SHIGA BANK REPORT 2023

INTEGRATED REPORT

ANNUAL REPORT 2023 Year ended March 31, 2023

90th Anniversary
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SHIGA BANK

The Bank's Motto

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

Instituted in January 1966

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 Omi Merchants of central Japan, which means to bring happiness to three sides: being good for the seller, the buyer, and society.

Mutual prosperity with the regional communities

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

Mutual prosperity with all employees

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

Harmonious coexistence with the environment

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

SHIGA BANK REPORT 2023

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Shiga Bank's Disclosure Policy

1. Basic views
Based on our social responsibility and public mission as a regional financial institution, we aim to ensure highly transparent disclosure. We shall ensure timely, due, continuous, fair and accurate disclosure of information, to foster understanding and appropriate evaluation of Bank operations by all of our stakeholders, including our customers, shareholders, investors and regional communities.

2. Information to be disclosed
The Bank will disclose management information in accordance with laws and regulations such as the Banking Act and the Financial Instruments and Exchange Act, as well as the Rules on Timely Disclosure of Corporate Information by Issuers of Listed Securities established by the Tokyo Stock Exchange (hereinafter referred to as the "Timely Disclosure Rules").
In addition, we will disclose information that is deemed useful to our stakeholders in a fair and timely manner to the greatest extent possible, even if the information does not fall under the category of material facts specified by laws and regulations or the Timely Disclosure Rules.

3. Methods of information disclosure
Information required to be disclosed under laws and regulations as well as the Timely Disclosure Rules will be disclosed in a timely and appropriate manner in accordance with such rules and regulations, and will also be posted on the Bank's website.
For other voluntarily disclosed information, we will strive to disclose information that is fair and useful in an appropriate manner.

4. Information disclosure procedures and systems
The Bank has established the "Rules on Management-related Information Disclosure" and has designated the General Planning Department as the department responsible for disclosure of management-related information in order to develop and enhance procedures and systems for timely and appropriate information disclosure.
In addition, to maintain the appropriateness of the information, we consult with audit firms and other experts as necessary, and periodically verify the appropriateness and effectiveness of the information.

5. Forward-looking statements
The information on the Bank's website and in the Integrated Report contains statements regarding the financial position of and future forecasts concerning the Bank and other Group companies. These forward-looking statements do not guarantee that future performance will be achieved as stated. They are affected by certain risks and uncertainties and may not necessarily be consistent with actual results due to changes in the business environment in the future.

On the Publication of Integrated Report

This report is based on the "International Integrated Reporting Framework" presented by the International Integrated Reporting Council (IIRC) and the "Value Creation Guidance" issued by the Ministry of Economy, Trade and Industry (METI), and is an integrated compilation of the Bank's and its community's sustainable value creation framework by linking financial information to management philosophy, strategy, ESG information (environment, society, governance), and other non-financial information. The report is an integrated compilation of the Bank's and the community's sustainable value creation framework. This publication also serves as disclosure material (documents explaining the status of operations and assets) in accordance with Article 21 of the Banking Act. When using this document as a disclosure document, please refer to this document, the information section (available on the Bank's website at https://www.shigagin. com/), and the "SHIGA BANK REPORT 2023 Financial Data and Basel III Pillar 3 Disclosure" (available on the same website). Management and others have confirmed that appropriate disclosures have been made in accordance with the Bank's Disclosure Policy.

Cautionary Statement with Respect to Forward-Looking Statements

This material contains statements regarding future earnings forecasts and targets, etc. relating to the Bank. These statements are based on information available at the time of compilation of these materials and forecasts or certain conditions (assumptions) that could affect business performance. They are not guarantees of future performance of the Bank, and involve various risks and uncertainties.

Top Message

"Cool Heads but Warm Hearts."

These are the words that celebrated English economist Alfred Marshall (1842-1924) said at the conclusion of his inaugural address as a professor at the University of Cambridge. Embedded in these words was his desire to produce as many human resources as possible who would work to confront and eliminate the social problem of poverty that plagued the U.K. at the time.

It is a famous quote that anyone who has studied economics has heard at least once, but I think Omi Merchants had the same mindset. They made a fortune with their standout business sense, but they valued working for the benefit of others, not only themselves. This mindset is expressed in the words of Omi Merchants like Riemon Nishikawa ("Love wealth and give others its benefits") and Jihe Nakamura ("When doing business in other countries, don't only think of yourself. Value every person in that country and never place self-interest above all else.")

As a regional financial institution that is part of the regional economy, and also as a company that can trace its roots back Omi Merchants, we will strive to produce people with cool heads and warm hearts who embody the "Sampo yoshi" philosophy to solve regional problems.

Leaping ahead to the next stage after the 90th anniversary

October 1 of this year will mark the Shiga Bank's 90th anniversary. The Shiga Bank was born through the merger in 1933 of the 133rd National Bank (Hyakusanjusan Bank), which was established by feudal retainers of the former Hikone Domain and prided itself on "sound management," and the Hachiman Bank, which was established by Omi Merchants and emphasized a culture of "enterprise." The two banks' different corporate cultures merged in a balanced way, leading to a bank with both a sound financial foundation and advanced ESG finance services.

Headquartered near ancient Lake Biwa that is said to be over 4 million years old, we are the only regional bank based in Shiga Prefecture. For many years we have carried out "environmental management" initiatives with the aim of creating a virtuous circle propelling the environment and economy forward. In line with global trends, these initiatives have now entered a new stage of "sustainability management."

On the following pages I will explain our commitment to taking the leap ahead to this new stage, and our strategy to boost regional earning power through sustainability and balance both the sustainable development of the regional community and new business opportunities.

Turning SDGs into business

The SDGs went into effect in 2016, and this year marks the halfway point to the 2030 goal. The awareness level of SDGs was low at first, but due to repeated natural disasters and the global COVID-19 pandemic, achieving sustainability in line with the SDGs has become a common priority to all humanity.

The Shiga Bank has practiced environmental management since the 1990s. Recognizing the importance of the SDGs early on, we announced our SDGs declaration in November 2017, making us the first regional bank to do so. We are striving to contribute to achieving a sustainable society by translating SDGs into corporate activities and creating a business model that balances economic value with social value.

In April 2019, we launched the 7th Medium-Term Business Plan, which incorporates the philosophy of the SDGs, and states our long-term vision formulated by backcasting from our ideal picture of a sustainable regional community and our goal of becoming a "Sustainability Design Company." At that time we didn't have the term Sustainability Transformation (SX) in mind. But one of our basic strategies, "turning SDGs into business," aims to bring about innovation with SDGs and create new business models, thus leading to the earning power of the Bank and the region.

This is the final fiscal year of five-year 7th Medium-Term Business Plan. I feel we have made significant headway in the last four years in developing a framework to translate SDGs into business. One measure of particular note is rolling out new businesses coupled with digital technology in response to climate change, which is said to have the largest impact of all potential risk factors.

Regional carbon-neutral initiatives

One business model that combines decarbonization with digital technology is "Mirai-Yoshi Support," a CO_2 emissions management service developed jointly with Hitachi, Ltd. and launched this January (see Page 9). It has earned high acclaim from many customers as a convenient, user-friendly service, but it also provides a significant benefit to the Bank. By formulating a business plan side-by-side with the customer, such as a plan to upgrade equipment, we can offer support in line with the plan, such as loans, leasing, and other types of financing, consulting, job placement, and at times even M&A.

And to ensure our employees can offer advice on decarbonization, we encourage them to acquire external advisor certifications and develop human resources. Since 2019 the Shiga Bank has offered SDG consulting (see Page 39). Our experience providing branch-led services has given us considerable knowledge to enable us to help decarbonize businesses. To ensure we can demonstrate that strength, we are enhancing our training program.

We have also diversified our finance methods, enabling us to make proposals optimized to each customer. The Shiga Bank became the first bank in Japan to offer private placement type green bonds in 2019, and the first regional bank to offer sustainability linked loans in 2020. Since then we have enhanced our lineup even further with positive impact finance and other services. We also offer "Carbon Neutral Loan, Mirai-Yoshi," which can be used in a wide range of decarbonization-related capital investments, with the aim of gaining a track record in decarbonizing businesses.

In addition, we started offering "Super Housing Loan, Mirai-yoshi" (see Page 9) this April with the aim of spreading decarbonization efforts throughout region. We are committed to spreading solar panels, storage batteries, and home fuel cells throughout the region by encouraging decarbonization on an individual level. Recognizing that this requires the cooperation of home vendors, we held a briefing this February asking vendors to actively urge customers to install such equipment.

