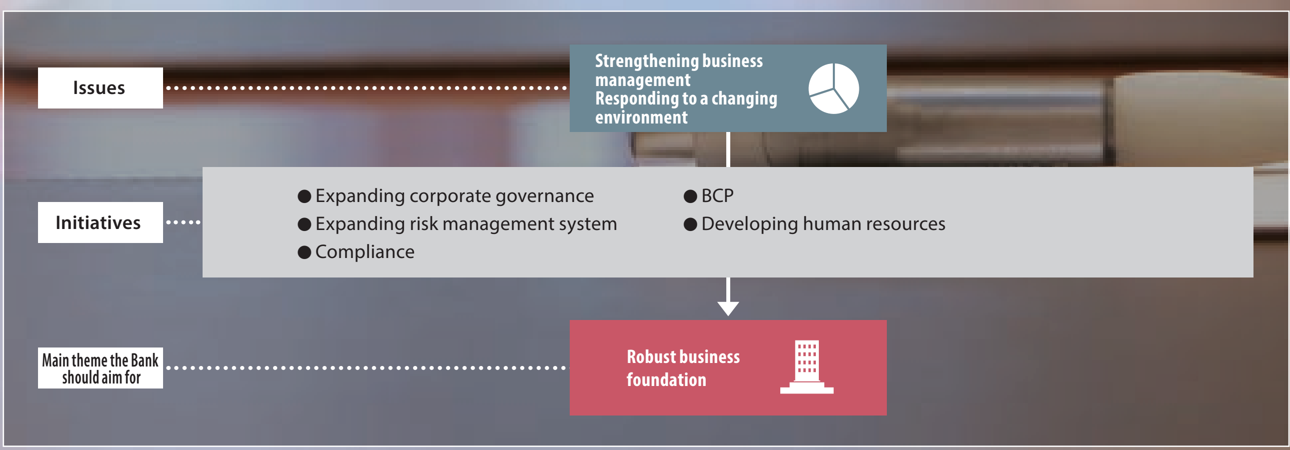
4.

Challenge to constructing a robust management foundation

For more solid organizational management



4. Challenge to constructing a robust management foundation

Basic views

The risks faced by the Bank in the performance of its operations have been growing more complex and diversified.

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

We have also introduced a "risk appetite framework" that will incorporate business strategy in an integrated risk management model in order to sustainably enhance profitability based on reasonable risk-taking.

Continuing the initiatives we have launched so far, we plan to improve our risk management capabilities based on the principle of self-responsibility.

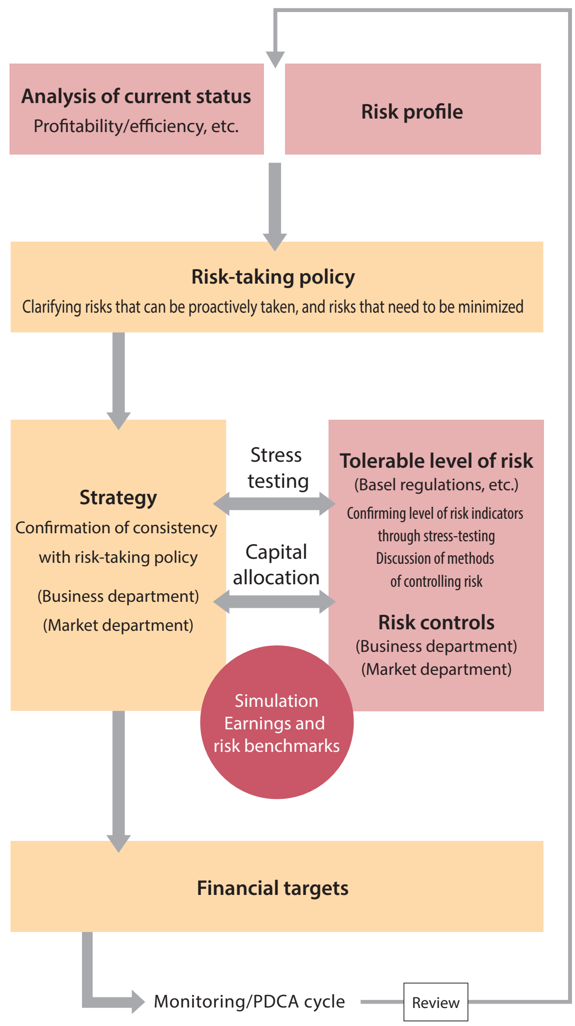
Risk Appetite Framework

The risk appetite framework refers to frameworks for business and risk management that enable clarification of risk by type and level that the Bank is prepared to take on, as well as sharing and monitoring of it for the purposes of accomplishing business strategy and financial targets.

