’ needs at all

### ■ Ordinary income and Net profits



### ■ Capital adequacy ratio (consolidated) (at the end of March 2013)

	Actual	Minimum required ratio
Consolidated total capital adequacy ratio	14.14%	8.0% or more
Consolidated Tier 1 ratio	9.44%	3.5% or more
Consolidated common equity Tier 1 ratio	9.44%	3.5% or more

\* From the end of March 2013 we have been calculating the capital adequacy ratio using the Basel III standard.



times),” “imagination (a keen sensibility and abundant ideas),” and “enthusiasm (full dedication and strong will).”

\*2 SUCCESS: an acronym for SHIGAGIN Utility Customers Communication Excellent Support System

### The “three basic strategies” in the 5th Medium-Term Business Plan

In the 5th Medium-Term Business Plan, we have established “three basic strategies.” The first is the “provision of solutions matching the customers” which involves deepening the “three brand-building strategies” we were already promoting. The second is “further contributions to the regional economy” which involves strengthening our efforts to support new businesses and growing industrial sectors and to create and increase the appeal of the regional brand. The third is “construction of a resilient business foundation” which involves efforts to train and utilize “human resources” and to strengthen our internal control system.

### Tackling revitalization of the regional economy

In the “three basic strategies” we will work hardest on revitalization of the regional economy. Through bank management that is focused on ten years from now and 20 years from now, we will work towards the sustainable growth of the regional economy with the firm conviction that “development of our region is in our hands.”

On April 1, we established the Regional Promotion Office in the Business Promotion Department. As a bank rooted in the local community, we established the new office with the hope that we could achieve regional promotion so in sectors in which growth is expected, including “the environment,” “medical care and health,” “agriculture,” and the “tourism business” we will collaborate with

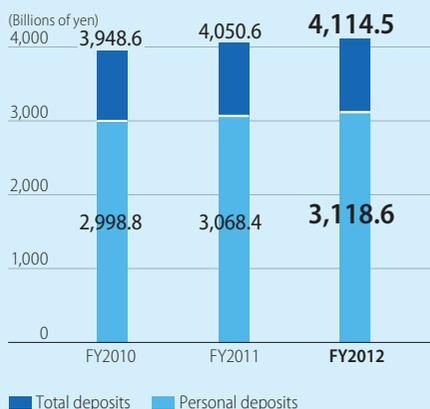
governments, urban development companies, commerce and industry organizations, NPOs and others to focus our energies on support for new businesses and creating and increasing the appeal of secondary start-ups and the regional brand.

China and the ASEAN countries are growing rapidly and undergoing a major transformation from the “factory” of the world to an “enormous market.” An increasing number of our customers state that they wish to sell outstanding products and services to the rapidly-developing Asian countries to bring in the “growth” of Asia. We will utilize our overseas network linking the Hong Kong Branch which is the only overseas branch run by a regional bank in Kinki, the Shanghai Representative Office, the Bangkok Representative Office, and the Asia Desk at the Head Office to support the overseas businesses of our customers, improve the business performance of our customers, and work for the revitalization of the entire regional economy centered on *kokoku* (this means “lake country” and is another name for Shiga Prefecture).

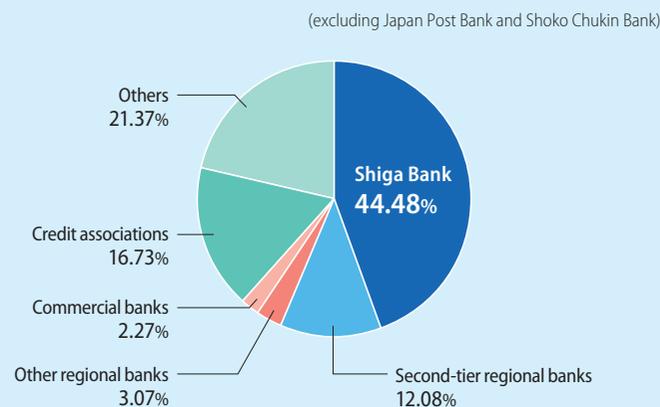
### Further deepening our CSR activities

The issues of preventing global warming and preserving biodiversity must be addressed without delay. Based on the idea of “environmental management” which seeks to promote both the environment and the economy, the Bank is developing diverse resources-saving and energy-saving activities including reducing the paper, trash, and electricity consumed in its operating activities and reducing greenhouse gas emissions by opening environmentally-friendly branches. Furthermore, with the firm conviction that we can “protect the global environment through the financial flows” we are working on “environmental finance” which promotes the development of environmentally-friendly financial products and services, and developing volunteer activities such as reed-cutting, eradication of exotic fish species, and forest-building support.

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



■ Deposit balances (share in Shiga Prefecture) (as of September 30, 2012)



The Bank is rolling out multifaceted activities aimed at realizing the “mutual prosperity” put forth in the CSR Charter (Management Principles) based on the three key CSR concepts of “environment,” “welfare,” and “culture.” We will work on further deepening our CSR activities because they are activities that involve working together with our customers for a better future.

### The 80th anniversary of the founding of the Bank — Moving into the future together with our customers and region —

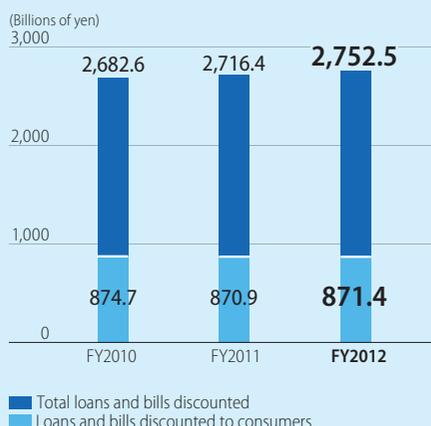
We will celebrate the 80th anniversary of the founding of the Bank on October 1, 2013. On October 1, 1933, two major banks in the prefecture at the time, the 133rd National Bank (Hyakusanjusan Bank) and the Hachiman Bank merged to create the Shiga Bank and since

then we have built the bank up into the Shiga Bank of today thanks to the trust and patronage of our customers over many years. We are undertaking our journey together with the regional community so we will not grow unless our region achieves growth.

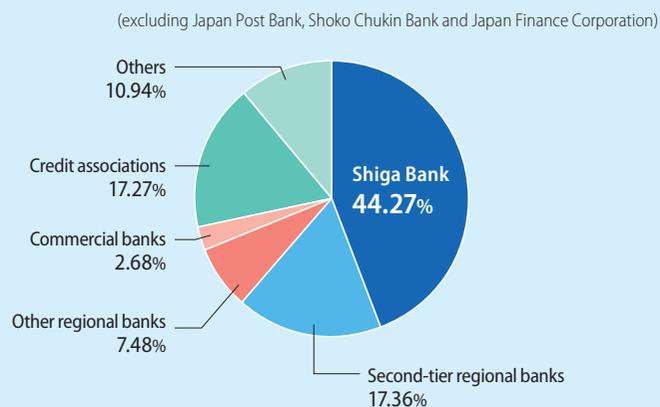
As “a bank journeying into the future together with its customers and regional community” we will continue to focus all of our energies on development of the regional economy and building a sustainable society going forward.



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



#### Balances of loans and bills discounted (share in Shiga Prefecture) (as of September 30, 2012)





# For the Future with You

Basic Vision (the kind of bank we should ideally be)

**A bank journeying into the future together with its customers and region**

Main Theme

**Awareness-raising and behavioral improvement for improving customer satisfaction**

Behavioral Guidelines

**Faithfulness, imagination, and enthusiasm**

**Awareness-raising and behavioral improvement of the Group employees that gives top priority to the development of our customers**

Basic strategy

**1**

## Provision of solutions matching the customers

< Providing expertise and care > — Deepening of the “three brand-building strategies” —

### <Being strong in Networks>

- (i) Strengthen support systems dedicated to the development of our customers
- (ii) Revise channel functions that improve the convenience of our customers
- (iii) Utilize IT that meets the needs of our customers

### <Being strong in Asia>

- (iv) Support the overseas businesses of our customers

### <Being highly CSR-conscious>

- (v) Develop CSR activities together with our customers

### Strengthening of profitability

- We will secure appropriate revenues and aim to strengthen profitability by increasing points of contact with our customers and providing solutions based on ascertaining the needs of our customers.
- We will expand our service revenues by offering suitable services for asset management needs and strengthening our settlement functions.

### Reduction of expenses

- We will develop each BPR and suitably deploy and effectively utilize human and physical resources, in order to improve productivity and thereby reduce costs.

### Risk management

- We will focus our energies on sharing issues and on consulting activities in order to reduce the risks faced by our customers.
- We will perceive risk appropriately based on the principle of self-responsibility and control risk strategically and rationally.

Bank motto:

**Be tough on ourselves, kind to others and serve society**

CSR Charter (Management Principles):

**Mutual prosperity with the regional community,**

#### ROE (return on equity)

An indicator showing the extent to which the company is using the invested capital of the shareholders efficiently to generate profits

$$\frac{\text{Net profits}}{\text{Beginning of year and end of year average value of (net assets - share options - minority shareholders' equity)}} \times 100$$

#### OHR (Overhead ratio)

An indicator showing how efficiently the bank is being managed

$$\frac{\text{Expenses}}{\text{Gross profit}} \times 100$$



## — Aiming for the sustainable growth of our region with our customers —

[Name and the concept of the basic vision]

The Shiga Bank Group will journey forward with our customers in a future-oriented manner in order to create new values and the sustainable growth of our region with our customers.

**Faithfulness:** the feeling of thinking about customers' needs at all times

**Imagination:** a keen sensibility and abundant ideas

**Enthusiasm:** full dedication and strong will

We will expand, enhance and upgrade our services to our customers by developing each BPR (operation of SUCCESS)

Basic strategy

2

### Further contributions to the regional economy

- (i) Proactively tackle the development of our customers and the regional economy
- (ii) Strengthen support systems for working on the new businesses of our customers
- (iii) Work together with our customers on increasing the appeal of the regional brand

Basic strategy

3

### Construction of a resilient business foundation

- (i) Develop and utilize the human resources that will contribute to the development of our customers
- (ii) Strengthen the internal control system in order to enable our customers to conduct transactions with the bank with even greater peace of mind
- (iii) Reform our operations with the objective of improving the convenience of our customers

#### Our numerical targets for each indicator (by the final fiscal year)

- ROE (consolidated) ..... 3.0% or more
- OHR (non-consolidated) ..... Less than 70%
- Common equity Tier 1 ratio (consolidated) ..... 10.0% or more
- Reduction in greenhouse gas emissions ..... 20% reduction (\*)

(\*) An average 20% reduction compared to fiscal year 2006 over the three years from fiscal year 2013 to fiscal year 2015

#### Regional contribution goals (by the final fiscal year)

Total deposits (end of year balance) ..... ¥4.3 trillion  
Total loans (end of year balance) ..... ¥3.0 trillion

<Promotion of relationship banking> (cumulative over the period of the plan)

**Network:** number of customers for which we provide the ratings communication service: ..... 3,200 customers  
Number of instances of business matching meetings: ..... 3,000 instances

**Asia:** number of instances of overseas business support: ..... 4,300 instances

**CSR:** total number of people participating in volunteer activities: ..... 7,500 people

mutual prosperity with all employees,

harmonious coexistence with the environment

#### Common equity Tier 1 ratio

Beginning from the fiscal year ended March 31, 2013 the new capital adequacy requirements (Basel III) have been applied to international uniform standard banks possessing a branch overseas.

It is reported that of the capital adequacy requirements the top priority is given to the "common equity Tier 1 ratio," the core capital comprised of common equity, internal reserves, etc. and the level that is desired after full implementation is 7.0% or more (including the capital conservation buffer).

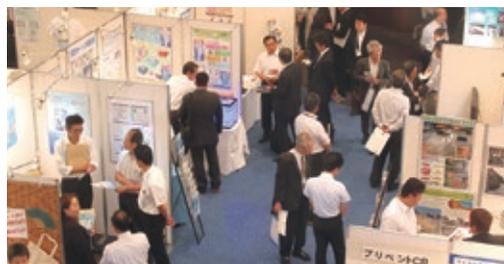
## Environmental businesses and new businesses

■ We began the Shigagin Business Forum 2013 called “Saturday School for Entrepreneurship” in May. We helped the creation of new businesses even more strongly under the themes of the environment, regional development, medical care and health, industry-academia cooperation, and cooperation with small and medium-sized enterprises. A total of 1,811 people have attended the forum up until fiscal year 2012.



Saturday School for Entrepreneurship

■ We held the Shigagin Eco Business Matching Fair 2013 this year as well. We were holding the fair the sixth time this year and newly established the “Asian Market Expansion Support Corner” to provide support for overseas business.



Eco Business Matching Fair 2013

■ We held a solar power generation seminar and a seminar on creating hexagonal industry, both for the first time. Both seminars were highly successful, with the participants asking many enthusiastic questions.

# The Shiga Bank Topics

## Products and services tailored to life stages

■ We offer a lineup of three-month time deposits in the “retirement benefits special time deposits” category. Furthermore, the “Shigagin Twin Plan Dedicated for Retirement Benefits” meets retirement benefit management needs by setting the time deposit interest rate at a higher level than usual for a limited period until the end of September.



■ A full-time officer in the Head Office who is in charge of insurance only and three Personal offices in Shiga Prefecture offer insurance consulting in order to meet the diverse needs of our customers as those needs change along with the life events of the customers, such as starting work, getting married, having children, buying a house, retiring, and so on.

■ In order to improve the convenience of our customers, we have commenced a service through our “Shigagin Direct Telephone Banking” accepting partial advanced repayment of mortgage loans. There is no handling fee for the partial advanced repayment.



## Strongly supporting Asian business

■ Our customers are accelerating their entry into overseas markets, particularly in Southeast Asia, so we concluded business alliances with Bank Negara Indonesia (Indonesia) in September 2012, the State Bank of India (India) in February 2013, and the Thailand Board of Investment (Thailand) in June 2013. Now we are able to provide local information and support our customers' entry into these markets.



Signing ceremony with Bank Negara Indonesia

■ We have provided greater support for the Asian businesses of our customers using our network centered on the Hong Kong Branch, which is the only overseas branch run by a regional bank in Kinki, the Shanghai Representative Office, the Bangkok Representative Office which increased its staff numbers in April 2013, and the Asia Desk in the International Department.



The building in which the Bangkok Representative Office is located

In fiscal year 2012, the final year of the 4th Medium-Term Business Plan, the Bank aimed to “create a financial service business that can deliver high added value” and based on the “three brand-building strategies” we created environmental businesses and new businesses, developed and provided products and services that met the diverse needs of our customers, and supported our customers' efforts to develop their businesses in Asia. The entire bank also engaged in multifaceted activities including CSR (corporate social responsibility) with the focus on the environment.

## Thorough implementation of CSR

■ Our *Ikimonogatari*\* activities to preserve the environment and ecosystem of Lake Biwa were included in the 2012 Environmental White Paper published by the Ministry of the Environment. The ministry highly praised the content of activities which had a strong narrative, including “reed-cutting,” “reed planting,” “release of *Nigorobuna* and *Wataka* fish,” and “volunteers for fishing to eradicate exotic fish species.” In the current fiscal year we will develop the above activities into ongoing activities with potential for development and a strong narrative, in the form of a Shiga Bank's 80th Anniversary Celebration Project called the *Ikimonogatari* Project.