This initiative is good for the buyers as it enables them to install equipment with a zero real interest rate and reduce utility bills. It is good for the sellers as it enables home vendors to improve their brand image and boost sales and profits. It is good for society as it contributes to the widespread use of renewable energy and development of disaster-resilient communities. And it is good for the future as it will pass on a carbon neutral world to future generations.

When developing the product, we revised the housing loan process to make it more convenient and streamlined. We also introduced an online service so that the entire process could be carried out not face-to-face, enabling us to establish an interest rate on par with online banks. Many of our customers have cooperated with this new initiative to achieve decarbonization, and we have seen a considerable increase compared to the previous year's results in both inquiries and monetary amount.

Increasing productivity of the regional communities

This May, COVID-19 was reclassified to Class V under the Infectious Diseases Control Law, and the regional economy is gradually recovering thanks to increased tourism and other factors. However, many companies that had received a grace period to repay so-called "zero-zero loans" (i.e., zero real interest, unsecured loans) must start repaying this year. Therefore, we must be ready to provide help again. Issues surrounding the region, such as the declining birthrate, aging population, and disparities caused by the concentration of people in Tokyo, are piling up.

Labor shortage is a pressing problem not only for our customers in the logistics industry that will face the 2024 problem, or anticipated further truck driver shortages, but also for customers in a wide range of other industries. The pace of population decline in Shiga Prefecture is slower than other prefectures, but it is certain to become a serious problem in the future. Unless you hire people to make up for the shortage or change business operations, you will reach a limit at some point.

In response, we established the Digital Promotion Office in October 2020 to provide IT business support (see Page 41) to resolve business issues such as streamlining business operations and managing labor through the use of digital technology. Many SMEs are often not making use of digital technology, and even just switching business processes from paper to digital can contribute dramatically improving efficiency. There are also cases of reevaluation of business operations leading to increased employee motivation, which we expect could spread a positive impact across the entire region. Furthermore, digitalization also will lead to data-based, data-driven business.

Last fiscal year these digitalization support initiatives were recognized and selected among the "Examples of Distinctive Initiatives of Financial Institutions, etc. that Contribute to Regional Revitalization for Fiscal Year 2022," by the Cabinet Office, earning us an award from the Minister.

Goal-based support

The Shiga Bank strives to provide "goal-based support" (see Page 47) as concepts on which customer service is based. We ask the customer what their dreams and visions are, and help them bridge the gap from idea to realization.

For business customers, with our SDG consulting service for example, we first hold detailed interviews about their founding spirit and their management philosophy, and identify the impacts of their business activities on society. Then the customers set targets and draw up plans so they can move in the right direction (highly relevant SDGs). Although it is not impossible without consulting, we believe that repeated, detailed dialogue on a day-to-day basis is important for drawing out customers' dreams and wishes.

We offer a variety of support options to bridge a wide range of gaps — from helping develop sales channels and launch global operations, to human resource system design, crisis management, business succession, and M&As.

One long-time, major problem for the regional community has been the difficulty of finding talent to run companies. In response, the Bank obtained a license to operate in the fee-charging employment placement business in April 2022 and started a human resource placement business. Now that the variety of working styles, such as remote working, has increased, our aim is to create a platform that enables the regional community to utilize the talent and expertise that is concentrated in Tokyo. Our goal is to contribute to enhancing the corporate value of customers by helping them recruit top management that matches their businesses.

For individual customers, our services focus on goal-based support in accordance with their life stages and asset building support that is compatible with the 100-year life-cycle era. We have digitized our assets under custody operations, and created an organizational structure that enables us to handle everything in one stop — from inheritance and asset succession to effective use of real estate. It is highly compatible with the trust services we launched in April 2020 and we see expanding of our services such as testamentary trusts to achieve a seamless inheritance process.

In addition, now that the legal age of adulthood has dropped to 18 in Japan, the importance of financial literacy education has grown. One of the challenges laid out in our 7th Medium-Term Business Plan is "activities for promotion and improvement of SDGs and financial literacy." Accordingly, we carry out efforts of holding special courses at universities and other organizations, on financial knowledge that is crucial in our long lives.

Creating a corporate culture where employees are encouraged to act voluntarily

It has long been said that "human resources are the greatest asset" for financial institutions that do not have tangible products. On the other hand, as a characteristic of labor-intensive industries, there has been a strong view that human resources = labor costs (costs). Against this backdrop, and in light of the concept of "human capital" that has been gaining attention in recent years, it is true that there are still many areas in which we are immature or lacking in our efforts.

Despite these circumstances, one thing I am proud of is former members of the Bank who play an active role in the community. Their ages vary, but after leaving the Shiga Bank Group, they play an active role in a wide range of areas, including local economic organizations, public facilities, universities, well-known local companies, and NPOs, and support the Bank's initiatives. Their presence greatly reassures the Bank for a regional financial institution that owes its very existence to the support of the regional community. The people who are working with us now will one day graduate and go on to different paths, but if they can use the skills and experience they have gained at our bank to benefit the community and create value for the community, we believe that this can be viewed as valuable human capital for our bank.

Therefore, the Bank hopes our employees prize their feelings to proactively take on challenges, and engages in initiatives that emphasize initiative. For example, in addition to the human resources recruitment system we implement annually, employees are encouraged to volunteer when we assemble teams and put out calls for members. Examples include the

Flexsus Project to upgrade our next-generation core system and the Diversity Promotion Team that makes suggestions for revising the Shiga Bank Group's human resource system (see Page 54). We will be making various attempts to enhance our human capital, but we believe that the effectiveness of our investments will differ greatly depending on whether or not we have this "initiative to raise one's hand. This is our first challenge, and we will work to establish a corporate culture in which employees raise their hands on their own initiative.

Next challenges for the leap forward

We have accomplished many things in the 7th Medium-Term Business Plan. For example, we have worked to decarbonize and digitalize the region, established the Sustainability Policy, enhanced our consulting capabilities, reorganized our branch network, and streamlined business operations. And I believe this has greatly strengthened our organizational structure. We have nearly completed the plan of consolidating our branches into about 75% which we planned to accomplish during the period covered, and are optimizing assignment of personnel. However, due to factors such as other industries' becoming involved in banking, the business environment has changed radically, so we need to increase profitability of our existing businesses further and diversify our sources of revenue. We are considering taking on the challenge of entering new business domains in line with the revision of the Banking Act, to make for new businesses.

In addition, the Flexsus project (see Page P40), which is building a new core system in anticipation of the development of the digital society, plans to replace the current "mainframe" system with an "open system" that is more flexible and agile, and more resistant to external linkage. In order to ensure stable provision of banking services and stable operation of the core system, and to secure sufficient time for development and verification, the start-up of the system has been changed from January 2024 to January 2025 or later, and we will continue to make every effort.

For the growth of individuals and communities

In today's age, we will no longer be able to achieve sustainability if we do not act and the actions of each individual will be tested. The spotlight is on the role of regional financial institutions to encourage action, and this potential is being discussed in research groups of government agencies and other organizations. In the past some suggested AI would take bankers' jobs or banks are no longer necessary, but I believe it is the ideal for the Shiga Bank's to evolve into a bank that is essential for customers and the regional community.

We refer to such a presence as a "Sustainability Design Company," in other words, a company that designs the sustainability of the region beyond the concept of bank. With this in mind, the Shiga Bank Group will continue to contribute to the realization of a sustainable regional community. Thank you for your continued understanding and support. We hope to receive your continued patronage in the future.

Shinya Kubota, President, Shiga Bank

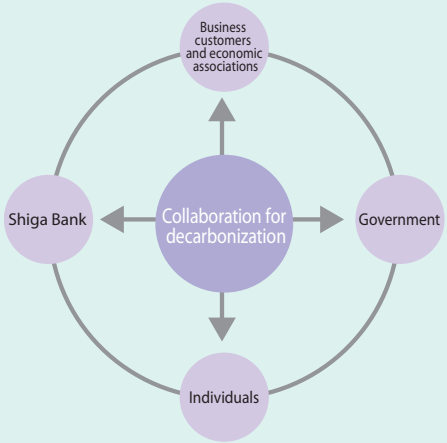
SPECIAL FEATURE 1

Driving Decarbonization of the Regional Community by Working with Stakeholders and Leveraging Digital Technologies

Decarbonization efforts that include the supply chain are needed in global economic activities, and SMEs do not have the luxury to ignore this impact any longer. This is particularity true of Shiga Prefecture, where secondary industry accounts for a large percentage of the gross product in the prefecture. Here it they likely to have a significant impact on the regional economy. But if we can drive decarbonization in the region and cycle energy costs that flow out of the region within the region, it will greatly benefit the entire regional community.