Regarding the formulation of financial targets, the Bank first identifies a risk-taking policy based on current-status analysis and risk profiling, and confirms the consistency of strategy in the sales and market departments. Then we carry out various simulations to test the strategy, and sets target earnings and risk benchmarks. After confirming through stress testing that the plan will remain reasonably sound under a certain amount of stress, we allocate capital accordingly and seek out the best balance among earnings, risk, and capital. Stress testing is also used to originate countermeasures in the event of strategy failure.

We monitor financial targets that have been prepared, and every six months consider revisions to the risk-taking policy and financial targets. This enables us to clarify the relationship between analysis of current status and risk profile; risk-taking policy; strategy; and financial targets. We ensure the effective functioning of the PDCA cycle for achievement of appropriate risk management and strategy attainment that can quickly respond to changes in the financial environment.

Process of developing financial targets



Glossary

Capital allocation

The Bank uses VaR, etc. to quantify the various risks it faces. Amounts of capital corresponding to risk amounts (economic capital) are allocated for individual categories of risk and for individual departments and other units, within the scope of own capital. At Shiga Bank, business department and market department are subject to capital allocation measures.

Voice

Toward construction of a robust management foundation

Taking on risk

As the external environment has changed significantly in recent years, including economic globalization, technological innovation, and various regulations, banking operations have become even more complex and varied, and we must build appropriate systems for managing risk.

Taking these circumstances into consideration, in the Assets & Liabilities Managing Department, which supervises risk management, we recognize that it is important to face and control risks more actively, and with this in mind, we aim to **"become a bank that can take risk"** in a reasonable manner, will implement risk management that corresponds to the Bank's strategies, and endeavor to make recommendations that look to the future.

Atsushi Shimotsuji, General Manager of Assets & Liabilities Managing Dept.

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, "Risk Management Policies" are instituted semiannually at the Board of Directors' meeting after clarifying "risk appetite" in light of the Bank's strategic goals and risk status.

These statuses of risk and return are properly managed by having it reported to management through the ALM Committee, the Meeting of Managing Directors, and the Board of Directors.

Comprehensive Risk Management

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

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

For risk that cannot be quantitatively measured using statistical methods, such as operational and reputational risks, we take measures to minimize occurrence and impact in monetary terms.

Additionally, as a comprehensive risk management method, we have created an integrative risk management system which measures and manages various types of risk 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 (own capital needed to satisfy capital adequacy regulations) and 2) economic capital (risk amounts calculated using VaR, etc.).