\* The *Ikimonogatari* Project: a project for saving biodiversity by weaving together the futures of living creatures.

■ Shiga Bank granted ¥2 million to four elementary and intermediate schools in Shiga Prefecture for the creation of school biotopes that will assist the environmental studies of the children and, due to our desire to improve regional welfare, we granted ¥9.18 million in Shigagin Welfare Fund subsidies to 15 organizations in the prefecture.



Subsidy Granting Ceremony of the Shigagin Welfare Fund

## Our Services for Corporate Customers

Believing that the development of our customers is our most important mission, Shiga Bank supports corporate customers with its “solutions business,” which offers management consultations that provide solutions for their business operations. In addition, we share and solve management problems with our customers in a way that is tailored to their “business life-cycle” (i.e., foundation, growth, and maturity).

### Developing new businesses

To assist in the development of new businesses that realize new growth for our customers, we are providing in a wide range of activities including (i) industry-academia-government cooperation through the new business support network Shigagin Nonohana Support Group, (ii) providing ideas for new businesses by holding the Saturday School for Entrepreneurship, and (iii) equity investment through the Shigagin New Business Support Loan and the Shiga Venture 4th Fund which meet diverse funding needs.

#### ■ “Saturday School for Entrepreneurship” business forum

The “Saturday School for Entrepreneurship” supports a strong spirit of entrepreneurship through lectures by business executives currently active in each field and presentations about the latest trends in each field by experts, based on themes such as the environment, medical care and health, regional development, and cooperation with small and medium-sized enterprises.

In May we started the “Saturday School for Entrepreneurship” business forum for fiscal year 2013, which is the fourteenth year. This year we will add subcommittees and introduce content for creating more practical business ideas in the form of a new program. The school will be held on Saturdays five times, until February 2014.

### Business matching

We offer business matching services to create new “business currents” by matching the needs of enterprises. We introduce companies that satisfy the demands of our customers, including corporations and sole proprietors. We also propose them as candidate partners, to help our customers improve their business results by leveraging the extensive network of companies and branch network that we have built up as a community-based financial institution.

#### ■ Holding of the Eco Business Matching Fair 2013

We held the “Eco Business Matching Fair 2013” on June 19, 2013 to provide a forum for business talks focusing on environmental businesses. This year was the sixth time we have held the fair.

89 companies and organizations presented exhibits on six

themes including new energy and energy saving, recycling, and environmentally-friendly civil engineering and construction, with 1,780 visitors and enthusiastic business talks held. Participating customers gave compliments about the event, saying “We were able to find new business partners” and “We want to participate next year as well.” Furthermore, we newly established the “Asian Market Expansion Support Corner.”



### Establishment of a fund for communicating Shiga’s appeal

We have created a fund for communicating Shiga’s appeal as an investment in the tourism business. 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 develop and provide new products and services utilizing local resources.

We invested in a fund that has the objective of increasing the brand power of Kurokabe Corporation, the operator of Kurokabe Glass Shop (Nagahama City, Shiga Prefecture), and in a fund that has the objective of reviving the freshwater pearl industry in which production volumes are falling dramatically.

### ASIA GATEWAY 1, L.P.

The Bank has made an equity investment in the “ASIA GATEWAY 1, L.P.” which has SUMITOMO MITSUI TRUST INVESTMENT CO., LTD. as an unlimited liability partner in an investment project to promote

new business development by the Organization for Small & Medium Enterprises and Regional Innovation, JAPAN, and in March 2013 we signed the partnership contract.

Through this fund, we will make investments in small and medium-sized enterprises that are developing their businesses globally, and will provide hands-on support for their efforts to open up overseas markets, with the aim of expanding the overseas businesses and improving the corporate value of the companies that receive the investments.

### Environmental measures

Initiatives to prevent global warming and to preserve biodiversity are essential for a company's sustainable development. Shiga Bank helps its customers develop environmental business to achieve compatibility between their environmental and economic concerns.

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

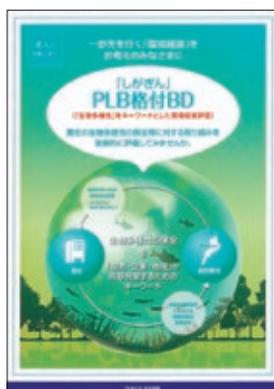
The Bank has established "the Shiga Bank Principles for Lake Biwa (PLB)" to protect Lake Biwa and the global environment, and is enlisting support for these principles.

#### ■ Adoption of the PLB 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."

#### ■ 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 2013, a total of 1,278 loans worth ¥28.9 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.



*Nigorobuna* fish



*Wataka* fish

# Management Support Initiatives

In order to share the needs and business issues and solve the issues of our customers, we offer support for the formulation of management improvement plans and management support through collaboration with external institutions.

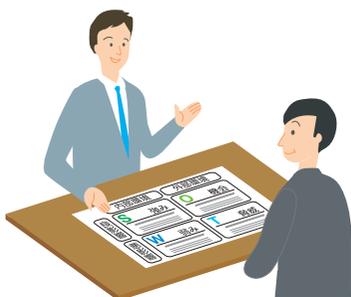
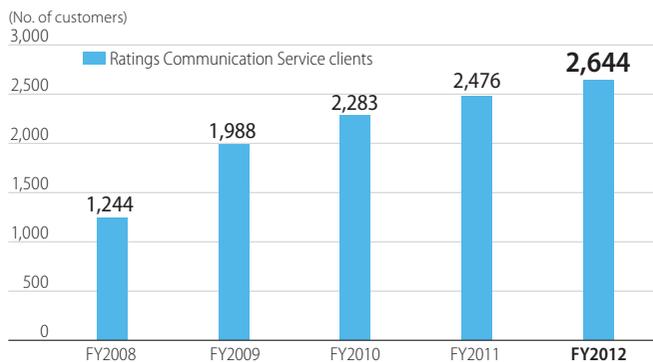
The Bank is endeavoring to realize “mutual prosperity with regional communities” by strengthening its consulting functions through “providing expertise and care” and supporting the development of its customers.

## 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 customers about its management vision, we propose and provide support for improvement measures for the challenges and problems that the Bank perceives.

### Rating Communication Service clients (cumulative total)



## Backing up the corporate management of our customers

We offer extensive support to customers working to improve their management.

The Company Management Support Office in the Credit Supervision Department is at the center of these activities.



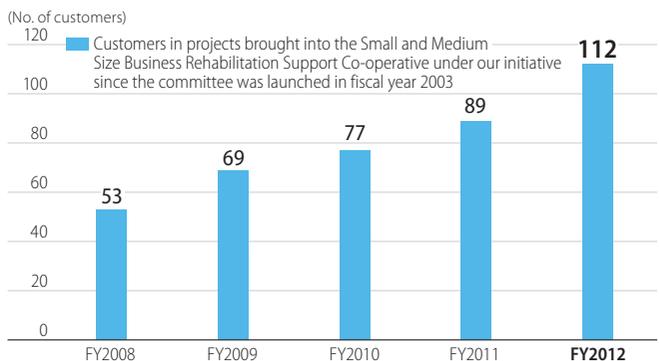
Qualified employees, including certified small and medium enterprise management consultants, comprise this Office. The Office members provide management support to our corporate customers by making active use of their expertise and collaborating with external experts, such as lawyers, certified public accountants, tax accountants and consulting companies.

## Initiative for fundamental business revitalization support

For customers that need fundamental management improvements, including reconstruction of their finances, we offer full-scale business revitalization support entailing financial support such as DDS (debt-debt swap).

For our business revitalization service, including financial support, we are strengthening our collaboration with the Small and Medium-sized Enterprise Revitalization Support Councils and other fair and neutral third-party institutions, and focusing all of our energies on the revitalization of the customers.

### Cumulative total of customers brought into the Small and Medium Size Business Rehabilitation Support Co-operative



# Overseas Business Support

Our customers are entering overseas markets, particularly in Southeast Asia, at an accelerating pace. The Bank believes that our customers' entry into overseas markets leads to further business development and thus revitalizes Japan's regional economy, so going forward we will continue to support the expansion of our customers' businesses overseas.

## Asia Network



## Banks and organizations which have agreed to be in business alliances and cooperate with Shiga Bank

(as of the end of June 2013)

Name of bank or organization	The alliance or cooperation was agreed on...
Thailand Board of Investment (Thailand)	June 2013
State Bank of India (India)	February 2013
Bank Negara Indonesia (Indonesia)	September 2012
Bangkok Bank (Thailand)	November 2008
Kasikorn Bank (Thailand)	November 2008
Bank of China (China)	June 2003
Industrial and Commercial Bank of China Limited (China)	November 2002

## Commencement of the handling of "Bank of Japan Funds (US dollar special provisions)"

On November 27, 2012 the Bank participated in the "Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth (US dollar special provisions)" implemented by the Bank of Japan, and on December 7 received fund provisioning for the first time. By participating in this system, we aim to provide US dollar-denominated loans to our customers to strengthen the foundations for economic growth.

As ever, we will continue to meet our customers' needs for foreign currency funds through our initiatives for loans denominated in foreign currencies, by utilizing this system.

## Officials from Myanmar observe Head Office Business Department

Myanmar government officials and Myanmar Central Bank executives visited the Head Office, Business Department of Shiga Bank on February 12, 2013. The purpose of their visit was to experience operational training in a regional financial institution, which is not still common in Myanmar which is on the way to becoming a democratic nation. They observed our system such as management support for small and medium-sized enterprises, cooperation with industry-academia-government, and environmental finance.

We took the opportunity provided by this visit to start developing cooperation with the administrative institutions of Myanmar, a country which is attracting attention as "the last undeveloped area in Asia," and endeavor to provide information about Myanmar to our customers.

In addition, on February 6 and 7, 2013, in conjunction with the visit to Japan by the Thailand Board of Investment (BOI), the Bank held the Thailand Investment Seminar jointly with the board in three venues in Shiga and Kyoto.

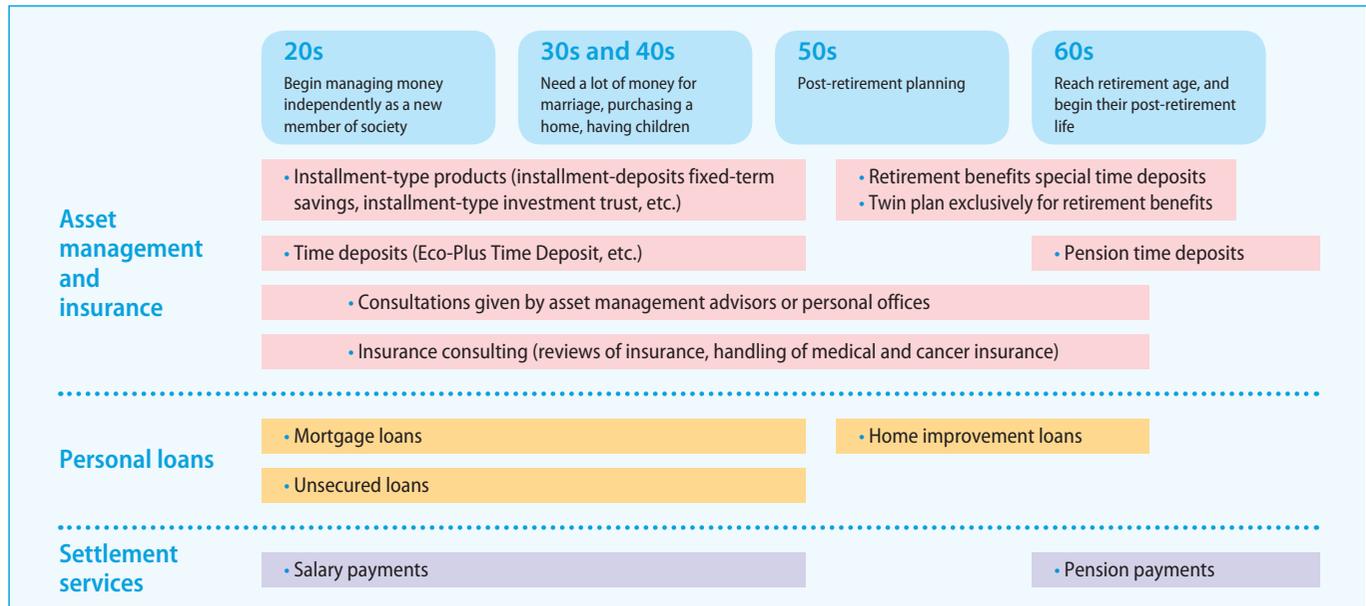
We will continue to hold seminars which are helpful for our customers in developing their business overseas.



Officials from Myanmar and executives from the central bank of Myanmar enthusiastically asked questions as they observed the counter

# 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.



## Our convenient Net Investment Trust service is very popular

Our Shigagin Net Investment Trust service enables its users to manage their assets more easily at any time and any place and to purchase investment trusts on the Internet. The application fee is discounted 20% compared to applications handled at branch counters, and the service is extremely convenient because it handles a wide range of funds and transactions are possible on Saturdays, Sundays and public holidays.

Asset management needs are growing, partly due to the effect of the high share prices from December 2012 onwards.

The number of contracts have been increasing for this product too since we started handling it, and the number and value of the investment trusts handled are also increasing.

## Shiga Bank's 80th Anniversary Cerebration Project

The Bank will celebrate the 80th anniversary of its founding on October 1, 2013. To express our gratitude, we will hold a lottery to select customers who choose to receive their pensions from our bank for invitations to the "Yoshimoto Shinkigeki Variety Performance."

In addition, following on from the "80th Anniversary Pre-Concert" in February 2013, we will hold the "Shiga Bank 80th Anniversary Concert" conducted by Yutaka Sado, a leading Japanese conductor, in September 2013.

## Mortgage loans in the "Shigagin Plazas"

The "Shigagin Plazas" are open on Saturdays and Sundays and public holidays, and they meticulously meet the loan needs tailored to the lifestyles of our customers, including consultations and receipt of applications for mortgage loans.

## Eco-Plus Time Deposit

With our environmentally-friendly financial product, Shigagin Eco-Plus Time Deposit, since fiscal year 2006 each time a customer uses an ATM, Internet banking, or telephone banking to make a time deposit the Bank puts aside ¥7 (the amount equal to the application form charge that is saved) and makes a donation every year to support the environmental education of children.

The Bank has donated a cumulative total of ¥12,790,000 to 27 schools to support the creation of biotopes in elementary schools in Shiga Prefecture (as of the end of June 2013).

The Bank is aware that “companies are also members of society” so our entire organization is working to pursue corporate social responsibility (CSR) aimed at “the sustainable development of society.”

Specifically, 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 2007.

### An Eco-First enterprise

The bank, as a company based on the shore area of Lake Biwa, is implementing “environmental finance.” It promotes environmental preservation from a financial viewpoint, including through the provision of financial products and services on the basis of “environmental management,” which incorporates the environment in management.