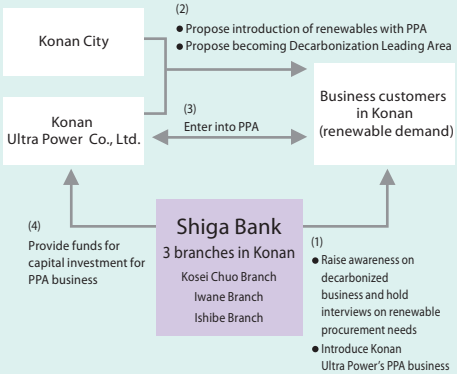
To realize a decarbonized society, governments, companies, and individuals (i.e., consumers) each must make climate change their own business and push decarbonization efforts forward on their own initiative. The Shiga Bank is developing products and services for each sector by strengthening collaboration with each and leveraging digital technology.

Outline of collaborations with stakeholders to achieve decarbonization



Selected as a Decarbonization Leading Area in collaboration with the government

In November 2022, Konan City was selected as a "Decarbonization Leading Region" in the "2nd Decarbonization Leading Region" called for by the Ministry of the Environment, in recognition of the "Casual Support Community Development: All-Konan Decarbonization Project" in which Shiga Bank participated as a co-proposer. In cooperation with Konan City, Shiga Prefecture, and Konan Ultra Power Co.,Ltd we will support the implementation of the project by educating businesses in the city about decarbonization management, formulating plans, and providing financial support.



Industry-government-banking collaboration to decarbonize supply chains

The Shiga Bank entered into the Agreement on Decarbonization to Contribute to the Improvement of Sustainability this June with SCREEN Holdings Co., Ltd., a company with several locations and many corporate partners in Shiga Prefecture, and the government of Shiga Prefecture which is aiming to achieve "Shiga Net-Zero CO_2 Emissions" by 2050.

The Shiga Bank provides support for decarbonization efforts integrated across the entire supply chain through means such as holding seminars for the corporate partners of SCREEN Holdings Co., Ltd., offering assistance to use subsidies for energy conservation diagnosis and equipment installation, and providing tools to calculate CO_2 emissions.

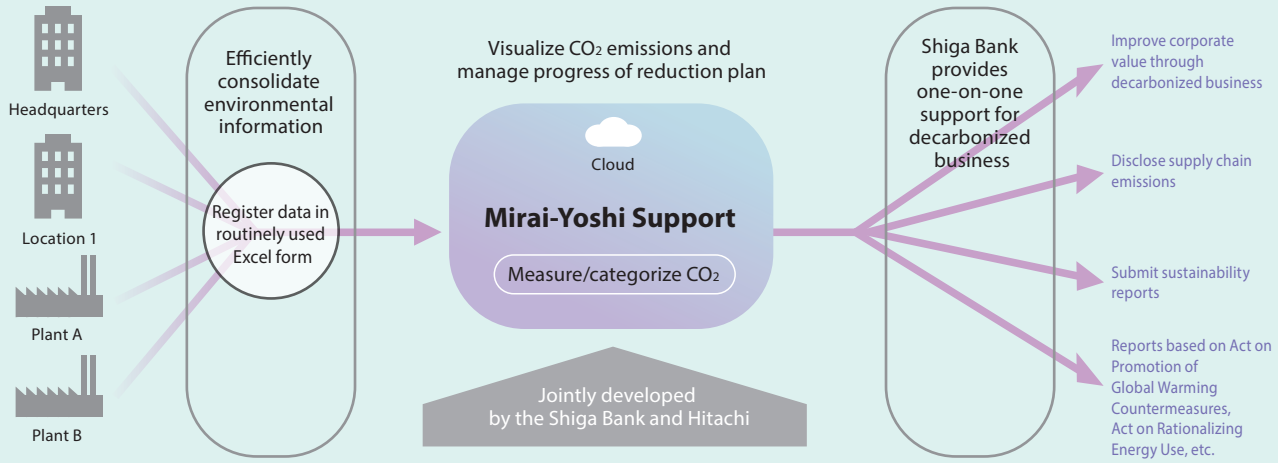
Cloud-based decarbonized business support tool: Mirai-Yoshi Support

Mirai-Yoshi Support is a service that enables customers to calculate and manage CO_2 emissions in business activities jointly developed with Hitachi, Ltd. The service was launched this January. It provides one-on-one support to solve business problems such as wanting to measure and manage the in-house CO_2 emissions but not having the budget to do so or not knowing how to set targets.

The service is cloud based and designed for middle-ranking and small and medium-sized enterprises, enabling them to easily visualize CO_2 emissions with Excel* forms. The Shiga Bank provides comprehensive support for decarbonized businesses — everything from setting reduction targets and drawing up reduction plans, to assisting with execution and monitoring.

*Microsoft Excel is a trademark of the Microsoft Corporation

Outline of Mirai-Yoshi Support services



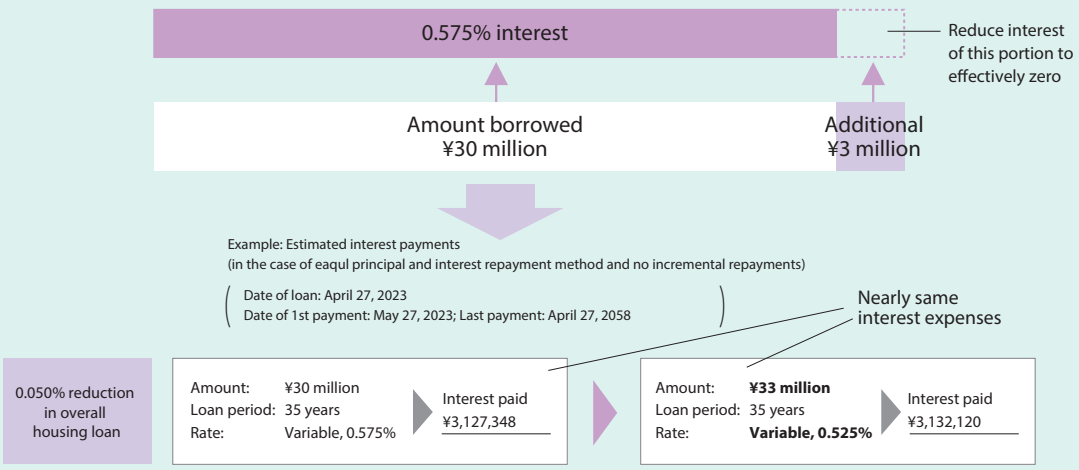
Launch of online housing loan service — decarbonizing the region with decarbonization plans

This April we introduced an online housing loan service you can use from your computer or smartphone to make the housing loan process easier. At the same time, we also established the Housing Loan Center with the aim of consolidating housing loan operations, enhancing the customer support system, and improving operational efficiency.

We also started offering the Shigagin Super Housing Loan Mirai-Yoshi in April to promote decarbonized lifestyles in individual customers. We designed the product under the concept of reducing the interest rate to effectively zero for installations of solar panels, storage batteries, and home fuel cells, based on the current interest rate level.

Customers will contribute to decarbonizing the region while enjoying the long-term advantage of cutting electricity costs.

Outline of design based on product concept



Message from the Officer Responsible for Finance

The Shiga Bank's "Sampo yoshi" philosophy that forms the foundation of our motto and management principles is also reflected in our capital policy.

We believe that having solid equity capital enables us to conduct sound business. Accordingly, we strive to accumulate equity capital by securing internal reserves, and have continued to pay stable dividends based on a shareholder-centric approach.

In spring 2022 we selected listing on the Prime Market of the Tokyo Stock Exchange. Committed to further ensuring above-average governance and running the bank efficiently, we continue to be chosen by investors and therefore strive to enhance corporate and shareholder value.

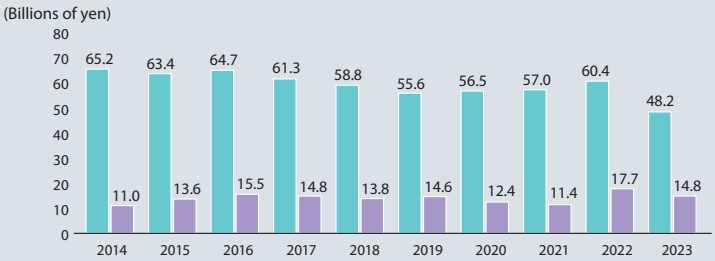
Katsuyoshi Horiuchi, Managing Director

Gross operating income (consolidated)

48.2 billion yen

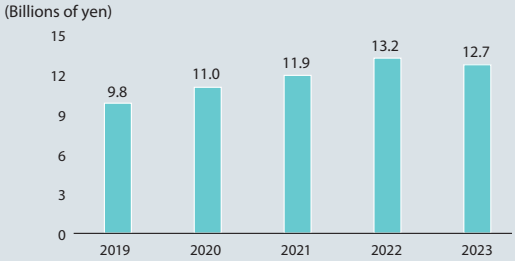
Net income attributable to owners of parent (consolidated)

14.8 billion yen



Fees and commissions (consolidated)

12.7 billion yen



*Basis for calculation of gross operating income has been changed with effect from the fiscal year ended March 31, 2021.