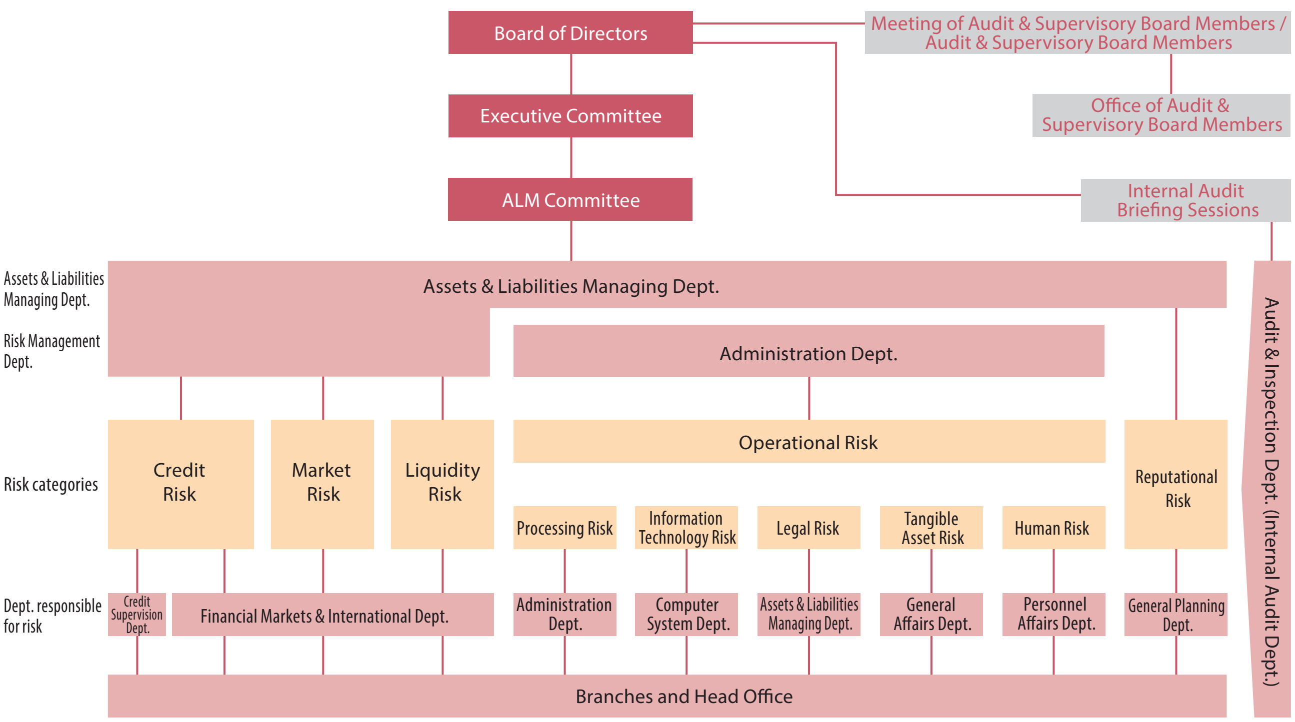
In addition, the Bank has created a system that appropriately complements the capital allocation system by controlling 3) price change risk in investments in securities by keeping it within a specified range.

Glossary

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.

Risk Management System



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, 2007.

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.

Based on this Corporate Credit Rating System, the Bank conducts "Shigagin Ratings Communication Service" which discloses the ratings of customers and "Shigagin Ratings Simulation Service" as rational communication tools that connect our customers to the Bank. A shared recognition is reached regarding issues and risks faced by a business customer, and the Bank provides proposals to strengthen the management foundation of customers and support for compilation of plans for management improvement.

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.

In recent years, linkage between the economy and the financial capital market has deepened on a worldwide scale. Using compilations of multiple economic scenarios on a global basis, the Bank predicts the extent of impact of such scenarios on the regional economy and on our business customers. Specifically, we forecast rates of sales growth or decline for individual business customers under these different economic scenarios, and possible changes in credit rating after a trial calculation of financial impact. This enables us to manage credit risk and capital ratio status for the whole Bank.

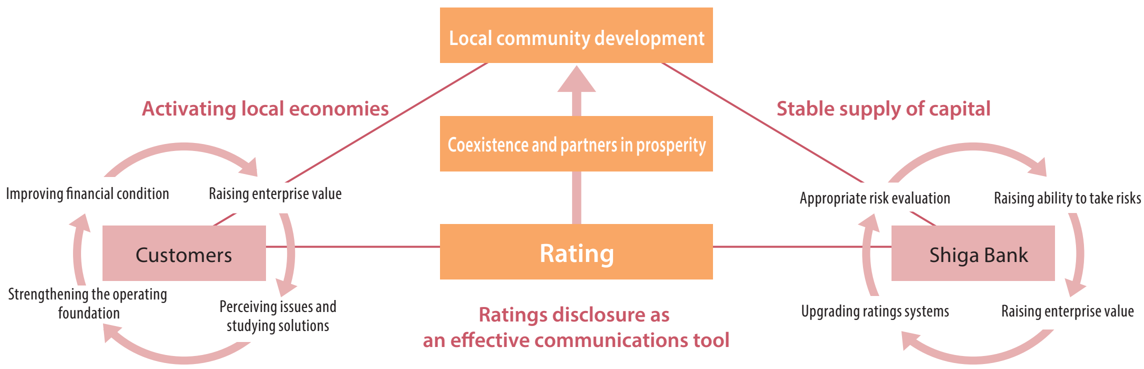
The Significance and Purpose of the Corporate Credit Rating System

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 in March 2007, 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.