Our past achievements in environmental preservation activity were highly valued, and thus, the bank became the first company in the finance industry to receive “Eco-First Enterprise” certification from the Ministry of the Environment (July 2008). We have the mission of contributing to the creation of a sustainable society through the roles of finance, and with a view to expanding the environmentally-friendly flow of money we will work hard with our customers, everyone in our region, and our employees to preserve our environment.



### Publication of our environmental activities in the 2012 Environmental White Paper

Our *Ikimonogatari* activities to preserve the environment and ecosystem of Lake Biwa were included in the 2012 Environmental White Paper published by the Ministry of the Environment. The ministry highly praised the content of the activities for having a strong narrative.

Furthermore, we have integrated the *Ikimonogatari* activities that we were previously implementing individually into the *Ikimonogatari* Project, a Shiga Bank's 80th Anniversary Celebration



The 2012 Environmental White Paper

Project. We will develop these activities into ongoing activities with greater potential for development and a stronger narrative as we work toward our 100th anniversary of the bank.

### Examples of activities in the *Ikimonogatari* Project

- Subsidy Granting Ceremony of the Shigagin Welfare Fund
- Tree planting by new bank employees
- Volunteers for fishing to eradicate exotic fish species
- School biotope support activities
- Protection, raising, and release of *Nigorobuna* and *Wataka* fish
- Team cleaning of Lake Biwa
- Forest-building support activities
- Exhibiting in the Biwako Environmental Business Exhibition (Biwako Business Messe)
- Donating wheelchairs as a part of the small kindness movement
- Susuki grass cutting
- Reed planting
- Activities to preserve clusters of reeds
- Participation in the charity calendar market
- *Nigorobuna* and *Wataka* fish release ceremony
- Project to run Biwa trout upstream



Tree planting by new bank employees

## 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 and procedural documents clearly stating what the initial response should be when a disaster occurs. In addition, we are endeavoring to improve the effectiveness of our emergency responses by regularly implementing emergency drills and providing in-depth education about emergency responses to the executives and employees. Moreover we regularly hold meetings of the BCP Committee chaired by the Senior Managing Director, keep everyone in the bank informed, and continuously revise our in-house systems.

#### ■ Learning from the Great East Japan Earthquake

In order to clarify what our initial response should be when a disaster occurs, we formulated the “Earthquake Disaster Initial Response Manual” in April 2011 and in order to clarify what our initial response should be when a nuclear accident occurs we formulated the “Nuclear Facility Accident Initial Response Manual” in October 2012.

We will continue to make efforts to develop business continuity systems.

## Disaster measures

The Bank has taken measures to develop in-house infrastructure 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.

#### ■ Introduction of satellite cell-phones

When the Great East Japan Earthquake occurred, many fixed-line telephones and cell phones stopped working so in November 2011 we introduced satellite cell-phones with the goal of diversifying our communication methods.



#### ■ 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 administrative building that has its very own 72-hour power generation capacity. Also in the Kanto region, we have installed a system backup center.



#### ■ 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.



#### ■ Construction of systems for when a major earthquake occurs

We are prepared to establish an Emergency Headquarters which will automatically take overall control of disaster response in the event that a major earthquake occurs in the Kyoto and Shiga area, and systems for gathering information about the damage sustained at the branches and determining and taking measures to achieve business continuity. Furthermore, in order to urgently ascertain the human damage sustained at the time of the disaster, we have introduced the Safety Verification System to confirm the safety of all of the executives and employees at once using mobile phones and other tools.

# Initiatives for Relationship Banking

## State of progress (April 2012 to March 2013)

The Bank was committed to enhancement and application of the marketing strategies in the 4th Medium-Term Business Plan, namely “providing expertise and care under three brand-building strategies” (“being strong in Networks,” “being strong in Asia,” and “being highly CSR-conscious”). We set various specific numerical targets aimed at promoting relationship banking, and we worked hard to achieve them. In the 5th Medium-Term Business Plan which was started in April 2013, we are aiming to achieve further mutual prosperity with the regional community for the sustainable growth of our customers and region.

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

The Bank is utilizing its networks to help the development of new businesses going forward based on the philosophy of “creating and connecting “business currents” between our customers.

### 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 the ASEAN countries.

### 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, 2013	Progress toward goal as of March 31, 2013 (%)
<b>● Numerical targets in the 4th Medium-Term Business Plan</b>			
Tier 1 ratio (consolidated) [*1]	9.0% or higher	9.69%	
ROE (consolidated)	3.5% or higher	2.18%	
OHR (non-consolidated)	65% or lower	68.89%	
Emissions of CO <sub>2</sub> [*2]	25% cut (from FY06)	43.61% cut	
<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	95	95.0%
Number of times we set up business matching meetings	2,400	4,045	168.5%
Number of proposals submitted for business succession	360	514	142.7%
Number of instances of support through our “Communication Service”	3,400	4,571	134.4%
Number of borrowers whose borrower categories have been upgraded [*3]	60	19	31.6%
Number of instances of use of the Small and Medium Enterprise Revitalization Support Association	24	40	166.6%
<b>● Initiatives for “being strong in Asia”</b>			
Number of instances of support being provided by our Asia Desk and overseas offices	3,600	4,210	116.9%
Number of advisory contracts with companies entering China	10	5	50.0%
Number of instances of overseas study tours, overseas business talks	3 each	6 each	200.0%
Number of times we arranged business matching meetings with Japanese and overseas companies	100	116	116.0%
<b>● Initiatives for “being highly CSR-conscious”</b>			
Eco-Plus Time Deposit	650,000	516,019	79.3%
Total number of loans under the PLB Fund/Eco-Clean Loan Program [*4]	1,400	580	41.4%
Total amount made under the PLB Fund/Eco-Clean Loan Program	18 billion yen	13.36 billion yen	74.2%
Number of instances of assessment for PLB rating BD purposes [*5]	3,800	3,024	79.5%
Number of risk consulting cases relating to disasters	100	706	706.0%

\* 1 Tier 1 ratio (consolidated)... Figures on a Basel II basis are presented.

\* 2 The results for emissions of CO<sub>2</sub> include a cut of 20.42% from the carbon offset effect due to our purchase of emissions credits.

\* 3 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 (220 customers).

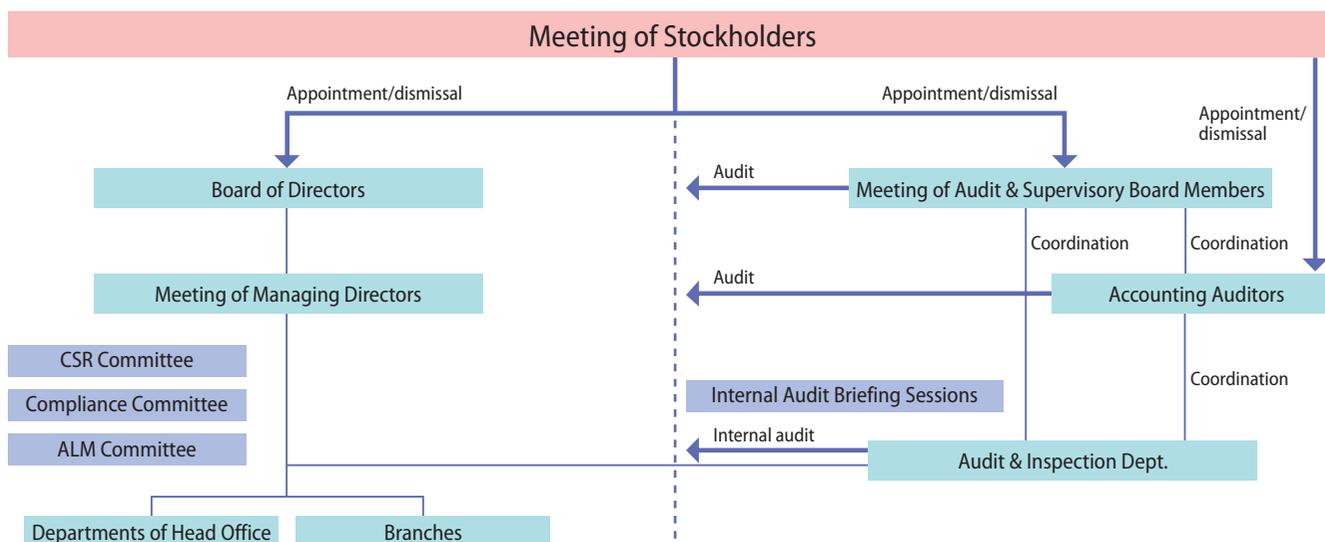
\* 4 PLB Fund: Principles for Lake Biwa Support Fund

\* 5 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 the end of June 2013) is shown in the chart below.



## Company Organizations (as of the end of June 2013)

### (1) Board of Directors

The Board of Directors, with 16 members, meets once a month in principle. At the meetings, decisions are made on important business matters for conduct business. Audit & Supervisory Board Members attend all such meetings to monitor the performance of directors.

### (2) Meeting of Audit & Supervisory Board Members

Meeting of Audit & Supervisory Board Members has four statutory auditors, including two from outside the Bank. The Board meets once a month, in principle. Audit & Supervisory Board Members 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 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

Led by the Legal Affairs Office of the Assets and Liabilities Managing Department the Bank is building systems for maintaining compliance with laws and regulations and proper bank management, and is making efforts to foster employees with a strong sense of ethics.

## 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, and once every six months we draw up a Compliance Program and endeavor to implement it.

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 year 2013, we held training to deepen understanding of the newly established "Guidelines for Using Social Media."

## Whistle-blowing system established

In order to promote compliance management, we have established a legal compliance help line (24 hours a day) for employees to contact when they have discovered a violation of laws, regulations, or rules in the workplace and cannot discuss their concerns with their superiors or colleagues.

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

## 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 it is necessary to establish a credit risk management system and control the risk using rational yardsticks. 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.

#### ■ Outline of the Corporate Credit Rating System

The Bank implements financial analyses (quantitative evaluations) using statistical rating models based on the financial statements of the customers, and decides the corporate credit rating taking into account qualitative evaluations using the unique screening know-how of the Bank, and the condition of the company. Regarding the

Corporate Credit Rating System, the Bank places importance on the PDCA cycle, conducts in-depth verifications of the state of management and the performance of the Corporate Credit Rating System, and taking into account the results of the verifications works to improve the quality of the credit rating system.

#### ■ Outline of Credit Risk Management

Changes in the financial status of the customers are reflected as changes in the credit risk of the Bank through the credit rating system. In order to more precisely implement credit risk management the Bank does not merely analyze the results of the measurements of the amount of credit risk; it implements credit risk management while being aware at all times of the risks faced by its customers.

Specifically, every quarter we quickly collate financial data based on the financial statements of the customers and analyze the changes and trends in the sales and profits of the customers, then conduct credit risk management while monitoring the composition of the credit portfolios, the volume of credit risk, and other factors.

### 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.



## Market Risk Management System

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Market risk refers to the risk that the Bank will incur a loss because the value of the assets and liabilities it holds changes due to fluctuations in a variety of risk factors in the market, including interest rates, prices of securities and currency exchange rates.

The Bank aims to ensure stable profits by controlling market risk within a fixed scope based on quantitative methods.

Regarding interest rate risk, one kind of market risk, the Bank comprehensively manages all assets and liabilities including deposits, loans, and securities (ALM management) to carry out asset allocation, and controls the amount of interest rate risk based on the "interest rate risk in the banking book" (outlier standard) in Basel II. Furthermore, in risk measurement the Bank takes into account the type, size, and characteristics of the positions held, and uses VaR and sensitivity (duration, BPV) and other factors for multiple management.

Of the market risks, for the risk arising from fluctuations in the prices of securities and other financial instruments the Bank sets risk tolerance amounts and other limits so as to ensure that the loss due to market fluctuations does not have an effect on the operation of the regulated capital base.

For items for which limits are set using risk amount measurement methods such as VaR, the Bank performs back-testing in order to verify that the risk amounts are being ascertained appropriately, and reports the results of the verifications to the ALM Committee.

As a general rule, the organizational system related to market risk management is divided into the market transaction sector (front office), business management sector (back office), and risk management sector (middle office), each of which checks the operations of the other. Furthermore, The Audit & Inspection Dept., the internal audit department, performs audits of the state of compliance with related laws, related regulations, the operational plan, and other requirements and reports the audit results to the Internal Audit Briefing Sessions comprised of the President and the responsible directors and to the Board of Directors.

## Operational Risk Management System

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Operational risk refers to the risk that the Bank will incur a loss due to a work-related accident at the bank, a flaw in the systems of the Bank, or external factors such as earthquakes or other disasters.

The Bank has formulated the Operational Risk Management Regulations, divided operational risk into five kinds of risk: (i) processing risk, (ii) information technology risk, (iii) legal risk, (iv) tangible asset risk, and (v) human risk, and is carrying out integrated management of these risks in the Administration Dept.

### ■ Processing risk management

Processing risk refers to the risk that the Bank will incur a loss, or the credibility of the Bank will be damaged, due to dishonesty or scandals, processing accidents, flaws in the processing management system, executives and employees failing to perform accurate processing, or other problems of this kind.

The Bank is deeply aware that sound processing is the foundation of its credibility, and of the importance of information management, so in order to reduce processing risk and eliminate accidents and dishonesty it is focusing on human resources development, strengthening our organization, development of regulations and manuals, and compliance, while also working on strengthening daily processing instruction and training systems and endeavoring to improve processing quality.

## 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.

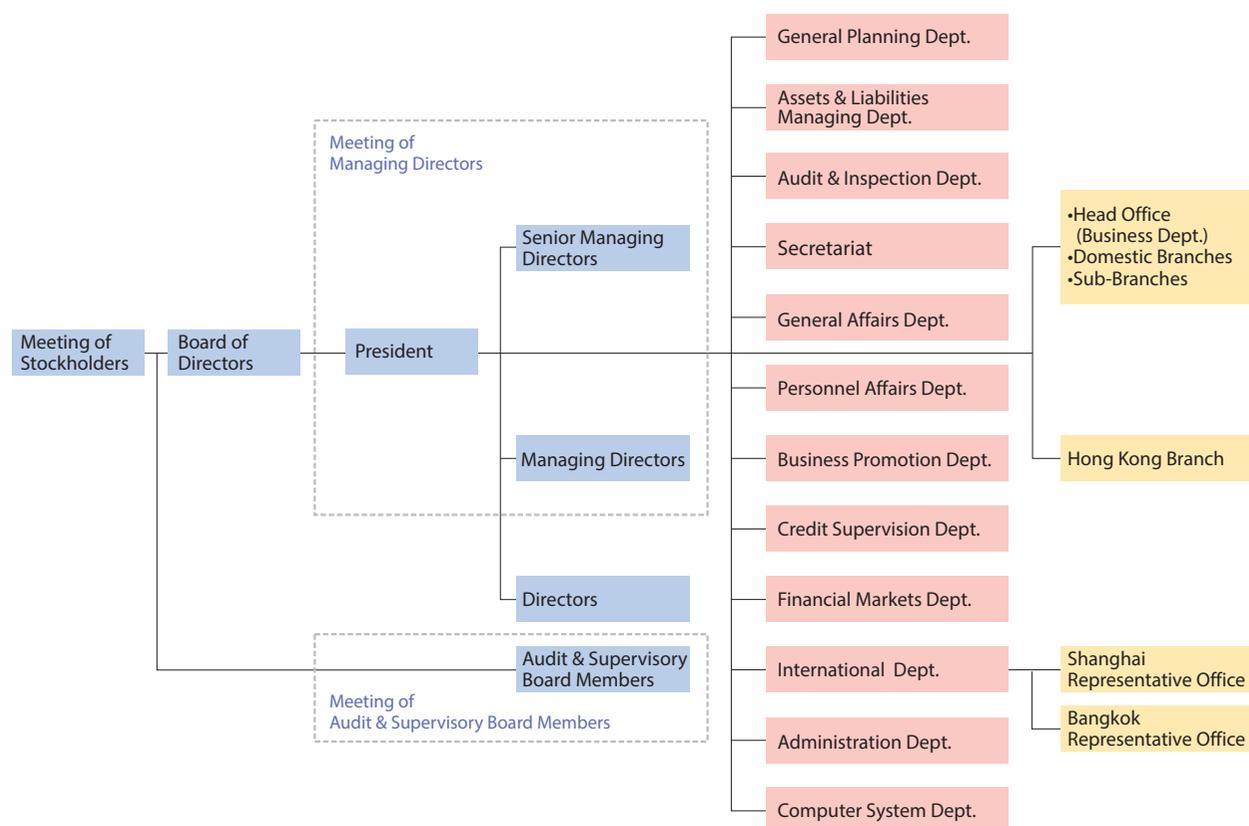
## Reputational Risk Management System

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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.