1. Results of the fiscal year ended March 31, 2023

The fiscal year ended March 31, 2023 saw a reduction in both gross operating income and net income in an economic environment balancing control of the spread of COVID-19 with economic activities despite the impact of high resource prices.

Interest on loans and discounts and interest and dividends on securities increased due to factors such as increase in overseas interest and share dividends. Loan yield continues on a downtrend, but it increased for the first time in 15 years, mainly due to a rise in interest rates of loans denominated in foreign currencies.

In addition, loss related to bonds decreased greatly due to selling foreign bonds that lost value resulting from the increase in overseas interest rates.

2. Forecast of the fiscal year ending March 31, 2024

Net income for the fiscal year ending March 31, 2024 is expected to increase by ¥0.5 billion year-on-year to ¥15.0 billion, and consolidated net income is expected to increase by ¥0.4 billion to ¥15.3 billion.

Gross operating income is expected to come to ¥60.1 billion due to providing support to customers and consulting services that meet diverse needs, and offering higher added value. Expenses are expected to decrease due to reduced investment related to the next-generation core system.

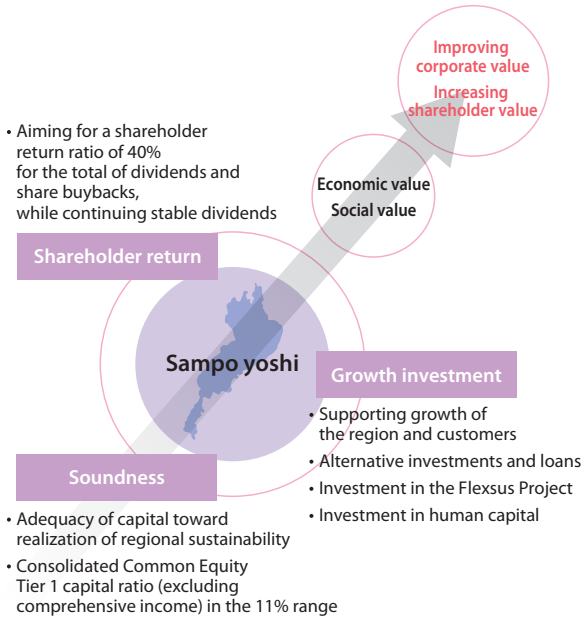
However, credit costs are expected to increase. Restrictions on economic activities have been relaxed due to COVID-19 being reclassified as a Class V Infectious Disease, but we will continue providing support keeping an eye on the extent of the impact of "zero-zero loan" repayments going into full swing.

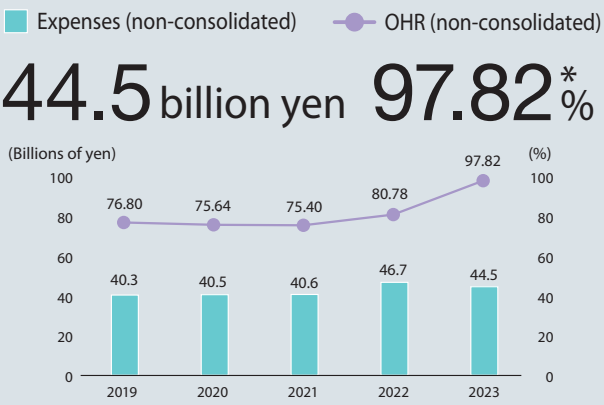
3. Capital policy

We strive to enhance corporate and shareholder value by practicing our capital policy of balancing soundness, shareholder return, and growth investment based on the "Sampo yoshi" spirit.

We will invest in growth for the future, which includes investing in human capital and IT systems, premised on securing soundness to ensure customers can do business with us without worry.

Furthermore, we will proactively return profits to shareholders through dividends and share buyback to enhance shareholder value.





*63.16% (estimate) if excluding costs related to the next-generation core system and loss from selling foreign bonds.

Forecast of non-consolidated results

(Millions of yen)

	2023 results	2024 forecast	Year-on-year
Ordinary profit	18,841	22,500	3,659
Net income	14,411	15,000	589

Forecast of consolidated results

(Millions of yen)

	2023 results	2024 forecast	Year-on-year
Ordinary profit	20,041	23,500	3,459
Net income*	14,858	15,300	442

*Net income attributable to owners of parent

4. Shareholder return policy

The Bank strives to ensure transparency and soundness of corporate management with "mutual prosperity with the regional communities" as the pillar. Furthermore, our basic policy is to continuously pay stable dividends to shareholders twice in a fiscal year and make every effort to provide as much shareholder return as possible by making preparations to address an ever-increasing adverse environment and invest for the future, enhancing internal reserves, and strengthening financial health.

In May 2022, we changed our dividend policy for the period covered by the 7th Medium-Term Business Plan, increasing the shareholder return ratio target from 30% to 40% for the total of dividends and share buybacks, while continuing stable dividends. In the fiscal year ended March 31, 2023, shareholder return ratio came to 45.8% thanks to paying dividends of ¥80 per share and buying back ¥2.9 billion in shares. A shareholder special benefit plan also commenced last year.

We plan to make annual dividends for the fiscal year ending March 31, 2024 ¥90 by adding commemorative dividends of ¥10 for our 90th anniversary to ordinary dividends of ¥80. In addition, we are considering aiming for 40% shareholder return ratio for share buyback as well.

Changes in consolidated net income and shareholder return ratio

	2019	2020	2021	2022	2023
Consolidated net income (Millions of yen)	14,681	12,412	11,448	17,715	14,858
Annual dividend per share (Yen)	42.5	40.0	40.0	80.0	80.0
Total dividends paid (Millions of yen)	2,191	2,024	1,998	3,898	3,813
Payout ratio (consolidated) (%)	15.1	16.5	17.5	22.3	25.8
Share buyback (Millions of yen)	2,462	2,283	999	2,499	2,999
Total return ratio (consolidated) (%)	31.7	34.7	26.2	36.1	45.8

5. Cross-shareholdings

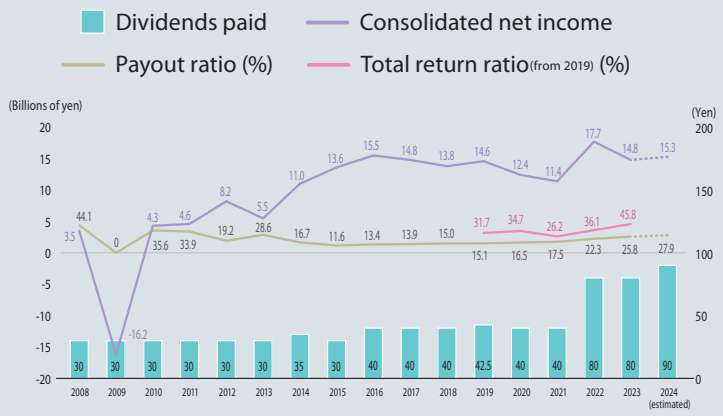
<Policy on reduction of cross-shareholdings>
We will determine whether to continue any cross-shareholdings in comprehensive consideration of the economic rationality and the relevance of regional economy as well as the capital policy of the Bank, and strive to reduce cross-shareholdings. We will proceed with selling any cross-held shares after thorough discussion with our customers.

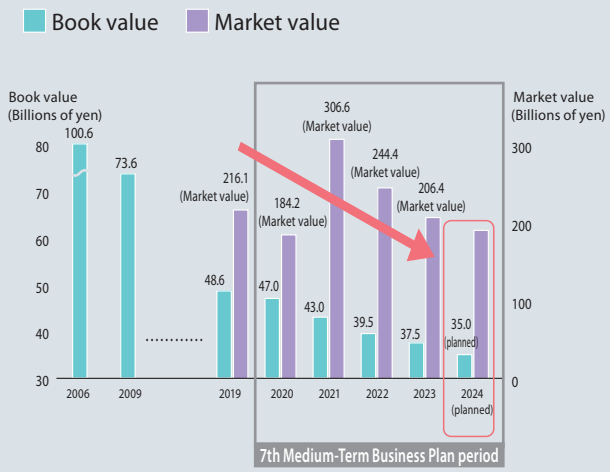
The purpose of cross-shareholdings is to gain profit through share fluctuations and share dividends. The main purposes of holding them include expanding overall transactions with the other company, and their associated companies and employees, and sustainably developing the regional economy.