Through these initiatives, we are working to establish a credit risk management system using rational risk control that contribute to the mutual prosperity of the Bank and regional community for creation and sharing of new value. At the same time, we are proactively working to achieve a level of pricing (setting of loan rates) duly corresponding to credit risk to ensure an appropriate level of returns in relation to the risk.

Market Risk Management System

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.

Fully recognizing the possibility of unexpected risk arising during the course of business operations due to uncertainties accompanying market changes and the necessity of responding promptly and in accordance with the nature of the risk, the Bank aims to ensure stable profits by controlling market risk within a fixed scope based on quantitative methods.

Regarding market risk for overall banking operations, adjustments are made to financial targets every six months concerning all assets and liabilities including deposits, loans, and securities, and capital is allocated after consideration of the expected earnings and risk balance. The amount of interest rate risk is controlled based on the "interest rate risk in the banking book" (IRRBB). 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.

Liquidity Risk Management System

Liquidity risk is the risk of losses arising due to the necessity of trading at significantly adverse prices compared with usual levels, due to upheaval in markets causing inability to secure sufficient funding and hindering fund-raising.

The Bank views liquidity risk as a fundamental risk faced by the Bank. We take measures to ensure accurate understanding of fund-raising and stable fund procurement and investment, and have a basic policy in place for rigorous risk management that fully emphasizes market liquidity.

In managing the flows of funds, the Financial Markets Department as fund-raising management department monitors fund-raising factors including the financial environment, balance of liquid assets, expected cash outflows, and events that are expected to have an impact on fund-raising on a daily basis, and acts as appropriate. In addition, the Assets & Liabilities Managing Department keeps track of day-to-day risk management by the fund-raising management department, and ensures appropriate management of liquidity risk through regular reporting to the ALM Committee regarding the status of fund-raising. For the liquidity coverage ratio regulation which is the standard for judging soundness of the liquidity, the Bank takes appropriate action.

Operational Risk Management System

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.

Information Technology Risk Management

Information technology risk is the risk of losses being caused to customers or the Bank due to problems such as computer system failure, malfunction, defect, or illegal abuse.

The Bank has installed an earthquake-proof structure enabling computer systems to continue functioning even in an earthquake disaster, and also has in place administrative offices that can operate for up to 72 hours using in-house power generation systems. In addition, we use data centers located in East and West Japan that enable mutual backup with the latest technology. The Bank carries out various safety measures for the assumed system risk including virus entry measures and unauthorized access measures to prevent information leakage and strive for the stable operation and information protection of the system.

With compilation of its contingency plan, the Bank has further taken every precaution against any kind of accident or large-scale disaster.

Implementation of RCSA

The Bank has put in place a risk management system in compliance with capital adequacy requirements, and carries out regular in-house RCSA.* The Bank identifies and evaluates risk independently.

The Bank also engages in collation and analysis of operational risk information (accident data, etc.) to ensure implementation of the PDCA cycle to increase the efficiency of risk management. These measures for risk control, transfer and avoidance further raise risk management standards.

The Bank uses the "Standardized Approach" in the calculation of amounts equivalent to the operational risk under the capital adequacy ratio requirements.

* RCSA is an abbreviation for Risk & Control Self-Assessment. This is a method for independent risk management, involving compilation and implementation of necessary risk reduction measures based on identification of risks inherent in all business processes and operational systems and in fixed tangible assets, etc., with an evaluation and full appraisal of risk that remains even after counter-measures have been taken.

Cybersecurity

The Bank considers that responding to cyberattacks is one of the most important management issues, from the perspective of maintaining the stable operation of our network and systems in order to provide our customers with safe and secure financial services.