# Organization Chart

As of June 30, 2013



## Board of Directors

As of June 25, 2013

### President

Yoshio Daido

### Senior Managing Director

Ikuo Yoshida

### Managing Directors

Yukio Nishizawa

Shojiro Takahashi

Kenzaburo Nishikawa

Hiroshi Oku

Shinichi Kodama

Etsuo Imai

### Directors

Hiroshi Iwasaki

Kazuhiko Juniri

Kazuyoshi Hayashi

Iwao Wakabayashi

Masato Hasegawa

Masaru Morimoto

Kazuo Koyagi

Motohiro Nishi

### Audit & Supervisory Board Members

Masamichi Mizutani

Susumu Ota

(Outside Auditors)

Shigeru Hikuma

Satoshi Nishikawa

# Financial Section

The Shiga Bank, Ltd. and Consolidated Subsidiaries

## Consolidated Five-year Summary

	Millions of yen				
	2013	2012	2011	2010	2009
As of March 31					
Total assets	¥4,662,055	¥4,523,309	¥4,420,479	¥4,302,261	¥4,123,026
Investment securities	1,486,497	1,430,242	1,385,525	1,339,054	1,113,812
Loans and bills discounted	2,822,561	2,743,438	2,768,107	2,714,367	2,710,948
Deposits	4,090,014	3,985,459	3,891,407	3,781,025	3,654,781
Total equity	267,535	248,047	257,531	257,738	218,948
Years ended March 31					
Total income	88,872	91,082	93,324	98,269	96,103
Total expenses	74,991	72,998	81,532	88,490	113,592
Income (loss) before income taxes and minority interests	13,880	18,084	11,792	9,779	(17,488)
Net income (loss)	5,544	8,228	4,676	4,322	(16,218)
Per share data (in yen)					
Cash dividends	¥ 6.00	¥ 6.00	¥ 6.00	¥ 6.00	¥ 6.00
Net income (loss)	21.00	31.17	17.71	16.37	(61.40)
Net equity	998.62	926.27	886.58	889.50	743.58
Ratio					
Capital ratio	14.14%	14.04%	13.01%	12.42%	10.34%
ROE	2.18%	3.43%	1.99%	2.00%	(7.53%)

### Financial review (Consolidated basis)

The Japanese economy entered a recessionary phase in the reporting period against the backdrop of the deterioration of the overseas economies and other factors, but a move toward economic recovery, including an upturn in exports and improved performances by leading companies, was seen from second half of the period due to government policies focused on economic growth, the depreciation of the yen, and the rise in stock prices. Nonetheless, many reasons for concern about the prospects for economic recovery remain, including the uncertain outlook for the overseas economies, particularly the recurrence of the European sovereign debt crisis, the deterioration of Japan-China relations, and the steep rise in crude oil prices and rise in the import prices of consumer goods taking place against the backdrop of various geopolitical risks.

In the country's financial sector, the government and financial institutions continued their efforts to improve the business environment for small and medium sized enterprises. For example, the government decided to once again extend the SME Financing Facilitation Act (which finally expired at the end of March this year). The act aims for business rehabilitation by making fund-raising easier for small and medium sized enterprises and utilizing the consulting functions of financial institutions. Meanwhile, the Bank of Japan continued to implement monetary easing measures.

### Balance sheets

Deposits, including negotiable certificates of deposit, rose ¥94,553 million from the previous term-end to ¥4,184,538 million, of which ¥4,090,014 million were deposits only. The balance of loans and

bills discounted increased ¥79,123 million to ¥2,822,561 million, while investment securities rose ¥56,255 million to ¥1,486,497 million. Total assets at the fiscal year-end stood at ¥4,662,055 million, a year-on-year increase of ¥138,745 million. Total equity came to ¥267,535 million, an increase of ¥19,487 million from the previous term-end.

### Statements of operations

Mainly as a result of a decline in interest income due to a prolonged fall in market interest rates, total income posted a year-on-year decline of ¥2,210 million to ¥88,872 million. Total expenses increased by ¥1,993 million to ¥74,991 million, due to factors such as increases in credit costs and valuation losses on investment in stocks.

As a result, the Bank posted net profits for the reporting period of ¥13,880 million, down ¥4,204 million from the previous fiscal year, and net income of ¥5,544 million, up ¥2,683 million over the previous fiscal year.

### Cash flows

Cash and cash equivalents at the reporting term-end amounted to ¥72,798 million, an increase of ¥31,033 million from the previous term-end.

### Cash flows from operating activities

Net cash provided by operating activities during the term amounted to ¥76,969 million, for an increase of ¥43,601 million from previous term-end, due primarily to a decrease in call loans.

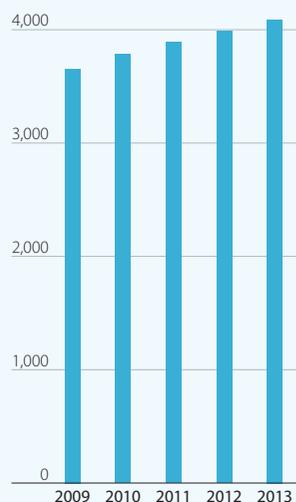
### Cash flows from investing activities

Net cash used in investing activities amounted to ¥44,354 million, an increase of ¥739 million from the investment expenditure for the previous term. This was mainly the result of an increase in expenditure due to purchases of investment securities.

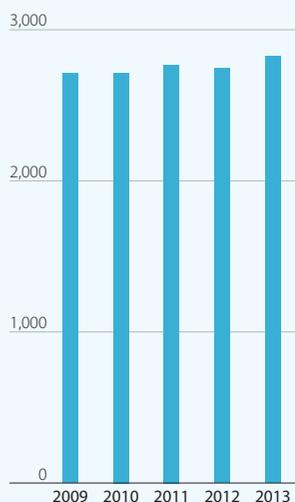
### Cash flows from financing activities

Net cash used in financing activities amounted to ¥1,599 million, a decrease of ¥598 million compared with the previous year. This decline was mainly attributable to a decrease in dividends paid to minority shareholders.

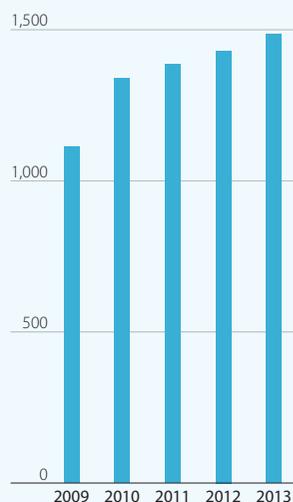
**Deposits**  
(Billions of yen)



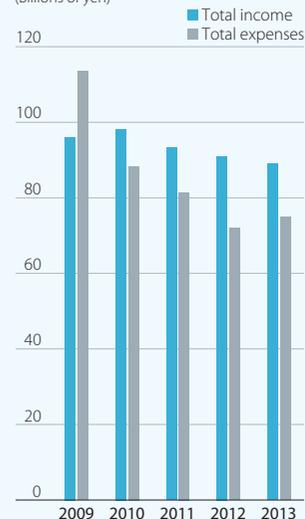
**Loans and bills discounted**  
(Billions of yen)



**Investment securities**  
(Billions of yen)



**Total income and expenses**  
(Billions of yen)



**Consolidated Balance Sheets**

As of March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
<b>Assets</b>			
Cash and due from banks (Note 3) .....	¥ 73,233	¥ 42,079	\$ 778,662
Call loans and bills bought (Note 28) .....	158,022	183,565	1,680,201
Debt purchased .....	9,659	17,570	102,704
Trading securities (Note 4) .....	476	1,032	5,068
Money held in trust (Note 5) .....	7,780	7,799	82,722
Investment securities (Notes 4, 12 and 28) .....	1,486,497	1,430,242	15,805,401
Loans and bills discounted (Notes 7 and 28) .....	2,822,561	2,743,438	30,011,286
Foreign exchange assets (Note 8) .....	5,683	5,481	60,430
Other assets (Notes 9 and 12) .....	49,980	39,890	531,423
Tangible fixed assets (Notes 10, 11 and 14) .....	59,005	59,240	627,380
Intangible fixed assets .....	1,441	1,957	15,327
Deferred tax assets (Note 27) .....	1,241	3,218	13,200
Customers' liabilities for acceptances and guarantees (Note 19) .....	24,802	24,433	263,721
Allowance for possible loan losses .....	(38,331)	(36,491)	(407,568)
Allowance for possible losses on investment securities .....	—	(148)	—
<b>Total assets</b> .....	<b>¥4,662,055</b>	<b>¥4,523,309</b>	<b>\$49,569,963</b>
<b>Liabilities</b>			
Deposits (Notes 12, 15 and 28) .....	¥4,090,014	¥3,985,459	\$43,487,658
Negotiable certificates of deposit (Note 28) .....	94,524	104,524	1,005,040
Call money and bills sold .....	14,303	—	152,082
Payables under securities lending transactions (Note 12) .....	10,135	—	107,761
Borrowed money (Notes 12, 16 and 28) .....	80,424	77,567	855,123
Foreign exchange liabilities (Note 8) .....	114	82	1,219
Bonds (Notes 17 and 28) .....	20,000	20,000	212,652
Other liabilities (Note 18) .....	29,519	38,577	313,874
Liability for employees' retirement benefits (Note 26) .....	15,179	14,062	161,401
Liability for retirement benefits of directors and corporate auditors .....	305	280	3,244
Liability for reimbursement of deposits .....	794	763	8,447
Allowance for repayment of excess interest .....	91	152	978
Reserve for other contingent losses .....	254	289	2,711
Deferred tax liabilities (Note 27) .....	5,176	—	55,042
Deferred tax liabilities for land revaluation (Note 14) .....	8,854	9,032	94,144
Negative goodwill .....	23	35	253
Acceptances and guarantees (Note 19) .....	24,802	24,433	263,721
<b>Total liabilities</b> .....	<b>4,394,520</b>	<b>4,275,261</b>	<b>46,725,359</b>
<b>Equity</b> (Note 20)			
Common stock, authorized, 500,000,000 shares; issued, 265,450,406 shares as of March 31, 2013 and 2012 .....	33,076	33,076	351,695
Capital surplus .....	23,969	23,969	254,860
Treasury stock - at cost 1,568,495 shares and 1,540,140 shares as of March 31, 2013 and 2012, respectively .....	(959)	(945)	(10,201)
Retained earnings .....	138,249	133,975	1,469,953
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities (Notes 4 and 6) .....	58,488	43,200	621,889
Deferred gains (losses) on derivatives under hedge accounting .....	(171)	0	(1,819)
Land revaluation surplus (Note 14) .....	10,864	11,177	115,519
Total .....	263,518	244,454	2,801,900
Minority interests .....	4,016	3,593	42,707
<b>Total equity</b> .....	<b>267,535</b>	<b>248,047</b>	<b>2,844,607</b>
<b>Total liabilities and equity</b> .....	<b>¥4,662,055</b>	<b>¥4,523,309</b>	<b>\$49,569,963</b>

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Income

Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
<b>Income</b>			
Interest income:			
Interest on loans and discounts.....	¥44,073	¥46,533	\$468,615
Interest and dividends on securities.....	13,585	14,626	144,445
Other interest income.....	140	159	1,498
Fees and commissions.....	12,454	12,362	132,423
Other operating income (Note 21).....	15,019	13,715	159,694
Other income (Note 22).....	3,599	3,685	38,273
<b>Total income</b> .....	<b>88,872</b>	<b>91,082</b>	<b>944,950</b>
<b>Expenses</b>			
Interest expenses:			
Interest on deposits.....	3,088	4,537	32,836
Interest on borrowings and rediscounts.....	1,013	577	10,771
Other interest expenses.....	459	397	4,889
Fees and commissions.....	3,875	3,735	41,202
Other operating expenses (Note 23).....	9,876	8,423	105,011
General and administrative expenses.....	46,599	47,632	495,477
Other expenses (Notes 2 (s) ii, 11 and 24).....	10,079	7,695	107,174
<b>Total expenses</b> .....	<b>74,991</b>	<b>72,998</b>	<b>797,362</b>
<b>Income before income taxes and minority interests</b> .....	<b>13,880</b>	<b>18,084</b>	<b>147,587</b>
<b>Income taxes</b> (Notes 18 and 27)			
Current.....	6,526	6,056	69,393
Deferred.....	1,434	2,888	15,255
Income before minority interests.....	5,919	9,140	62,939
Minority interests.....	375	911	3,988
Net income (Note 31).....	¥ 5,544	¥ 8,228	\$58,951

	Yen		U.S. dollars
	2013	2012	2013
<b>Per share information</b> (Notes 2 (v) and 31)			
Basic net income.....	¥21.00	¥31.17	\$0.223
Cash dividends applicable to the year.....	6.00	6.00	0.064

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Comprehensive Income

Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
<b>Income before minority interests</b> .....	¥ 5,919	¥ 9,140	\$ 62,939
Other comprehensive income (Note 30):			
Net unrealized gains on available-for-sale securities.....	15,338	2,537	163,087
Deferred losses on derivatives under hedge accounting.....	(171)	(0)	(1,819)
Land revaluation surplus.....	—	1,293	—
Total other comprehensive income.....	15,167	3,830	161,268
Comprehensive income.....	21,086	12,970	224,207
Attributable to			
Owners of parent.....	20,660	12,047	219,680
Minority interests.....	425	923	4,526

See Notes to Consolidated Financial Statements.