The economic rationality is verified by calculating the risk-based capitalization rate of each business partner, based on the ROE target (5%) which one of the Bank's long-term benchmark challenges. This is then reported to the Board of Directors. If the shares do not meet the criteria, we strive to improve profitability, but consider selling if there are no signs of improvement.

The balance of cross-shareholdings exceeded ¥100.0 billion on a book-value basis in 2006, but fell to ¥37.5 billion in the fiscal year ended March 31, 2023.

Over the course of the five year period of the 7th Medium-Term Business Plan, we plan to reduce it by approximately ¥13.6 billion (around 30%) on a book-value basis. Progress is going smoothly: as of the end of March 2023 it decreased by approximately ¥11.0 billion.





6. Capital management

Total consolidated capital ratio for the fiscal year ended March 31, 2023 was 15.80%, and the consolidated Common Equity Tier 1 capital ratio (excluding comprehensive income) was 11.86%.

The reason capital ratio has greatly improved is early application of Basel III. When transitioning from Basel I to II, changes were made such as eliminating the scaling factor — a measure to alleviate sudden changes to prevent capital ratio from dramatically increasing — and refining the risk asset calculation method. This resulted in a reduction of risk assets and increase of capital ratio.

Based on complete implementation of Basel III, total consolidated capital ratio comes to 13.96%. Based on Common Equity Tier 1 excluding comprehensive income, it comes to 11.65%.

Capital needs to be enhanced for regional sustainability. Even if the stock market worsens and credit risks increase at the same time due to factors such as changes in the economic environment, we must continue to take on risks as a regional financial institution and support the regional community. Therefore, we need to enhance equity capital and keep Common Equity Tier 1 capital ratio excluding comprehensive income in the 11% range.

The increase in capital ratio based on finalization of Basel III means that we have more leeway to take risks. Allocating capital to risk-taking actions in the business and finance departments, and investments in IT systems, digital technology, and human capital will lead to enhancing corporate and shareholder value.

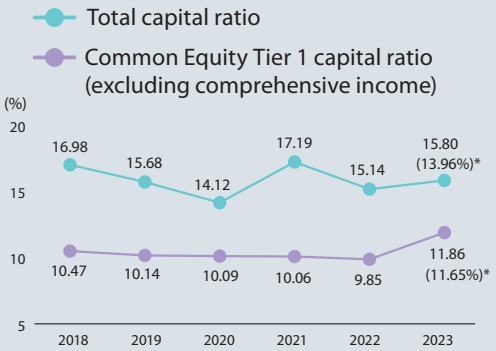
7. Cost of shareholders' equity and capital efficiency

Return on equity (ROE) came to 3.28%, a decrease from last year due to a decrease in net income and increase in equity capital. We recognize achieving an ROE of at least 5% — a long-term benchmark challenge — as a management issue.

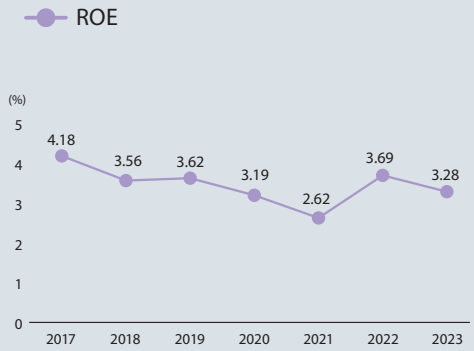
Cost of shareholders' equity is estimated based on CAPM.* Keeping cost of equity in mind — return expected of a company listed on the Prime Market — we will work to improve ROE by developing a growth strategy and increasing capital efficiency.

Price Book-Value Ratio (PBR) is the result of multiplying ROE and Price-Earnings Ratio (PER). ROE can be improved with our own efforts and sales activities, and we will strive to achieve the ROE long-term benchmark challenge target through various sales measures. We consider PER as market expectations. The Bank will strive to ensure others can identify with our initiatives by enhancing disclosure of non-financial information and engaging in dialogue with investors, and work to improve growth expectations.

*CAPM (Capital Asset Pricing Model)
Method for considering cost of shareholders' equity based on market data such as risk-free rate and TOPIX expected return.



*2023 figure is based on early application of Basel III, and the figure in parentheses is based on finalization of Basel III.



ABOUT SHIGA BANK

Looking Back on Shiga Bank's History

Shiga Bank History

100th anniversary 2033

1933

- October 1933 Established the Shiga Bank, Ltd.
- October 1938 Opened Kyoto Branch

1940

- March 1941 Opened Osaka Branch
- July 1946 Opened Tokyo Branch

1950

- May 1951 Commenced foreign exchange business

1960

- January 1966 Announced the Bank's motto

1970

- October 1977 Listed stocks on the Osaka Securities Exchange (the Second Section) and the Kyoto Stock Exchange (moved to the First Section of the Osaka Securities Exchange in March 1979)

1980

- August 1984 Established the "Shigagin Welfare Fund," a social welfare corporation
- September 1987 Published the first issue of "Current State of Shigagin," a disclosure magazine (renamed "SHIGA BANK REPORT" in 1998)
- October 1987 Listed stocks on the Tokyo Stock Exchange (the First Section)
- March 1988 Opened the New York Representative Office
- July 1988 Completed the current Head Office building
- May 1989 Opened the Hong Kong Representative Office

1990

- May 1991 New York Representative Office was promoted to New York Branch (closed down in 1998)
- September 1993 Hong Kong Representative Office was promoted to Hong Kong Branch
- July 1996 First regional bank in the Kinki area to launch a website
- December 1998 Commenced "In-house corporate credit ratings system"
- February 1999 Launch of "Pricing" system operations on trial basis
- October 1999 Established the "Environmental Policy"
- December 1999 Launch of "DBM (Database Marketing)" operations

2000

- March 2000 Acquired ISO 14001 certification
- July 2000 Commenced "Saturday School for Entrepreneurship"
- October 2001 Signed the United Nations Environment Programme (UNEP) Statement by Financial Institutions
- April 2003 Established "Shigagin Nonohana Prize," an incentive system through industrial-academic cooperation
- December 2003 Opened Shanghai Representative Office
- April 2004 Established "CSR Committee" and "CSR Office"
- December 2005 Established Shiga Bank Principles for Lake Biwa (PLB) and launched the "PLB rating"
- March 2007 Basel II's Foundation Internal Ratings Based-Approach (FIRB) was approved by the Financial Services Agency
- April 2007 Established the "CSR Charter" and the "Code of Conduct"
- August 2007 Commenced "Shigagin Ratings Communication Service (Ratings CS)"
- July 2008 Became the first financial institution to be certified as an "Eco-First Enterprise"

2010

- August 2010 Established the "Policies for biodiversity preservation"
- February 2012 Opened Bangkok Representative Office
- December 2015 Commenced the "Ratings Simulation Service (Ratings SS)"
- November 2017 Announced the Shigagin SDGs Declaration
- July 2018 Announced support for TCFD Recommendations
- April 2019 Started implementing the 7th Medium-Term Business Plan
- May 2019 Joined "TSUBASA Alliance"

2020

- February 2020 Signed the Principles for Responsible Banking (PRB)
- April 2020 The Bank itself started offering trust services
- October 2020 Established the Sustainability Policy
  Established the Sustainable Strategy Office and Digital Promotion Office
- June 2021 Established the Solution Sales Office and Finance Office
- November 2021 Implemented the ESG assessment system
- April 2022 Listed stocks on the Prime Market of the Tokyo Stock Exchange
  The Bank itself started offering human resources placement service
- January 2023 Established the "Investment and financing policies for realizing a sustainable society"

Enterprising spirit passed down from the Omi Merchants

"Sampo yoshi," also known as a Japanese version of the SDGs, is a management philosophy embraced by merchants of the Omi region. We are very proud of our roots in the Omi Merchants and the philosophy is ingrained in our organizational culture.

The Omi Merchants, who expanded their business into all over Japan shouldering a trademark carrying pole, are considered one of Japan's three great merchants along with the Osaka Merchants and Ise Merchants, and founded many influential companies. They were enterprising and engaged in a variety of businesses.

The Omi Merchants left behind many sayings such as "save and strive (*shimatsu shite kibaru*)" and "hide your virtue and good deeds (*intoku zenji*)," which describe the attitudes merchants must value, and "Sampo yoshi" is said to be a simple expression of the Omi Merchants' management philosophy passed down to future generations.