We have created a cross-departmental team in the Bank (the Shibagin CSIRT*) and are also utilizing external expertise as we focus on adopting a stronger stance, taking an approach based on multilayered defense with countermeasures at entrance points, inside, and exit points.

In addition to collecting and analyzing information to quickly identify risks and respond appropriately, we are also endeavoring to enhance our capabilities for responding to these risks through training and drills.

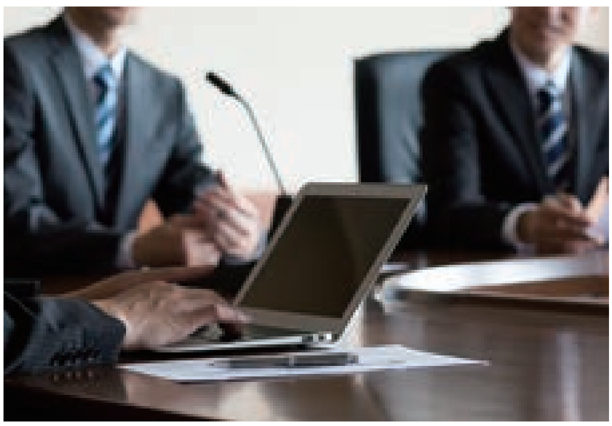
Furthermore, for online banking and other non-face-to-face transactions, we endeavor to ensure security through a combination of measures to prevent unauthorized activity, including safe authorization methods.

*CSIRT: Computer Security Incident Response Team

Reputational Risk Management System

Reputational risk is the risk of unexpected tangible or intangible losses arising for damage to the Bank's good name due to rumors or slanders spreading in abnormal circumstances.

The Bank has formulated the "Reputational Risk Management Rules" and is committed to prior prevention of abnormal situations that could lead to reputational risk arising.



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 heightened awareness of expectations placed by the public in banks, and 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.

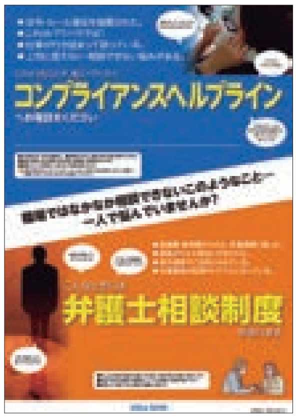
In fiscal 2018, we will run training programs with the themes of preventing money laundering using a risk-based approach and enhancing cybersecurity literacy.

Instead of conventional lecture-type training, participatory training with a focus on discussion is being adopted.