# Consolidated Statements of Changes in Equity

Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
<b>Common stock</b>			
Balance at the beginning of year .....	¥ 33,076	¥ 33,076	\$ 351,695
Changes during the year:			
Net change in the year .....	—	—	—
Balance at the end of year .....	¥ 33,076	¥ 33,076	\$ 351,695
<b>Capital surplus</b>			
Balance at the beginning of year .....	¥ 23,969	¥ 23,970	\$ 254,863
Changes during the year:			
Sales of treasury stock .....	(0)	(0)	(3)
Net change in the year .....	(0)	(0)	(3)
Balance at the end of year .....	¥ 23,969	¥ 23,969	\$ 254,860
<b>Retained earnings</b>			
Balance at the beginning of year .....	¥133,975	¥127,215	\$1,424,510
Changes during the year:			
Net income .....	5,544	8,228	58,951
Cash dividends, ¥6.00 (\$0.06) per share .....	(1,583)	(1,583)	(16,835)
Reversal of land revaluation surplus .....	312	115	3,327
Net change in the year .....	4,273	6,759	45,442
Balance at the end of year .....	¥138,249	¥133,975	\$1,469,953
<b>Treasury stock</b>			
Balance at the beginning of year .....	¥ (945)	¥ (934)	\$ (10,057)
Changes during the year:			
Purchases of treasury stock .....	(14)	(12)	(158)
Sales of treasury stock .....	1	1	14
Net change in the year .....	(13)	(11)	(143)
Balance at the end of year .....	¥ (959)	¥ (945)	\$ (10,201)
<b>Accumulated other comprehensive income:</b>			
<b>Net unrealized gains on available-for-sale securities</b>			
Balance at the beginning of year .....	¥ 43,200	¥ 40,673	\$ 459,339
Changes during the year:			
Net change in the year .....	15,287	2,527	162,549
Balance at the end of year .....	¥ 58,488	¥ 43,200	\$ 621,889
<b>Deferred gains (losses) on derivatives under hedge accounting</b>			
Balance at the beginning of year .....	¥ 0	¥ 0	\$ 0
Changes during the year:			
Net change in the year .....	(171)	(0)	(1,819)
Balance at the end of year .....	¥ (171)	¥ 0	\$ (1,819)
<b>Land revaluation surplus</b>			
Balance at the beginning of year .....	¥ 11,177	¥ 9,999	\$ 118,846
Changes during the year:			
Net change in the year .....	(312)	1,178	(3,327)
Balance at the end of year .....	¥ 10,864	¥ 11,177	\$ 115,519

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
<b>Total</b>			
Balance at the beginning of year .....	¥244,454	¥234,000	\$2,599,199
Changes during the year:			
Net income .....	5,544	8,228	58,951
Cash dividends, ¥6.00 (\$0.06) per share .....	(1,583)	(1,583)	(16,835)
Purchases of treasury stock.....	(14)	(12)	(158)
Sales of treasury stock.....	1	0	10
Reversal of land revaluation surplus.....	312	115	3,327
Other changes.....	14,803	3,705	157,402
Net change in the year .....	19,063	10,454	202,697
Balance at the end of year .....	¥263,518	¥244,454	\$2,801,897
<b>Minority interest</b>			
Balance at the beginning of year .....	¥ 3,593	¥ 23,531	\$ 38,203
Changes during the year:			
Net change in the year .....	423	(19,938)	4,503
Balance at the end of year .....	¥ 4,016	¥ 3,593	\$ 42,707
<b>Total equity</b>			
Balance at the beginning of year .....	¥248,047	¥257,531	\$2,637,403
Changes during the year:			
Net income .....	5,544	8,228	58,951
Cash dividends, ¥6.00 (\$0.06) per share .....	(1,583)	(1,583)	(16,835)
Purchases of treasury stock.....	(14)	(12)	(158)
Sales of treasury stock.....	1	0	10
Reversal of land revaluation surplus.....	312	115	3,327
Other changes.....	15,227	(16,232)	161,906
Net change in the year .....	19,487	(9,483)	207,201
Balance at the end of year .....	¥267,535	¥248,047	\$2,844,604

See Notes to Consolidated Financial Statements.

**Consolidated Statements of Cash Flows**

Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
<b>Operating activities:</b>			
Income before income taxes and minority interests.....	¥ 13,880	¥ 18,084	\$147,587
Depreciation.....	3,338	3,849	35,494
Losses on impairment of long-lived assets.....	202	359	2,149
Amortization of negative goodwill.....	(11)	(263)	(126)
Increase in allowance for possible loan losses.....	1,840	398	19,566
Decrease in allowance for possible losses on investment securities.....	(148)	(493)	(1,576)
Decrease in reserve for other contingent losses.....	(34)	(139)	(366)
Increase in liability for employees' retirement benefits.....	1,117	1,274	11,878
Increase (decrease) in liability for retirement benefits of directors and corporate auditors.....	24	(16)	264
Increase in liability for reimbursement of deposits.....	31	40	330
Decrease in allowance for repayment of excess interest.....	(60)	(33)	(638)
Interest income.....	(57,799)	(61,318)	(614,558)
Interest expense.....	4,561	5,512	48,497
Gains on sales and write-down of investment securities.....	(2,284)	(2,668)	(24,295)
Losses on money held in trust.....	(95)	(54)	(1,018)
Foreign exchange losses (gains).....	(19)	2	(212)
Losses on disposals of fixed assets - net.....	275	69	2,925
Net decrease (increase) in loans and bills discounted.....	(79,123)	24,668	(841,289)
Net increase in deposits.....	104,554	94,052	1,111,688
Net decrease in negotiable certificate of deposits.....	(10,000)	(5,154)	(106,331)
Net increase in borrowed money (excluding subordinated loans).....	2,856	10,409	30,375
Net decrease (increase) in due from banks (excluding deposits in Bank of Japan).....	(120)	25	(1,276)
Net decrease (increase) in call loans and others.....	33,453	(99,224)	355,698
Net decrease in call money and bills sold.....	14,303	—	152,082
Net increase (decrease) in payables under securities lending transactions.....	10,135	(1,534)	107,761
Net increase in foreign exchange assets.....	(202)	(510)	(2,148)
Net increase in foreign exchange liabilities.....	32	22	344
Interest received (cash basis).....	57,613	59,840	612,582
Interest paid (cash basis).....	(5,852)	(6,415)	(62,229)
Other.....	(9,504)	1,902	(101,063)
Subtotal.....	82,961	42,684	882,095
Income taxes - paid.....	(5,991)	(9,316)	(63,708)
<b>Net cash provided by operating activities.....</b>	<b>76,969</b>	<b>33,367</b>	<b>818,386</b>
<b>Investing activities:</b>			
Purchases of securities.....	(812,194)	(525,528)	(8,635,772)
Proceeds from sales of securities.....	555,717	288,444	5,908,741
Proceeds from redemptions of securities.....	215,357	197,905	2,289,814
Purchases of tangible fixed assets.....	(2,970)	(4,331)	(31,581)
Proceeds from sales of tangible fixed assets.....	401	351	4,269
Purchases of intangible fixed assets.....	(665)	(455)	(7,071)
<b>Net cash used in investing activities.....</b>	<b>(44,354)</b>	<b>(43,614)</b>	<b>(471,600)</b>
<b>Financing activities:</b>			
Borrowing of subordinated loans.....	—	20,000	—
Repayment to minority shareholders.....	—	(20,000)	—
Dividends paid.....	(1,583)	(1,583)	(16,835)
Dividends paid to minority shareholders.....	(2)	(602)	(23)
Purchases of treasury stock.....	(14)	(12)	(158)
Proceeds from sales of treasury stock.....	1	0	10
<b>Net cash used in financing activities.....</b>	<b>(1,599)</b>	<b>(2,197)</b>	<b>(17,006)</b>
Foreign currency translation adjustments on cash and cash equivalents.....	18	(2)	193
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>31,033</b>	<b>(12,446)</b>	<b>329,973</b>
Cash and cash equivalents, beginning of year.....	41,764	54,211	444,067
<b>Cash and cash equivalents, end of year (Note 3).....</b>	<b>¥ 72,798</b>	<b>¥ 41,764</b>	<b>\$774,040</b>

See Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

Years ended March 31, 2013 and 2012

## 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 the application and disclosure requirements of International Financial Reporting Standards.

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

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 ¥94.05 to U.S.\$1, the rate of exchange at March 31, 2013 has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen amounts have been or could be readily converted, realized or settled in U.S. dollar amounts at this rate or any other rates.

## 2. Summary of significant accounting policies

### (a) Principles of consolidation

The accompanying consolidated financial statements for the years ended March 31, 2013 and 2012 include the accounts of the Bank and 9 and 10 consolidated subsidiaries, respectively. Shiga Preferred Capital Cayman Limited was excluded from the scope of consolidation due to the completion of its liquidation.

The consolidated subsidiaries' respective fiscal periods end March 31 for the year ended March 31, 2013.

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 the equity method because their net income (the portion corresponding to the Bank's equity), retained earnings (as above) and accumulated other comprehensive income (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 hedges*

The Bank applies deferred hedge accounting to hedge transactions against interest rate risk arising from financial assets and liabilities. For the hedges that offset the fluctuations in the fair value of fixed interest rates classified as available-for-sale securities, interest rate swaps are assigned to hedged items collectively by bond type as the hedging instrument. The Bank designates the hedges so as to ensure that the important conditions related to the hedged items and hedging instruments are largely identical; therefore the hedges are considered to be highly effective, and the assessment of the effectiveness is based on the similarity of the conditions.

Furthermore, certain consolidated subsidiaries have adopted special treatment for interest rate swaps.

#### *ii. Currency exchange risk hedges*

Regarding 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 to reduce 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 acceptances bought, commercial bills discounted, documentary bills and foreign exchanges bought without restrictions.

The total face value at March 31, 2013 and 2012 were ¥20,090 million (\$213,614 thousand) and ¥19,826 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 a 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 a special reserve in the equity section. The Bank adopted the former treatment and reduced the cost of the assets acquired by ¥3,793 million (\$40,338 thousand) and ¥3,905 million at March 31, 2013 and 2012, respectively.

(Changes in accounting policies which are difficult to distinguish from changes in accounting estimates)

Starting from the current fiscal year, the Group has changed the method of depreciation due to the revision of Corporation Tax Act. Accordingly, tangible fixed assets acquired on or after April 1, 2012 shall be depreciated according to the revised act. The effect of this change was to increase income before income taxes and minority interests by ¥68 million (\$723 thousand).

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

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances 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 losses are 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 costs for internally used software are capitalized and depreciated using 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 the leased property to the lessee are 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 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 the 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 ¥23,775 million (\$252,794 thousand), and ¥28,505 million as of March 31, 2013 and 2012, respectively.

Allowance for possible loan losses 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 is provided for possible future losses on securities based on a 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. The Bank 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 Audit & Supervisory Board Members**

Liability for retirement benefits of directors and Audit & Supervisory Board Members is provided at the amount required if they all 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 possible losses on the future claims of withdrawal based on 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 the Bank 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 were deemed 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. 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. 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.

**ii. As lessor**

Under the previous accounting standard, finance leases that were deemed 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 are deemed to transfer ownership of the leased property to the lessee should be recognized as lease receivables and all finance leases that are deemed not to transfer ownership of the leased property to the lessee should be recognized as investments in leases.

Lease revenue and lease costs are recognized over the lease period.

**(t) Income taxes**

The provision for income taxes is computed based on 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**

The consolidated statements of changes in equity reflect the appropriation resolved by the general 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 income are dividends applicable to the respective years including dividends to be paid after the end of the fiscal year.

### (w) New accounting pronouncements

*Accounting Standard for Retirement Benefits* — On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, “Accounting Standard for Retirement Benefits” and ASBJ Guidance No. 25, “Guidance on Accounting Standard for Retirement Benefits,” which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and followed by partial amendments from time to time through 2009.

Major changes are as follows:

#### (a) Treatment in the balance sheet

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, “deficit or surplus”), adjusted by such unrecognized amounts, is recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

#### (b) Treatment in the statement of income and the statement of comprehensive income

The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives or the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

#### (c) Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases

The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure

in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company expects to apply the revised accounting standard for (a) and (b) above from the end [from the beginning] of the annual period beginning on April 1, 2013, and for (c) above from the beginning of the annual period beginning on April 1, 2014, and is in the process of measuring the effects of applying the revised accounting standard in future applicable periods.

## 3. 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, 2013 and 2012, is as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Cash and due from banks.....	¥73,233	¥42,079	\$778,662
Time deposits due from banks....	(60)	—	(644)
Other due from banks.....	(374)	(314)	(3,977)
<b>Cash and cash equivalents...</b>	<b>¥72,798</b>	<b>¥41,764</b>	<b>\$774,040</b>

## 4. Investment securities

Investment securities at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Japanese government bonds.....	¥ 493,455	¥ 543,160	\$ 5,246,738
Japanese local government bonds.....	339,333	313,463	3,608,009
Japanese corporate bonds.....	464,045	376,347	4,934,034
Corporate stocks.....	114,874	105,847	1,221,416
Other securities.....	74,788	91,423	795,202
<b>Total.....</b>	<b>¥1,486,497</b>	<b>¥1,430,242</b>	<b>\$15,805,401</b>

Fair value and other information on securities at March 31, 2013 and 2012 is as follows:

### Securities

#### (1) Trading securities

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
	Gain included in profit/ (loss) during the fiscal year		
Trading securities .....	¥1	¥80	\$13

(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, 2013 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2013			2013		
	Consolidated balance sheet amount	Cost	Unrealized gains (losses)	Consolidated balance sheet amount	Cost	Unrealized gains (losses)
Consolidated balance sheet amount exceeding cost:						
Stocks.....	¥ 109,718	¥ 58,455	¥51,263	\$ 1,166,598	\$ 621,536	\$545,062
Bonds: .....	1,244,739	1,212,706	32,033	13,234,873	12,894,270	340,602
Japanese government bonds.....	449,736	440,315	9,421	4,781,890	4,681,718	100,171
Japanese local government bonds.....	338,804	326,865	11,938	3,602,382	3,475,443	126,939
Japanese corporate bonds.....	456,198	445,525	10,673	4,850,600	4,737,108	113,491
Others.....	48,062	47,536	526	511,036	505,436	5,600
<b>Subtotal.....</b>	<b>¥1,402,521</b>	<b>¥1,318,697</b>	<b>¥83,823</b>	<b>\$14,912,508</b>	<b>\$14,021,242</b>	<b>\$891,265</b>
Consolidated balance sheet amount not exceeding cost:						
Stocks.....	¥ 2,038	¥ 2,081	¥ (42)	\$ 21,671	\$ 22,126	\$ (454)
Bonds: .....	52,095	52,379	(284)	553,909	556,934	(3,025)
Japanese government bonds.....	43,719	43,975	(256)	464,848	467,576	(2,727)
Japanese local government bonds.....	529	529	(0)	5,626	5,634	(7)
Japanese corporate bonds.....	7,846	7,874	(27)	83,433	83,724	(290)
Others.....	27,343	28,084	(740)	290,732	298,607	(7,875)
<b>Subtotal.....</b>	<b>81,476</b>	<b>82,544</b>	<b>(1,068)</b>	<b>866,313</b>	<b>877,668</b>	<b>(11,355)</b>
<b>Total.....</b>	<b>¥1,483,998</b>	<b>¥1,401,242</b>	<b>¥82,755</b>	<b>\$15,778,821</b>	<b>\$14,898,911</b>	<b>\$879,909</b>