With the frontier spirit of the Omi Merchants, the Bank opened the Kyoto Branch in 1938, five years after the Bank was established. Branches were then opened successively in Osaka and Tokyo, making us one of the first "wide-area regional banks." This, combined with the Bank's motto, which carries on the "Sampo yoshi" philosophy, and our commitment to advanced CSR management, has led to the first SDGs Declaration among regional banks and corporate management focusing on sustainability.

Environmental awareness fostered by Lake Biwa —from environmental finance to ESG finance

Lake Biwa, the largest lake in Japan, has been called "Mother Lake," "Cradle of Life," "Mirror of the Environment," and "an asset we hold in trust for the future," and is deeply connected to various aspects of the local nature and human activities.

It is one of the world's oldest lakes with a history of more than four million years and is reported to be home to over 1,700 species of aquatic plants and animals, around 60 of which are unique to the lake. It is a treasure trove of biodiversity registered under the Ramsar Convention and invaluable to humankind.

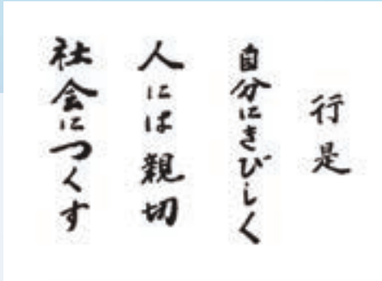
Headquartered next to Lake Biwa, which accounts for one-sixth of the total area of Shiga Prefecture, Shiga Bank has always been aware of its existence and appreciates the beauty and importance of a lifestyle that coexists with the environment.

Against this backdrop, the Bank has developed environmental finance products and services since early on, and in the late 1990s, we began environmental management to address environmental issues through our core business. Our unique environmental rating system and environmental financing initiatives at that time have evolved into the ESG Assessment System launched in 2021 and various other ESG finance products and services.

Strengths of Shiga Bank

The spirit passed down from Omi Merchants

The Bank's motto of "Be tough on ourselves, kind to others and serve society" carries on "Sampo yoshi" philosophy, a management philosophy embraced by Omi Merchants, which means to bring happiness to three sides: being good for the seller, the buyer, and society. The Bank can only grow if the community and customers grow. We make sure all employees recognize this and pursue problem-solving-oriented businesses that address and solve issues faced by the region and our customers.



Pioneering ESG regional financing

As part of our social responsibility as a company headquartered next to Lake Biwa, the Bank has been practicing environmental management, which incorporates environmental considerations into corporate management. We have worked to balance enhancing corporate value with preserving the environment by performing financial institution roles such as developing and offering environmentally friendly financial products and services. Following these steps, in 2017, the Bank became the first regional bank to make an SDGs Declaration, expressing our commitment to translating SDGs into corporate activities. Since then, the Bank has always been a leader in ESG regional financing; we became the first regional bank to introduce the Sustainability Linked Loan. These activities have received high acclaim from third parties, including ESG Finance Awards Japan hosted by the Ministry of the Environment for the fourth consecutive year since its inception.

Solid equity capital

Securing a high level of consolidated capital ratio of 15.80% in the fiscal year ended March 31, 2023, The Bank has developed a sound financial base, which is essential for assuming the risks necessary for the development of the region and customers.

Capital ratio

15.80%

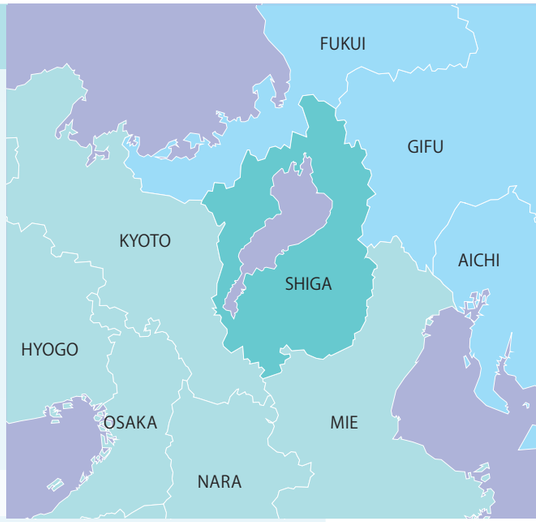
(consolidated)

Broad network

As a member of the nationwide TSUBASA Alliance consisting of ten regional banks, we share information on the latest social and economic trends and regional issues, and work together across the Alliance to solve common issues. We strive to develop more sophisticated strategies by bringing together the insights from participating banks and expand services by leveraging economies of scale. Initiatives include workshops for ESG finance services, syndicated loan arrangements, the TSUBASA Cross-Mentoring Program, a cross-bank mentoring program designed to develop female executive candidates, and online seminars for customers.

Blessed market

Shiga Prefecture, in which the Bank primarily operates, is home to many mother factories and R&D centers of global companies due to its geographical advantage of being located at the nexus of the Kinki, Tokai, and Hokuriku regions along with the great convenience of excellent transport access. The secondary industry accounts for 48.0% of the gross prefectural product, ranking first in Japan. The average age of the population is 45.9 years old, which is younger than the national average, and the population under age 15 accounts for 13.2%, ranking second in Japan (according to the Population Estimates in 2022 by the Ministry of Internal Affairs and Communications).



Advanced risk management system

For the sake of sustainable development of the region and customers, we must demonstrate stable financial intermediary functions without being affected by the financial environment and economic trends. To accurately assess and control risk, the Bank has employed the Foundation Internal Ratings Based-Approach (FIRB) since 2007 and also practices advanced risk management through our Risk Appetite Framework. (See Page 68)

Dominant market share

As of March 31, 2023, the Bank's share of loans and deposits in Shiga Prefecture were as high as 48.92% and 47.13%, respectively. The Bank enjoys overwhelming support from regional communities.

Personnel with extensive financial knowledge

We have developed many employees who can help resolve the more sophisticated and diversified customers' issues. We also provide opportunities to learn and take on challenges so that they acquire a wide range of knowledge, not limited to financial knowledge. (See Page 54)

Number of employees with Financial Planning Grade 1 certification (As of March 31, 2023)	Number of employees certified as Small and Medium Enterprise Management Consultant (As of March 31, 2023)
231 persons	**39** persons

Transparent engagement with customers

With the Ratings Communication Service, which holds financial dialogue by leveraging the credit ratings used in credit management, and the ESG Assessment System, which conducts non-financial dialogue from an ESG perspective, we are committed to increasing our customers' corporate value through transparent engagement.

Financial Highlights

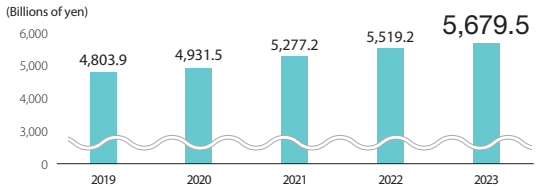
* For the financial performance trend, please see "Message from the Officer Responsible for Finance" on Page 10.

(As of March 31, 2023)

Average balance of deposits during the period (including negotiable certificates of deposits) (non-consolidated)

5,679.5 billion yen

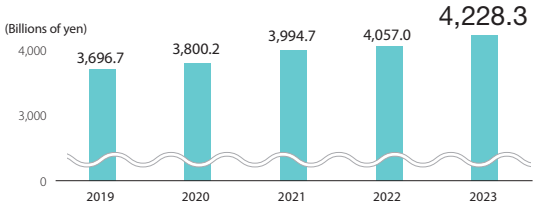
(Share within Shiga Prefecture) 47.13%



Average balance of loans and bills discounted during the period (non-consolidated)

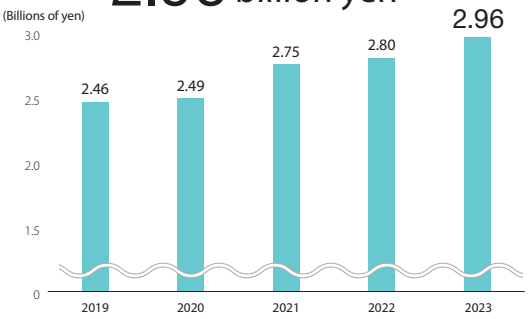
4,228.3 billion yen

(Share within Shiga Prefecture) 48.92%



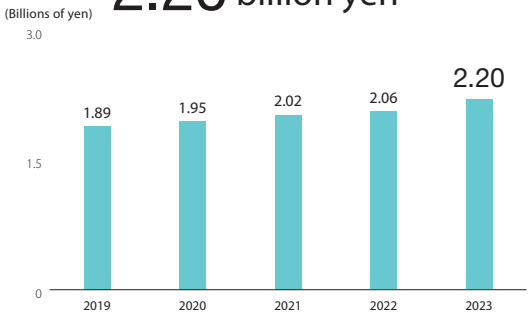
Deposits per employee (non-consolidated)