Whistle-blowing system established

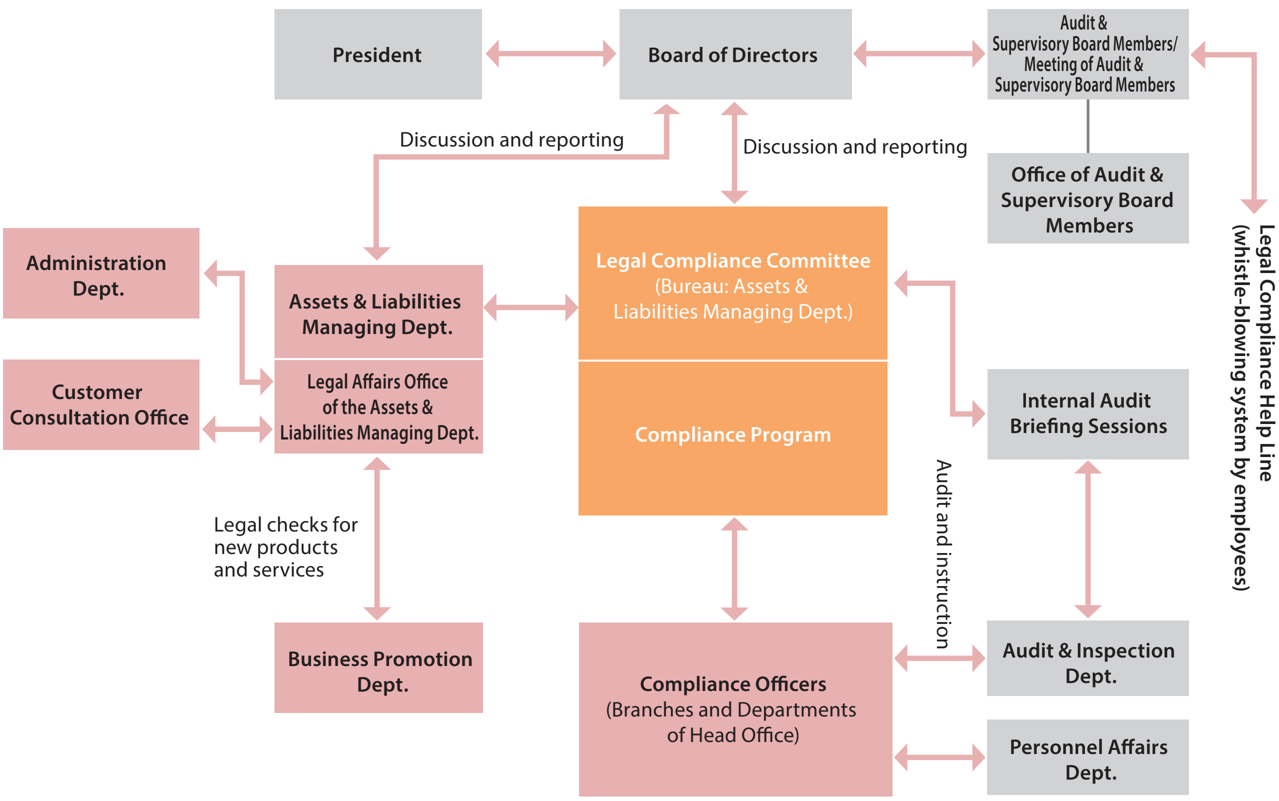
In order to promote compliance management, we have established a legal compliance help line (24 hours a day) for employees to contact when they have discovered a violation of laws, regulations, or rules in the workplace and cannot discuss their concerns with their superiors or colleagues.

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.



Poster publicizing the Bank's whistleblowing system

Legal compliance system



BCP

Business continuity

"Business continuity" refers to measures by a company to avoid any interruptions to its important 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 which enables us to operate smoothly and continuously 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), learning from the Great East Japan Earthquake, the Bank formulated the "Earthquake Disaster Initial Response Manual" and the "Nuclear Power Facility Accident Initial Response Manual" to make initial responses at the time of a disaster clear, and the Bank also established regulations, manuals and procedures for crisis management, disaster prevention and other areas.

Moreover, we ran training and education based on our annual schedule that included initial response and decision-making drills for the Crisis Response Division, working to ensure and enhance its effectiveness for all 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.

Training at Emergency Headquarters

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.

Maintaining the functions of on-line systems

The core element of business continuity is maintaining the functions of on-line systems. We have installed an earthquake-proof structure enabling computer systems to continue functioning even in an earthquake disaster, administrative offices that can operate for up to 72 hours using in-house power generation systems and data centers located in East and West Japan that enable mutual backup with the latest technology.

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.

Distribution of Emergency Supplies

The Bank distributed safety helmets for all employees and visitors to our branches as well as flashlights, emergency toilets and water carriage bags in case of water supply failure and emergency food and drinking water to all our branches. Furthermore, our branches in metropolitan areas are enhancing stockpile of emergency food and drinking water for the case where commuters are stranded at times of disasters.

Emergency supplies

Conclusion of agreement on mutual support in the event of large-scale disasters

In September 2015, seven regional banks with their head offices in the six prefectures making up the Kinki region (Shiga Bank, The Bank of Kyoto, Ltd., Kinki Osaka Bank, Limited, The Senshu Ikeda Bank, Ltd., The Nanto Bank, Ltd., The Kiyo Bank, Ltd., and The Tajima Bank, Ltd.) signed a mutual assistance agreement to take measures to keep financial services operational or promptly restore them in the event of a major disaster.

Glossary

BCP (Business Continuity Plan)

A business continuity plan is a plan for deciding on measures to be taken at normal times and methods and tools to be used in an emergency to ensure continuation of business. It is intended to minimize damage to business assets and enables continuation of core business operations or their rapid restoration in the event of an emergency caused by a natural or other kind of major disaster.