Available-for-sale securities that have fair value as of March 31, 2012 were as follows:

	Millions of yen		
	2012		
	Consolidated balance sheet amount	Cost	Unrealized gains (losses)
Consolidated balance sheet amount exceeding cost:			
Stocks: .....	¥ 92,230	¥ 51,443	¥40,787
Bonds: .....	1,157,521	1,133,876	23,644
Japanese government bonds.....	500,218	492,486	7,731
Japanese local government bonds.....	306,348	297,181	9,166
Japanese corporate bonds.....	350,954	344,208	6,746
Others.....	39,521	39,165	355
<b>Subtotal.....</b>	<b>¥1,289,273</b>	<b>¥1,224,486</b>	<b>¥64,787</b>
Consolidated balance sheet amount not exceeding cost:			
Stocks: .....	¥ 10,554	¥ 11,942	¥ (1,388)
Bonds: .....	75,449	75,627	(177)
Japanese government bonds.....	42,941	43,010	(69)
Japanese local government bonds.....	7,115	7,122	(7)
Japanese corporate bonds.....	25,392	25,494	(101)
Others.....	52,415	53,854	(1,438)
<b>Subtotal.....</b>	<b>138,419</b>	<b>141,424</b>	<b>(3,004)</b>
<b>Total.....</b>	<b>¥1,427,693</b>	<b>¥1,365,910</b>	<b>¥61,782</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		
	2013			2013		
	Sales amount	Gains on sales	Losses on sales	Sales amount	Gains on sales	Losses on sales
Stocks.....	¥ 1,021	¥ 296	¥ —	\$ 10,858	\$ 3,154	\$ —
Bonds: .....	554,514	4,417	147	5,895,954	46,974	1,563
Japanese government bonds.....	497,072	3,107	146	5,285,189	33,045	1,562
Japanese local government bonds.....	31,580	730	—	335,784	7,762	—
Japanese corporate bonds.....	25,861	579	0	274,980	6,166	0
Others.....	5,363	126	164	57,023	1,345	1,749
<b>Total.....</b>	<b>¥560,898</b>	<b>¥4,841</b>	<b>¥311</b>	<b>\$5,963,836</b>	<b>\$51,474</b>	<b>\$3,312</b>

	Millions of yen		
	2012		
	Sales amount	Gains on sales	Losses on sales
Stocks.....	¥ 17	¥ 2	¥ 4
Bonds: .....	253,494	2,891	78
Japanese government bonds.....	233,461	2,492	78
Japanese local government bonds.....	14,799	316	—
Japanese corporate bonds.....	5,234	82	—
Others.....	27,412	998	353
<b>Total.....</b>	<b>¥280,925</b>	<b>¥3,892</b>	<b>¥437</b>

#### (6) Impairment losses 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 ¥2,125 million (\$22,597 thousand) of which equities accounted for the same amount for the year ended March 31, 2013.

Impairment losses amounted to ¥435 million of which equities accounted for the same amount for the year ended March 31, 2012.

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.

## 5. Money held in trust

### (1) Money held in trust classified as trading

	Millions of yen				Thousands of U.S. dollars	
	2013		2012		2013	
	Consolidated balance sheet amount	Gains included in profits during the fiscal year	Consolidated balance sheet amount	Gains included in profits during the fiscal year	Consolidated balance sheet amount	Gains included in profits during the fiscal year
Money held in trust classified as trading.....	¥7,780	¥95	¥7,799	¥54	\$82,722	\$1,018

(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).

## 6. 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
	2013	2012	2013
Net unrealized gains on investment securities.....	¥82,755	¥61,782	\$879,909
Other money held in trust.....	—	—	—
Deferred tax liabilities.....	(24,172)	(18,538)	(257,021)
Minority interests.....	(93)	(43)	(998)
Net unrealized gains on available-for-sale securities.....	¥58,488	¥43,200	\$621,889

## 7. Loans and bills discounted

Loans and bills discounted at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Bills discounted.....	¥ 19,856	¥ 19,524	\$ 211,126
Loans on bills.....	124,127	134,562	1,319,807
Loans on deeds.....	2,342,792	2,249,811	24,910,074
Overdrafts.....	335,784	339,539	3,570,279
<b>Total.....</b>	<b>¥2,822,561</b>	<b>¥2,743,438</b>	<b>\$30,011,286</b>

Loans in legal bankruptcy totaled ¥868 million (\$9,237 thousand) and ¥1,320 million as of March 31, 2013 and 2012, respectively. Nonaccrual loans totaled ¥64,033 million (\$680,847 thousand) and ¥61,152 million as of March 31, 2013 and 2012, 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 ¥475 million (\$5,056 thousand) and ¥539 million as of March 31, 2013 and 2012, respectively. Loans classified as loans in legal bankruptcy and past due loans are excluded.

Restructured loans totaled ¥25,259 million (\$268,570 thousand) and ¥13,372 million as of March 31, 2013 and 2012, respectively. Such restructured loans are loans on which creditors grant concessions (e.g., reduction of the stated interest rate, deferral of interest payments, extension of maturity dates, waiver of the face amount, or other concessive measures) to the debtors to assist them to recover from financial difficulties and eventually be able to pay creditors. Loans classified as loans in legal bankruptcy, nonaccrual loans and accruing loans contractually past due three months or more are excluded.

## 8. Foreign exchanges

Foreign exchange assets and liabilities at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
<b>Assets:</b>			
Due from foreign correspondents.....	¥4,040	¥3,784	\$42,960
Foreign bills of exchange purchased.....	146	31	1,562
Foreign bills of exchange receivable.....	1,496	1,665	15,907
<b>Total.....</b>	<b>¥5,683</b>	<b>¥5,481</b>	<b>\$60,430</b>
<b>Liabilities:</b>			
Foreign bills of exchange sold.....	¥ 66	¥ 80	\$ 701
Accrued foreign bills of exchange.....	48	2	517
<b>Total.....</b>	<b>¥ 114</b>	<b>¥ 82</b>	<b>\$ 1,219</b>

## 9. Other assets

Other assets at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Prepaid expenses .....	¥ 44	¥ 89	\$ 475
Accrued income.....	4,892	4,884	52,018
Derivatives .....	1,829	2,453	19,452
Other (Note 12).....	43,213	32,463	459,477
<b>Total.....</b>	<b>¥49,980</b>	<b>¥39,890</b>	<b>\$531,423</b>

## 10. Tangible fixed assets

Tangible fixed assets at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Buildings.....	¥15,919	¥14,965	\$169,268
Land.....	39,578	40,005	420,824
Construction in progress.....	160	818	1,710
Other .....	3,346	3,450	35,577
<b>Total.....</b>	<b>¥59,005</b>	<b>¥59,240</b>	<b>\$627,380</b>

Accumulated depreciation on tangible fixed assets at March 31, 2013 and 2012 amounted to ¥45,374 million (\$482,452 thousand) and ¥45,515 million, respectively.

## 11. Long-lived assets

The Group recognized impairment losses for the year ended March 31, 2013 and 2012 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 ¥202 million (\$2,149 thousand) and ¥359 million for the years ended March 31, 2013 and 2012, 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		Thousands of U.S. dollars
			Millions of yen		2013
			2013	2012	
Shiga Prefecture	Branch offices and other	Land, buildings and equipment.....	¥ 11	¥171	\$ 124
Other	Branch offices and other	Land, buildings and equipment.....	48	188	518
Other	Idle asset	Land .....	141	—	1,506
<b>Total.....</b>			<b>¥202</b>	<b>¥359</b>	<b>\$2,149</b>

Impairment losses are included in other expenses (Note 24).

## 12. Assets pledged

Assets pledged as collateral and related liabilities at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Investment securities .....	¥158,883	¥147,710	\$1,689,347
Other assets (investments in leases) (Note 9) .....	1,811	2,772	19,256

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Related liabilities			
Deposits .....	¥ 5,925	¥ 4,677	\$ 63,000
Payables under securities lending transactions .....	10,135	—	107,761
Borrowed money .....	30,088	28,213	319,916

In addition, investment securities totaling ¥36,490 million (\$387,987 thousand) and ¥36,212 million at March 31, 2013 and 2012, respectively, were pledged as collateral for settlement of exchange and as securities for futures transactions and others.

Other assets (Note 9) include guarantee deposits of ¥791 million (\$8,416 thousand) and ¥787 million at March 31, 2013 and 2012, respectively.

## 13. 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, 2013 and 2012 amounted to ¥811,137 million (\$8,624,537 thousand) and ¥798,650 million, respectively, and the amounts of unused commitments whose original contract terms are within one year or unconditionally cancelable at any time were ¥789,777 million (\$8,397,421 thousand) and ¥778,670 million at March 31, 2013 and 2012, 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 flows. 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.

## 14. 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 the 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, 2013 and 2012, the carrying amount of the land after the above one-time revaluation was more than the fair value by ¥13,581 million (\$144,402 thousand) and ¥12,716 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.

## 15. Deposits

Deposits at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Current deposits.....	¥ 153,457	¥ 141,896	\$ 1,631,655
Ordinary deposits.....	1,697,389	1,593,778	18,047,736
Deposits at notice.....	14,623	16,831	155,487
Time deposits.....	2,133,018	2,143,951	22,679,623
Other deposits.....	91,525	89,002	973,155
<b>Total.....</b>	<b>¥4,090,014</b>	<b>¥3,985,459</b>	<b>\$43,487,658</b>

## 16. Borrowed money

At March 31, 2013 and 2012, the weighted average interest rates applicable to borrowed money were 1.21% and 1.29%, respectively.

Borrowed money at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Subordinated loans.....	¥40,000	¥40,000	\$425,305
Borrowing from banks and other.....	40,424	37,567	429,818
<b>Total.....</b>	<b>¥80,424</b>	<b>¥77,567</b>	<b>\$855,123</b>

Annual maturities of borrowed money at March 31, 2013 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2014.....	¥35,225	\$374,540
2015.....	2,226	23,675
2016.....	1,586	16,870
2017.....	971	10,331
2018.....	413	4,400
2019 and thereafter.....	40,000	425,305
<b>Total.....</b>	<b>¥80,424</b>	<b>\$855,123</b>

## 17. Bonds

Bonds at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	Interest rate	Due
	2013	2012	2013		
Subordinated bonds.....	¥20,000	¥20,000	\$212,652	1.89%	July 26, 2019

## 18. Other liabilities

Other liabilities at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Accrued income taxes.....	¥ 3,577	¥ 3,027	\$ 38,040
Accrued expenses.....	5,371	7,179	57,113
Unearned income.....	5,677	5,137	60,369
Derivatives.....	2,144	2,363	22,799
Other.....	12,748	20,869	135,550
<b>Total.....</b>	<b>¥29,519</b>	<b>¥38,577</b>	<b>\$313,874</b>

## 19. 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 ¥6,736 million (\$71,621 thousand) and ¥7,034 million as of March 31, 2013 and 2012, were set off because those which were relevant to corporate bonds and the guaranteed bonds were held by the Bank itself.

## 20. Equity

### (1) Capital stock and capital surplus

Changes in the number of common stock of the years ended March 31, 2013 and 2012, consisted of the following:

	Thousands	
	Common stock	
	Issued number of shares	
	2013	2012
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 the aggregate amount of the legal reserve and additional paid-in capital equals 25% (100% for banks pursuant to the Banking Act) of 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

The following appropriation of retained earnings at March 31, 2013 is proposed to the Bank's general shareholders' meeting held on June 25, 2013.

	Millions of yen	Thousands of U.S. dollars
Cash dividends (dividend amount per share: ¥3 or \$0.032) .....	¥791	\$8,418

## 21. Other operating income

Other operating income for the years ended March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Gains on foreign exchange transactions-net.....	¥ 601	¥ 685	\$ 6,390
Gains on sales of bonds.....	4,547	3,969	48,350
Other .....	9,870	9,060	104,953
<b>Total.....</b>	<b>¥15,019</b>	<b>¥13,715</b>	<b>\$159,694</b>

## 22. Other income

Other income for the years ended March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Recovery of claims previously charged-off .....	¥1,628	¥1,328	\$17,312
Other .....	1,971	2,357	20,961
<b>Total.....</b>	<b>¥3,599</b>	<b>¥3,685</b>	<b>\$38,273</b>

## 23. Other operating expenses

Other operating expenses for the years ended March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Losses on sales of government bonds.....	¥ 450	¥ 651	\$ 4,788
Losses on redemption of bonds.....	—	210	—
Losses on financial derivatives.....	1,228	330	13,063
Other .....	8,197	7,230	87,159
<b>Total.....</b>	<b>¥9,876</b>	<b>¥8,423</b>	<b>\$105,011</b>

## 24. Other expenses

Other expenses for the years ended March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Provision of allowance for possible loan losses.....	¥ 5,742	¥4,345	\$ 61,055
Change-off of loans and bills discounted .....	1,093	1,470	11,625
Losses on impairment of long-lived assets (Note 11).....	202	359	2,149
Valuation losses on investment in stocks.....	2,125	509	22,597
Other .....	916	1,010	9,745
<b>Total.....</b>	<b>¥10,079</b>	<b>¥7,695</b>	<b>\$107,174</b>

## 25. Leases

### Lessee

The Group leases certain equipment. Total rental expense under finance leases for the years ended March 31, 2013 and 2012 was ¥1 million (\$19 thousand) and ¥3 million, respectively.

Finance lease transactions which commenced prior to April 1, 2008 are accounted for in accordance with the former accounting standard.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under financial leases, 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, 2013 and 2012 were as follows:

	Tangible fixed assets		
	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Acquisition cost.....	¥9	¥22	\$96
Accumulated depreciation.....	(7)	(18)	(81)
<b>Net leased property.....</b>	<b>¥1</b>	<b>¥ 3</b>	<b>\$14</b>

Obligations under finance leases at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
	Due within one year.....	¥1	¥1
Due after one year.....	0	1	1
<b>Total.....</b>	<b>¥1</b>	<b>¥3</b>	<b>\$14</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
	2013	2012	2013
	Lease payments.....	¥1	¥3
Depreciation expense.....	1	3	19

### 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 a similar manner to ordinary sales and transactions, effective from the year ended March 31, 2009.