2.96 billion yen



Balance of loans and bills discounted per employee (non-consolidated)

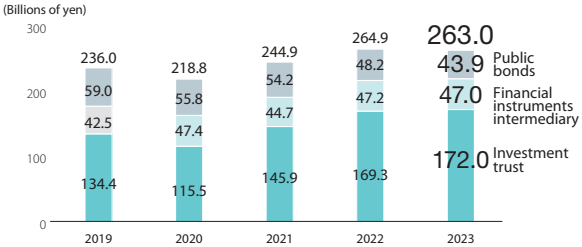
2.20 billion yen



Balance of assets under custody

(sum of investment trust, financial instruments intermediary and public bonds)

263.0 billion yen



Rating

Japan Credit Rating Agency, Ltd. (JCR) A+

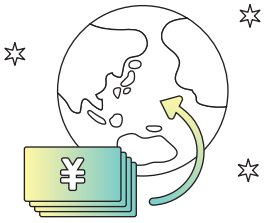
Rating and Investment Information, Inc. (R&I) A+

ESG Highlights

(As of March 31, 2023)

Investment and financing to promote Sustainable Development

Cumulative total of **677.0** billion yen



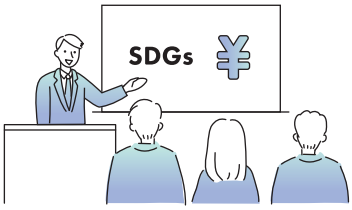
Reduction in greenhouse gas emissions

Rate of reduction (from the level in fiscal year 2013)

66.80%

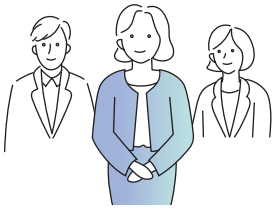
Education on SDGs and financial literacy Total number of participants in training of next-generation workforce

Cumulative total of **15,771** persons



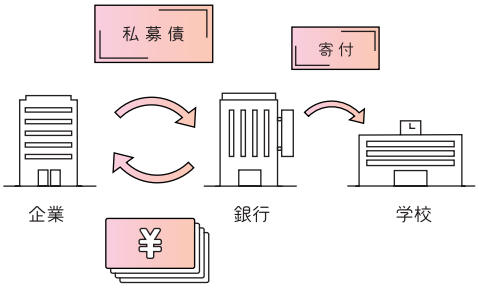
Percentage of female managers

17.2%



Actual amount of CSR private placement bonds/ SDGs private placement bonds

Cumulative total of **59.3** billion yen



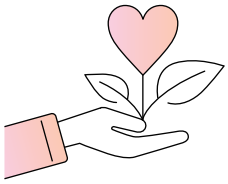
Shigagin Welfare Fund

① Number of subsidies awarded

Cumulative total of **524** cases

② Total amount of subsidies awarded

Cumulative total of **401.07** million yen



Special talk

SPECIAL TALK

President of Shiga University
Akimichi Takemura

President, Shiga Bank
Shinya Kubota

Vigorous Communities for the Future

—Utilizing Data and Developing People—

The world is overflowing with vast amounts of diverse data — it is no wonder this has been said to be the age of Big Data. Data science is a methodology for processing and analyzing this vast amount of data, extracting useful information, and translating that to social and business solutions. The importance of data science has grown, and hiring talent well versed in fields such as statistics, data analysis, and programing has become a common issue in a wide range of industries. Recently, universities around Japan have been establishing new data science departments in rapid succession, but the first in the country was the Faculty of Data Science at Shiga University established in April 2017. Shinya Kubota, President of Shiga Bank, talked with Akimichi Takemura, President of Shiga University, on the theme of "Vigorous Communities for the Future—Utilizing Data and Developing People—" and asked his opinions on subjects including the paradigms of businesses utilizing data, developing talent emphasizing human capital-focused management, and activating communities through industrial-academic partnerships.

Establishing Japan's first Faculty of Data Science

Kubota What is the background behind establishing the first Faculty of Data Science in Japan?

Takemura Originally the University had faculties of economics and education, but as a National University it had a vision to expand its scope of education, so the President at the time, Takamitsu Sawa, set out to establish a faculty of data science that integrated the humanities and sciences as he determined that it met the needs of society. I had a connection with the former President as he was my senior in a seminar at the Faculty of Economics, the University of Tokyo, so he contacted me and I left the University of Tokyo and became the faculty's first Dean.

Kubota Shiga University is expected to develop promising talent as a local national university.

Takemura Shiga University's Diploma Policy (requirements for graduation and degree-granting) seeks to develop human resources with five traits including a "global view and mindset," the "ambition and ability to contribute to the development of regional communities," and "intellect that combines both the humanities and the sciences." We strive to develop human resources who can contribute to the sustainable development of society and create new value to pave the way for a new type of society.

Kubota I know you are from Tokyo, but what do you think Shiga Prefecture's appeal, strengths, and challenges for growth are now that you live here?

Takemura The prefecture has a lush natural landscape that includes Lake Biwa, and rich tourism resources such as historical Buddhist temples and Shinto shrines, Hikone Castle and many other castles. It is also the distribution hub with key junctions of east-west transportation between the Kansai and Chukyo regions, and it has many factories, well-developed industry, and a strong manufacturing industry. The region has considerable appeal, but I wish it promoted its tourism resources a little better. Students come to the university from the Kansai and Chukyo regions, Fukui, Gifu, and other areas, and there is vibrant cultural exchange and a bright atmosphere.

Kubota I greatly appreciate you undertaking the development of talent that contributes to the advancement of regional communities, as well as the development of global talent. The mission of regional financial institutes including the Bank, is to activate the regional community and economy and enhance sustainability, so I would be happy to work with your university's students and alumni.

Activating the region with data

Kubota In today's highly uncertain world, management that strives to achieve targets by repeating the cycle of forming, executing, and testing hypotheses has been criticized as inefficient. Handling data that serves as evidence in forming hypotheses is important, but in the business setting, today people often rely on past experiences. What do the students study in the Faculty of Data Science to make use of data in business?

Takemura We offer Data Science Subjects that integrates data engineering subjects in which students study information science and programming with data analysis subjects in which students study statistics and mathematics, and Value Creation Subjects in which students study economics and business management subjects and learn about case studies of value creation in a wide range of fields. Students not only process and mathematically analyze data, but also take on the challenge of creating new value, such as by collaborating with companies to use analyzed data in actual business.

Kubota The rapid progress of digitalization is stimulating data use, and in terms of human capital-focused business, reskilling into IT fields has become active within companies in recent years. Actually, the Regional Banks Association of Japan, of which the Bank is a member, started holding a financial services course last year called Introduction to Data Science in collaboration with your university, where participants learn the basics of statistics, data analysis, and other areas. Last time it was only held online, but this summer we will hold a hybrid course where people can participate either online or on your campus. Our employees will also attend.

Takemura In training programs, it is important to use data participants are interested in and set themes related to their business operations. In last year's course, a lecture by an alum of the Faculty of Data Science who started their own business received high praise.

Human resources development and data-driven management

Kubota The staff member who returned last year after completing the two-year course of study participated in the "Financial Data Application Challenge," a data analysis competition sponsored by the Association for the Promotion of Financial Data Application, where he competed in building a model to predict delinquency using data such as customer attributes and account information of mortgage borrowers.

Takemura That's wonderful news for our university as well.

Kubota With the relaxation of banking regulations and advancement of social digitalization, I strongly believe that we need to break out of conventional ways of thinking. Producing new, forward-looking businesses requires logical thinking and thinking that integrates the humanities and sciences. I want to develop human resources capable of thinking in this way and create not only a new organization but a new organizational culture. The approach of data-driven management in which data is utilized in decision-making will become even more important, won't it?

Takemura Making use of data means to make decisions showing evidence. But data is always something from the past, so making a decision based on business sense and analyzed results is crucial for trying new things. Showing evidence for the basis of your decisions is likely to be persuasive to those around you.

Kubota In other words, we need to make decisions based logical thinking.

Takemura In addition, we also need to leverage Japan's strengths. The manufacturing floors of Japan are filled with highly skilled people even though they have not undergone digitalization. Due to their extremely high skill level, if we combined manufacturing floor wisdom, experience, and intuition with data, I think the Japanese economy would be even stronger.

Kubota The stone structures of ancient Japanese castles remain completely intact — that has more to do with the experience and intuition of craftspeople than data. In Shiga Prefecture there used to be a group of stonemasons who were highly skilled in a stonework technique called *anoushu*. I think Japan has a tradition of outstanding craftsmanship, especially in the field of building.