Investments in leases included in other assets on the balance sheets as of March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2012
	Gross lease receivables.....	¥18,698	¥18,809
Unguaranteed residual values.....	717	771	7,624
Unearned interest income.....	(2,117)	(2,418)	(22,511)
<b>Investments in leases.....</b>	<b>¥17,297</b>	<b>¥17,162</b>	<b>\$183,922</b>

Maturities of lease receivables for finance leases that are deemed to transfer ownership of the leased property to the lessee are as of March 31, 2013 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014.....	¥2
2015.....	2	23
2016.....	1	17
2017.....	0	6

Maturities of gross lease receivables related to investments in leases as of March 31, 2013 are as follows:

	Millions of yen	Thousands of U.S. dollars
2014 .....	¥5,879	\$62,515
2015 .....	4,717	50,162
2016 .....	3,575	38,015
2017 .....	2,536	26,973
2018 .....	1,253	13,324
2019 and thereafter.....	735	7,818

With regard to finance lease transactions entered into prior to April 1, 2008, that are not deemed 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, 2013 and 2012 increased by ¥263 million (\$2,802 thousand) and ¥513 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, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Due within one year .....	¥16	¥ 7	\$170
Due after one year .....	41	16	439
<b>Total.....</b>	<b>¥57</b>	<b>¥24</b>	<b>\$609</b>

## 26. 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, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Projected benefit obligation .....	¥(44,437)	¥(44,120)	\$(472,487)
Plan assets (fair value) .....	25,757	22,287	273,868
Unfunded projected benefit obligation .....	(18,680)	(21,832)	(198,619)
Unrecognized actuarial net loss .....	3,522	7,808	37,449
Unrecognized prior service cost .....	(21)	(37)	(230)
<b>Liability for employees' retirement benefits .....</b>	<b>¥(15,179)</b>	<b>¥(14,062)</b>	<b>\$(161,401)</b>

The components of net periodic benefit costs for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service cost .....	¥1,740	¥1,729	\$18,501
Interest cost.....	660	657	7,022
Expected return on plan assets .....	(234)	(229)	(2,493)
Amortization of prior service cost.....	(16)	(16)	(172)
Recognized actuarial net loss .....	1,447	1,833	15,388
<b>Net periodic retirement benefit costs .....</b>	<b>¥3,597</b>	<b>¥3,975</b>	<b>\$38,246</b>

Assumptions used for the years ended March 31, 2013 and 2012 were set forth as follows:

	2013	2012
Discount rate .....	1.50%	1.50%
Expected rate of return on plan assets .....	1.52%	1.51%
Amortization period of prior service cost.....	10 years	10 years
Recognition period of actuarial gain or loss.....	10 years	10 years

## 27. Income taxes

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Allowance for possible loan losses .....	¥ 18,424	¥ 18,376	\$ 195,896
Liability for employees' retirement benefits .....	7,670	7,305	81,558
Accrued enterprise tax .....	306	235	3,261
Devaluation of stocks and other securities.....	6,946	6,186	73,861
Depreciation .....	1,719	1,609	18,283
Other.....	2,556	2,732	27,182
Less valuation allowance .....	(17,203)	(14,505)	(182,921)
<b>Total .....</b>	<b>¥ 20,420</b>	<b>¥ 21,940</b>	<b>\$ 217,123</b>
Deferred tax liabilities:			
Net unrealized gains on available-for-sale securities .....	(24,172)	(18,538)	(257,021)
Reserve for advanced depreciation of fixed assets .....	(182)	(182)	(1,943)
Other.....	—	(0)	—
<b>Total .....</b>	<b>¥(24,355)</b>	<b>¥(18,721)</b>	<b>\$(258,964)</b>
<b>Net deferred tax assets .....</b>	<b>¥ (3,935)</b>	<b>¥ 3,218</b>	<b>\$ (41,841)</b>

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the years ended March 31, 2013 and 2012 is as follows:

	2013	2012
Normal effective statutory tax rate.....	37.7%	40.4%
Permanent differences – mainly dividends received.....	(2.9)	(2.3)
Increase in valuation allowance for deferred tax assets.....	20.7	2.7
Tax rate difference in special purpose entities.....	—	(1.1)
Decrease in deferred tax assets due to changes in statutory tax rate.....	—	10.1
Other .....	1.8	(0.4)
<b>Actual effective tax rate .....</b>	<b>57.3%</b>	<b>49.4%</b>

On December 2, 2011, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from approximately 40.4% to 37.7% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 35.3% afterwards.

## 28. 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 purposes, 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 risk, market price volatility risk, and the credit risk of the issuers. 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 derivative transactions, including interest rate swaps, currency swaps, currency options, and forward exchange contracts. For some of these transactions, the Group applies hedge accounting based on internal regulations that comply with the "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 limits 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 ratings at meetings such as the 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.

With respect to 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.

With respect to 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 a 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 complies with the established acceptable risk limit and other risk limits is monitored on a daily basis and is reported to 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 market risks**

Regarding market risks, the Group measures the quantitative risk of interest-rate risks and stock price volatility risks through VaR, a statistical method. Principally by reporting these risk 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 derivative transactions.

The Group's interest-rate risk amounts stood at ¥2,690 million (\$28,604 thousand) as of March 31, 2013 and ¥5,074 million as of March 31, 2012.

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 an internal model.

### **Stock price volatility risks**

The Group holds certain shares for policy investment purposes. The volatility risk amounts of the prices of such shares stood at ¥17,139 million (\$182,243 thousand) as of March 31, 2013 and ¥16,195 million as of March 31, 2012.

### **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 changes 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 the consolidated balance sheet amount of as of March 31, 2013 and 2012 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					
	2013			2012		
	Consolidated balance sheet amount	Fair value	Difference	Consolidated balance sheet amount	Fair value	Difference
Call loans and bills bought.....	¥ 158,022	¥ 158,022	¥ —	¥ 183,565	¥ 183,565	¥ —
Investment securities						
Trading securities.....	2,957	2,957	—	3,745	3,745	—
Available-for-sale securities.....	1,480,422	1,480,422	—	1,423,433	1,423,433	—
Loans and bills discounted.....	2,822,561	—	—	2,743,438	—	—
Allowance for possible loan losses (*1).....	(37,135)	—	—	(35,283)	—	—
	2,785,426	2,814,806	29,379	2,708,155	2,732,684	24,529
Assets total.....	4,426,829	4,456,208	29,379	4,318,899	4,343,428	24,529
Deposits.....	4,090,014	4,090,829	815	3,985,459	3,986,989	1,529
Negotiable certificates of deposit.....	94,524	94,533	9	104,524	104,546	21
Borrowed money.....	80,424	83,021	2,597	77,567	79,077	1,509
Bonds.....	20,000	20,291	291	20,000	20,385	385
Liabilities total.....	4,284,962	4,288,677	3,714	4,187,552	4,190,998	3,445
Derivative transactions (*2)						
Deferred hedge accounting is not applied.....	10	10	—	170	170	—
Deferred hedge accounting is applied.....	(325)	(325)	—	(80)	(80)	—
Derivative transactions total.....	¥ (314)	¥ (314)	¥ —	¥ 89	¥ 89	¥ —

	Thousands of U.S. dollars		
	2013		
	Consolidated balance sheet amount	Fair value	Difference
Call loans and bills bought.....	\$ 1,680,201	\$ 1,680,201	\$ —
Investment securities			
Trading securities.....	31,447	31,447	—
Available-for-sale securities.....	15,740,799	15,740,799	—
Loans and bills discounted.....	30,011,286	—	—
Allowance for possible loan losses (*1).....	(394,844)	—	—
	29,616,441	29,928,825	312,383
Assets total.....	47,068,891	47,381,275	312,383
Deposits.....	43,487,658	43,496,331	8,673
Negotiable certificates of deposit.....	1,005,040	1,005,144	103
Borrowed money.....	855,123	882,740	27,616
Bonds.....	212,652	215,753	3,100
Liabilities total.....	45,560,475	45,599,970	39,494
Derivative transactions (*2)			
Deferred hedge accounting is not applied.....	111	111	—
Deferred hedge accounting is applied.....	(3,459)	(3,459)	—
Derivative transactions total.....	\$ (3,347)	\$ (3,347)	\$ —

(\*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) Derivative 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 deems 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 ¥1,025 million, to decrease deferred tax assets by ¥362 million and to increase net unrealized gains on available-for-sale securities by ¥662 million compared to the valuation based on the market price as of March 31, 2012.

The information for investment securities by classification is included in Note 4 "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 deems the book values to be fair values.

Regarding 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 the 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 uses 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 losses are 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 value.

Regarding 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 deems the book value to be the fair value. With respect to deposits with long deposit terms (i.e., one year or longer), the Group uses 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.

Regarding 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 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 or 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**

Information on the fair value for derivatives is included in Note 29 "Fair value information on derivative transactions."

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

The following instruments are not included in "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
	2013	2012	2013
Unlisted stocks (*1)(*2).....	¥3,118	¥3,063	\$33,153

(\*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, 2013 and 2012, impairment losses for unlisted stocks amounted to ¥0 million (\$0 thousand) and ¥74 million, respectively.

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

	Millions of yen					
	2013					
	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.....	¥ 158,022	¥ —	¥ —	¥ —	¥ —	¥ —
Investment securities (*1).....	171,283	286,928	346,593	180,053	240,013	110,749
Japanese government bonds.....	93,450	62,206	164,300	50,000	108,000	5,000
Japanese local government bonds.....	21,413	88,606	65,838	81,348	70,075	—
Japanese corporate bonds.....	39,140	125,281	100,265	45,884	47,828	94,719
Others.....	17,279	10,835	16,190	2,821	14,110	11,029
Loans and bills discounted (*2).....	784,546	537,801	402,254	234,235	250,112	522,974
<b>Total.....</b>	<b>¥1,113,853</b>	<b>¥824,729</b>	<b>¥748,848</b>	<b>¥414,288</b>	<b>¥490,125</b>	<b>¥633,723</b>

	Millions of yen					
	2012					
	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.....	¥ 183,565	¥ —	¥ —	¥ —	¥ —	¥ —
Investment securities (*1).....	138,615	333,979	295,870	182,492	261,838	81,416
Japanese government bonds.....	44,830	136,450	142,706	125,800	82,000	—
Japanese local government bonds.....	20,317	60,133	69,492	40,017	114,215	—
Japanese corporate bonds.....	47,991	103,752	68,664	16,510	63,980	68,460
Others.....	25,476	33,642	15,007	164	1,643	12,955
Loans and bills discounted (*2).....	813,642	509,632	397,081	217,766	208,894	507,627
<b>Total.....</b>	<b>¥1,135,823</b>	<b>¥843,611</b>	<b>¥692,952</b>	<b>¥400,258</b>	<b>¥470,733</b>	<b>¥589,043</b>

	Thousands of U.S. dollars					
	2013					
	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.....	\$ 1,680,201	\$ —	\$ —	\$ —	\$ —	\$ —
Investment securities (*1).....	1,821,194	3,050,806	3,685,206	1,914,447	2,551,972	1,177,555
Japanese government bonds.....	993,620	661,414	1,746,943	531,632	1,148,325	53,163
Japanese local government bonds.....	227,678	942,117	700,032	864,946	745,082	—
Japanese corporate bonds.....	416,166	1,332,068	1,066,086	487,868	508,538	1,007,120
Others.....	183,728	115,206	172,145	30,000	150,026	117,271
Loans and bills discounted (*2).....	8,341,807	5,718,246	4,277,028	2,490,537	2,659,351	5,560,596
<b>Total.....</b>	<b>\$11,843,203</b>	<b>\$8,769,052</b>	<b>\$7,962,234</b>	<b>\$4,404,984</b>	<b>\$5,211,324</b>	<b>\$6,738,152</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 ¥64,902 million (\$690,084 thousand) and ¥62,472 million loans and bills discounted without contractual maturities amounting to ¥25,735 million (\$273,634 thousand) and ¥26,320 million are excluded from the table above as of March 31, 2013 and 2012.

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

	Millions of yen					
	2013					
	1 year or less	1 to 3 years	3 to 5 years	5 to 7 years	7 to 10 years	Over 10 years
Deposits (*).....	¥3,554,977	¥510,192	¥24,843	¥ —	¥—	¥ —
Negotiable certificates of deposit.....	94,524	—	—	—	—	—
Borrowed money.....	35,225	3,813	1,385	20,000	—	20,000
Bonds.....	—	—	—	20,000	—	—
<b>Total.....</b>	<b>¥3,684,727</b>	<b>¥514,006</b>	<b>¥26,229</b>	<b>¥40,000</b>	<b>¥—</b>	<b>¥20,000</b>

	Millions of yen					
	2012					
	1 year or less	1 to 3 years	3 to 5 years	5 to 7 years	7 to 10 years	Over 10 years
Deposits (*).....	¥3,470,818	¥498,831	¥15,810	¥ —	¥ —	¥ —
Negotiable certificates of deposit.....	104,524	—	—	—	—	—
Borrowed money.....	32,486	3,726	1,355	10,000	10,000	20,000
Bonds.....	—	—	—	—	20,000	—
<b>Total</b> .....	<b>¥3,607,829</b>	<b>¥502,557</b>	<b>¥17,165</b>	<b>¥10,000</b>	<b>¥30,000</b>	<b>¥20,000</b>

	Thousands of U.S. dollars					
	2013					
	1 year or less	1 to 3 years	3 to 5 years	5 to 7 years	7 to 10 years	Over 10 years
Deposits (*).....	\$37,798,806	\$5,424,699	\$264,152	\$ —	\$ —	\$ —
Negotiable certificates of deposit.....	1,005,040	—	—	—	—	—
Borrowed money.....	374,540	40,545	14,732	212,652	—	212,652
Bonds.....	—	—	—	212,652	—	—
<b>Total</b> .....	<b>\$39,178,388</b>	<b>\$5,465,244</b>	<b>\$278,884</b>	<b>\$425,305</b>	<b>\$—</b>	<b>\$212,652</b>

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

## 29. 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, 2013 and 2012.

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							
	2013				2012			
	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: .....	¥109,949	¥68,906	¥110	¥110	¥127,182	¥103,164	¥ 166	¥166
Forward exchange contracts:								
Sold.....	12,372	—	(661)	(661)	6,928	—	(220)	(220)
Bought.....	12,232	—	560	560	6,106	—	224	224
Currency options:								
Sold.....	22,953	8,139	(813)	170	30,495	16,095	(1,341)	180
Bought.....	22,953	8,139	813	68	30,495	16,095	1,341	173
<b>Total</b> .....	<b>¥ —</b>	<b>¥ —</b>	<b>¥ 10</b>	<b>¥249</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ 170</b>	<b>¥524</b>

	Thousands of U.S. dollars			
	2013			
	Contractual value	Contractual value due after one year	Fair value	Net unrealized gains (losses)
Over-the-counter:				
Currency swap: .....	\$1,169,057	\$732,661	\$1,176	\$1,176
Forward exchange contracts:				
Sold.....	131,549	—	(7,028)	(7,028)
Bought.....	130,059	—	5,963	5,963
Currency options:				
Sold.....	244,054	86,546	(8,647)	1,814
Bought.....	244,054	86,546	8,647	725
<b>Total</b> .....	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 111</b>	<b>\$2,651</b>

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

2. Fair value is calculated using discounted cash flows.

(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, 2013 and 2012.

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

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

	Millions of yen				Thousands of U.S. dollars			
	2013				2013			
	Hedged items	Contractual value	Contractual value due after one year	Fair value	Hedged items	Contractual value	Contractual value due after one year	Fair value
Principle treatment	<b>Available-for-sale securities (bonds)</b>				<b>Available-for-sale securities (bonds)</b>			
Interest rate swaps:								
Receivable floating rate/pay fixed rate.....		¥50,000	¥50,000	¥(264)		\$531,632	\$531,632	\$(2,817)
Special hedging treatment	<b>Borrowed money</b>				<b>Borrowed money</b>			
Interest rate swaps:								
Receivable floating rate/pay fixed rate.....		210	210	Note3		2,232	2,232	Note3
<b>Total.....</b>				<b>¥(264)</b>				<b>\$(2,817)</b>
	Millions of yen							
	2012							
	Hedged items	Contractual value	Contractual value due after one year	Fair value				
Interest rate swaps:	<b>Borrowed money</b>							
Receivable floating rate/pay fixed rate.....		¥270	¥270	Note3				

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

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

3. Because the interest rate swaps are accounted for with long-term debt as the hedged item, the fair value of the swaps is included in the fair value of the borrowed money in Note 28-2.

#### (2) Currency-related transactions

	Millions of yen							
	2013				2012			
	Hedged items	Contractual value	Contractual value due after one year	Fair value	Hedged items	Contractual value	Contractual value due after one year	Fair value
Forward exchange contracts.....	<b>Loans denominated in foreign currencies</b>	¥1,334	¥—	¥(60)	<b>Loans denominated in foreign currencies</b>	¥1,540	¥—	¥(80)

Thousands of U.S. dollars			
2013			
Hedged items	Contractual value	Contractual value due after one year	Fair value
Forward exchange contracts .....	<b>Loans denominated in foreign currencies</b> \$14,191	\$—	\$(642)

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.

### 30. Comprehensive income

The components of other comprehensive income for the year ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unrealized gains on available-for-sale securities, net of taxes:			
The amount arising during the period .....	¥23,377	¥4,725	\$248,561
Reclassification adjustments to profit or loss .....	(2,404)	(2,809)	(25,565)
Before adjustments to tax effect .....	20,972	1,915	222,996
The amount of tax effect .....	(5,634)	621	(59,908)
<b>Total</b> .....	<b>15,338</b>	<b>2,537</b>	<b>163,087</b>
Deferred gain on derivatives under hedge accounting:			
The amount arising during the period .....	(317)	(1)	(3,378)
Reclassification adjustments to profit or loss .....	52	0	562
Before adjustments to tax effect .....	(264)	(0)	(2,815)
The amount of tax effect .....	93	0	996
<b>Total</b> .....	<b>(171)</b>	<b>(0)</b>	<b>(1,819)</b>
Land revaluation surplus:			
The amount arising during the period .....	—	—	—
Reclassification adjustments to profit or loss .....	—	—	—
Before adjustments to tax effect .....	—	—	—
The amount of tax effect .....	—	1,293	—
<b>Total</b> .....	<b>—</b>	<b>1,293</b>	<b>—</b>
<b>Total other comprehensive income</b> .....	<b>¥15,167</b>	<b>¥3,830</b>	<b>\$161,268</b>

### 31. Net income per share

Calculation of net income per share ("EPS") for the years ended March 31, 2013 and 2012 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, 2013</b>				
Basic EPS				
Net income available to common shareholders .....	¥5,544	263,896	¥21.00	\$0.223
<b>For the year ended March 31, 2012</b>				
Basic EPS				
Net income available to common shareholders .....	¥8,228	263,923	¥31.17	\$0.379

## 32. Segment information

For the years ended March 31, 2013 and 2012

Because the Group has only one segment, banking, the description is not presented.

### Related Information

#### (1) Information about services

Millions of yen					
2013					
	Lending services	Securities investment	Fees and commissions	Other	Total
Operating income from external customers.....	¥45,391	¥18,426	¥12,454	¥12,543	¥88,815
Millions of yen					
2012					
	Lending services	Securities investment	Fees and commissions	Other	Total
Operating income from external customers.....	¥46,144	¥18,660	¥12,362	¥13,544	¥90,711
Thousands of U.S. dollars					
2013					
	Lending services	Securities investment	Fees and commissions	Other	Total
Operating income from external customers.....	\$482,631	\$195,922	\$132,423	\$133,367	\$944,345

#### (2) Information about geographical areas

##### (a) Operating income

Operating income from external domestic customers exceeded 90% of total operating income on the consolidated statements of income for the fiscal years ended March 31, 2013 and 2012; therefore geographical operating income information is not presented.

##### (b) Tangible fixed assets

The balance of domestic tangible fixed assets exceeded 90% of the total balance of tangible fixed assets on the consolidated balance sheets as of March 31, 2013 and 2012; 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 income for the fiscal years ended March 31, 2013 and 2012; therefore major customer information is not presented.

## 33. Related party transactions

Transactions of the Bank with related parties for the year ended March 31, 2013 were as follows:

Related party	Category	Description of transactions	Millions of yen	Thousands of U.S. dollars
Yoshihisa Fujita	Director or relative	Lending operation loan.....	¥26	\$279

Transactions of the Bank with related parties for the year ended March 31, 2012 were as follows:

Related party	Category	Description of transactions	Millions of yen
Yoshihisa Fujita	Director or relative	Lending operation loan.....	¥27

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of The Shiga Bank, Ltd. and its consolidated subsidiaries as of March 31, 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Shiga Bank, Ltd. and its consolidated subsidiaries as of March 31, 2013, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Convenience Translation

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

*Deloitte Touche Tohmatsu LLC*

June 4, 2013

# Composition of Capital Disclosure (Capital ratio of the fiscal year ended March 31, 2013, Basel III)

## Capital ratio (consolidated)

(Appended Form 2 of Supplementary Provision of the Notification of Japanese Financial Services Agency No. 15, 2007)

Items	Millions of yen, %		Basel III Template No.
		Amounts excluded under transitional arrangements	
<b>Common Equity Tier 1 capital: instruments and reserves (1)</b>			
Directly issued qualifying common share capital plus related capital surplus and retained earnings	193,542		1a+2-1c-26
of which: capital and capital surplus	57,046		1a
of which: retained earnings	138,249		2
of which: treasury stock (-)	959		1c
of which: national specific regulatory adjustments (earnings to be distributed) (-)	793		26
of which: other than above	—		
Subscription rights to common shares	—		1b
Accumulated other comprehensive income and other disclosed reserves	—	69,182	3
Common share capital issued by subsidiaries and held by third parties (amount allowed in group Common Equity Tier 1)	—		5
Total of items included in Common Equity Tier 1 capital: instruments and reserves subject to transitional arrangements	1,700		
of which: common share capital issued by subsidiaries and held by third parties (amount allowed in group Common Equity Tier 1)	1,700		
Common Equity Tier 1 capital: instruments and reserves (A)	195,243		6
<b>Common Equity Tier 1 capital: regulatory adjustments (2)</b>			
Total intangible fixed assets (excluding those relating to mortgage servicing rights)	—	895	8+9
of which: goodwill (including those equivalent)	—	—	8
of which: other intangibles other than goodwill and mortgage servicing rights	—	895	9
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	—	2	10
Deferred gains or losses on derivatives under hedge accounting	—	0	11
Shortfall of eligible provisions to expected losses	—	10,042	12
Securitization gain on sale	—	—	13
Gains and losses due to changes in own credit risk on fair valued liabilities	—	—	14
Defined-benefit pension fund net assets (prepaid pension costs)	—	—	15
Investments in own shares (excluding those reported in the Net assets section)	—	0	16
Reciprocal cross-holdings in common equity	—	—	17
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	—	—	18
Amount exceeding the 10% threshold on specified items	—	—	19+20+21
of which: significant investments in the common stock of financials	—	—	19
of which: intangible fixed assets relating to mortgage servicing rights	—	—	20
of which: deferred tax assets arising from temporary differences	—	—	21
Amount exceeding the 15% threshold on specified items	—	—	22
of which: significant investments in the common stock of financials	—	—	23
of which: intangible fixed assets relating to mortgage servicing rights	—	—	24
of which: deferred tax assets arising from temporary differences	—	—	25
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	3,222		27
Common Equity Tier 1 capital: regulatory adjustments (B)	3,222		28
<b>Common Equity Tier 1 capital (CET1)</b>			
Common Equity Tier 1 capital (CET1) ((A)-(B)) (C)	192,020		29
<b>Additional Tier 1 capital: instruments (3)</b>			
Directly issued qualifying Additional Tier 1 instruments plus related capital surplus of which: classified as equity under applicable accounting standards	—		31a
Subscription rights to Additional Tier 1 instruments	—		31b
Directly issued qualifying Additional Tier 1 instruments plus related capital surplus of which: classified as liabilities under applicable accounting standards	—		32
Qualifying Additional Tier 1 instruments plus related capital surplus issued by special purpose vehicles and other equivalent entities	—		
Additional Tier 1 instruments issued by subsidiaries and held by third parties (amount allowed in group Additional Tier 1)	1,798		34-35
Eligible Tier 1 capital instruments subject to transitional arrangements included in Additional Tier 1 capital: instruments	—		33+35
of which: instruments issued by bank and its special purpose vehicles	—		33
of which: instruments issued by subsidiaries	—		35
Total of items included in Additional Tier 1 capital: instruments subject to transitional arrangements	—		
Additional Tier 1 capital: instruments (D)	1,798		36
<b>Additional Tier 1 capital: regulatory adjustments</b>			
Investments in own Additional Tier 1 instrument	—		37
Reciprocal cross-holdings in Additional Tier 1 instruments	—		38
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	—		39
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	—		40

Items	Millions of yen, %		Basel III Template No.
		Amounts excluded under transitional arrangements	
Total of items included in Additional Tier 1 capital: regulatory adjustments subject to transitional arrangements	5,021		
of which: shortfall of eligible provisions to expected losses	5,021		
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deduction	—		42
Additional Tier 1 capital: regulatory adjustments (E)	5,021		43
<b>Additional Tier 1 capital</b>			
Additional Tier 1 capital ((D) – (E)) (F)	—		44
<b>Tier 1 capital (T1 = CET1 + AT1)</b>			
Tier 1 capital (T1 = CET1 + AT1) ((C)+(F)) (G)	192,020		45
<b>Tier 2 capital: instruments and provisions (4)</b>			
Directly issued qualifying Tier 2 instruments plus related capital surplus of which: classified as equity under applicable accounting standards	—		
Subscription rights to Tier 2 instruments	—		
Directly issued qualifying Tier 2 instruments plus related capital surplus of which: classified as liabilities under applicable accounting standards	—		46
Qualifying Tier 2 instruments plus related capital surplus issued by special purpose vehicles and other equivalent entities	—		
Tier 2 instruments issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	423		48-49
Eligible Tier 2 capital instruments subject to transitional arrangements included in Tier 2: instruments and provisions	54,000		47+49
of which: instruments issued by bank and its special purpose vehicles	—		47
of which: instruments issued by subsidiaries	—		49
Total of general allowance for credit losses and eligible provisions included in Tier 2	259		50
of which: provision for general allowance for credit losses	259		50a
of which: eligible provisions	—		50b
Total of items included in Tier 2 capital: instruments and provisions subject to transitional arrangements	45,928		
of which: accumulated other comprehensive income	45,928		
Tier 2 capital: instruments and provisions (H)	100,610		51
<b>Tier 2 capital: regulatory adjustments</b>			
Investments in own Tier 2 instruments	—	—	52
Reciprocal cross-holdings in Tier 2 instruments	—	—	53
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	—	—	54
Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation	—	—	55
Total of items included in Tier 2 capital: regulatory adjustments subject to transitional arrangements	5,021		
of which: shortfall of eligible provisions to expected losses	5,021		
Tier 2 capital: regulatory adjustments (I)	5,021		57
<b>Tier 2 capital (T2)</b>			
Tier 2 capital (T2) ((H)-(I)) (J)	95,589		58
<b>Total capital (TC = T1 + T2)</b>			
Total capital (TC = T1 + T2) ((G)+(J)) (K)	287,610		59
<b>Risk weighted assets (5)</b>			
Total of items included in risk weighted assets subject to transitional arrangements	1,443		
of which: intangibles other than mortgage servicing rights	1,441		
of which: deferred tax assets that rely on future profitability excluding those arising from temporary differences	2		
of which: investments in own shares	0		
Risk weighted assets (L)	2,032,900		60
<b>Capital ratio (consolidated)</b>			
Common Equity Tier 1 capital ratio (consolidated) ((C)/(L))	9.44		61
Tier 1 capital ratio (consolidated) ((G)/(L))	9.44		62
Total capital ratio (consolidated) ((K)/(L))	14.14		63
<b>Regulatory adjustments (6)</b>			
Non-significant investments in the capital of other financials that are below the thresholds for deduction (before risk weighting)	19,678		72
Significant investments in the common stock of other financials that are below the thresholds for deduction (before risk weighting)	342		73
Intangible fixed assets relating to mortgage servicing rights that are below the thresholds for deduction (before risk weighting)	—		74
Deferred tax assets arising from temporary differences that are below the thresholds for deduction (before risk weighting)	1,302		75
<b>Provisions included in Tier 2 capital: instruments and provisions (7)</b>			
Provisions (general allowance for credit losses)	259		76
Cap on inclusion of provisions (general allowance for credit losses)	434		77
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap) (if the amount is negative, report as "nil")	—		78
Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	11,229		79
<b>Capital instruments subject to transitional arrangements (8)</b>			
Current cap on AT1 instruments subject to phase out arrangements	—		82
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) (if the amount is negative, report as "nil")	—		83
Current cap on T2 instruments subject to transitional arrangements	54,000		84
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) (if the amount is negative, report as "nil")	6,000		85

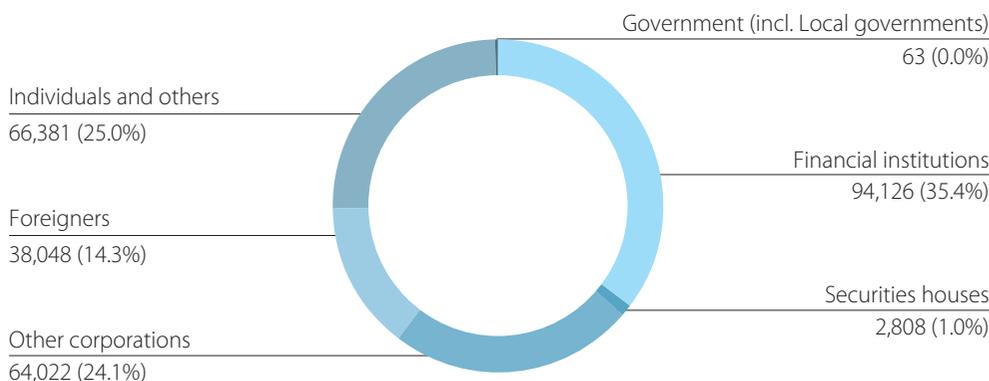
# Stock Information

As of March 31, 2013

## Major shareholders

	Number of shares held (Thousand shares)	As a percentage of total number of issued shares (%)
Japan Trustee Services Bank, Ltd.	15,913	5.99
Northern Trust Co. (AVFC) Sub A/C American Clients	14,360	5.40
NIPPONKOA Insurance Co., Ltd.	11,651	4.38
Nippon Life Insurance Company	9,475	3.56
Shiga Bank Employees' Shareholding Association	7,279	2.74
Meiji Yasuda Life Insurance Company	6,199	2.33
Northern Trust Co. AVFC Re U.S. Tax Exempted Pension Funds	5,854	2.20
Mizuho Corporate Bank, Ltd.	5,600	2.10
Sumitomo Mitsui Trust Bank, Limited	5,506	2.07
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,368	1.64
<b>Total</b>	<b>86,208</b>	<b>32.47</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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