Takemura Make sure to pass down traditions utilized on the manufacturing floor while researching what can be analyzed scientifically with data. Applying yourself to improving your skills while watching your mentor is important, but it is also important to digitalize what you can, consider the two approaches separately, and combine the two. We also need to visualize the strengths that have been passed down without being digitalized.

Kubota There are companies, particularly among SMEs, in which the president conducts business on intuition based on many years of experience. We deliver business digitalization proposals through IT business support and other services, but have yet to venture into the field of data utilization. It is difficult to visualize expected effects, such as what extent data utilization contributes to business performance. We need to deliberate on ways to move forward with data utilization. For example, companies and universities could share information and work together as a consortium.

Takemura SMEs are also required to undergo a digital transformation (DX) to boost productivity, but it cannot be done overnight. It is important to enhance human resources' skills through classes and other means.

Driving industry-academia cooperation

Kubota What do you think your university needs to continue being a frontrunner in the field of data science?

Takemura In a word, industry-academia collaboration. It has been pointed out that data science is not only needed as an academic discipline, it is also needed to promote Japanese industry, so university education is directly linked to enhancing the competitiveness of Japan. This means that analyzing and utilizing actual business data in industry-academia cooperation is effective in improving the quality of research and solving business problems. In March 2018 our university started a Community Connections Coordinator Program. The initiative aims to activate communities by inviting industry representatives to serve as a bridge with the community and utilizing university educational and research resources. Your bank has also introduced us to companies with needs.

Kubota Our bank served as an intermediary in the partnership between an Osaka-based logistics service provider and the Center for Data Science Education and Research, Shiga University (the Data Science and AI Innovation Research Promotion Center from April 2022). I hear they researched inventory optimization and other topics. You must have done joint research with many companies so far.

Takemura We have worked with a wide range of industries and research topics. For example, we analyzed maximizing sales opportunities by optimizing shipping routes with a company that fabricates and ships stainless steel. We made proposals on improving mobile coupon distribution in a joint research project with a company that operates supermarkets. With a food manufacturer, we identified causes of sales volume fluctuations and analyzed data to forecast volume. We also developed a method to produce road images with a major auto manufacturer by incorporating road information from on-board cameras, and analyzed factors in metalworking quality.

Kubota You also worked with our bank to analyze the economic impact of COVID-19 on different industries based on payment data. I hope we can work with your students on data analysis that will benefit the region.

Shiga University startups to energize the region

Kubota Besides conducting joint research projects with companies and the government, you also cultivate startups at Shiga University, correct?

Takemura We certify and provide support to companies established based on new technologies and business methods from our university's education and research as a "Shiga University Startup." We have certified five companies so far. The first was EVCARE Corp., established in January 2019. They operate a stress check business that uses hair and a counselling (mental health) business. Then we certified mitei, LLC which provides data analysis, market research, and consulting; KimiLab, LLC which provides learning support and develops and sells teaching materials; Dknowledge, Co., Ltd. which develops products with AI; and Mira-Kan, LLC which operates a data analysis business and data analysis consulting business.

If we cultivate startups not in the capital area but in regional communities, it will contribute to regional revitalization, so we are seeing more success stories and I think things are going well.

Kubota EVCARE and mitei were awarded the Shigagin Nonohana Prize. Also, Dknowledge is operating a business in collaboration with our Digital Promotion Office.

I look forward to working together to build an ecosystem that produces more and more promising startups.

Activating communities from a wide range of fields

Takemura Your bank has provided support not only to the business field, you have also provided aid to the Music Education Support Center (known as "Otosapo"), the Faculty

SPECIAL TALK

of Education, Shiga University. Established in October 2020, it is one of the rare research facilities even across the country that specializes in music education for disabled children. It offers music education programs that focus on disabled children, and provides support for musical activities.

Kubota You're talking about the Shigagin Welfare Fund grant. I hear Otosapo purchased a marimba with the fiscal 2022 grant and is performing across Japan. I believe that in addition to the regional economy, it is also important to invigorate the region in the areas of welfare and culture.

Takemura Our university is also focusing efforts on providing recurrent education to working adults. We have a diverse lineup of courses and are working to develop human resources who will support society in the future. In addition, in fiscal 2021 we established the Junior Data Scientist Training School in collaboration with the Hikone Chamber of Commerce and Industry and others. The school teaches elementary and junior high school students subjects such as programing and the basics of data analysis. We wish more startups of data science would grow here in Shiga Prefecture, but it tends to be easier to establish startups in major cities where there are vast amounts of information and active exchange between people. But recently there are cases of students at our university working part-time at IT companies in Tokyo online, so I want people to make use of the convenience of remote working and digital technology more.

Kubota As I mentioned earlier, we have an employee who has studied data science and won awards in competitions, so I hope to continue collaborating with your university to cultivate employees who will produce results. I think the biggest issue for companies is human resource development. Next-generation talent that excels in the digital field is especially needed. Currently we are upgrading our core system, but we see this project as more than simply replacing the system. We see it as an opportunity to develop next-generation talent and have assigned many young employees to the project.

Takemura Recently generative AI technologies like ChatGPT have been in the spotlight, and our university is conducting research on topics such as how to use it safely. Generative AI can write text and create pictures like a human, but its achievements are based on mainly on data from the West. I've been thinking if we can work to integrate digital technology and art using data based on Japanese culture. I would be interesting if we could create a system that provides tourism information in line with individual needs to tourists to promote tourism resources. My dream is to make Shiga Prefecture known as the leading region for data science. Shoots of new business are emerging little by little, so I want to help them grow.

Requests for Shiga Bank

Kubota Do you have any requests for our bank to activate the region?

Takemura It would be helpful if you could help match students and businesses so that students could help local SMEs with digital transformation. It wouldn't be volunteer; they would do it as a job. I think it's important to provide the experience of translating what they learn into business. In this way, students would be able to become more involved in the community, and in the future become human resources who activate the region.

Kubota Our bank also operates a human resources placement business. Currently it doesn't apply to students, but I would like to think about doing a new business in collaboration with your university.

Takemura And I also hope you show your strengths as an information and knowledge industry company, since regional banks have the most detailed, concrete information about the state of the regional economy.

Kubota It's important to visualize and analyze what data a bank has, how it is used, and how it could be utilized in business strategies, and translate that into action. The Group has a think tank called the Shigagin Economic & Cultural Center that analyzes the regional economy based on government and other data. If we can utilize the data we have more, I think we could engage in business with even higher added value. By utilizing data, we can develop human resources who can activate the region. I truly believe that data utilization and talent development can lead to solving regional problems.

I hope to continue this mutually inspiring relationship with your university. Thank you very much for joining me today.

SPECIAL FEATURE 2

Toward Vibrant Communities where Both People and Nature Shine

— Community-based Social Contribution Edition —

Boosting the appeal of the region is one of our missions as a regional financial institution. The reason is that if the region loses its appeal, it will lead to a drop in population and collapse of the community, and the regional economy will fall into a downward spiral. But if the region's appeal improves, it will increase nonresident population and create jobs, leading to sustainable prosperity. For a regional financial institution that is always with the regional community through rise and fall, boosting the region's appeal is directly connected to our existence.

The Bank has established three key concepts for its social contribution activities — environment, welfare, and culture — and carries out a wide range of activities to boost the region's appeal.

Providing opportunities to experience various types of culture

Shigagin Economic & Cultural Center

The Bank plans a wide range of events and cultural projects mainly through the Shigagin Economic & Cultural Center Co., Ltd., one of the Group companies, providing opportunities for locals to participate and interconnect. In December 2022, we recommenced our "Concert of the Ninth Symphony" we had suspended for the last three years due to the COVID-19 pandemic. There was a big turnout of people who had been eagerly awaiting the concert, and their chordal harmony refined through practice was marvelous at the concert.

Aiming to improve welfare even further

Shigagin Welfare Fund

The Shigagin Welfare Fund provides unique aid only to welfare projects within Shiga Prefecture. Keeping true to our founders' commitment to repay everyone in the community who supports the Bank, we established the fund in 1984 in celebration of our 50th anniversary. The cumulative amount of aid provided up to April 2023 was 401.07 million yen for 524 projects.

Keeping children healthy and happy worldwide

UNICEF's Change for Good

Every year from July to September, all Shiga Bank branches carry out UNICEF's Change for Good program. The coins we collect with the cooperation of locals help UNICEF activities such as promoting sanitation and education for children around the world. We started in 2013 and so far we have donated a total of 223.4 kg in coins to UNICEF.

Athletes coaching local children

Basketball class for elementary school students

The Bank's women's basketball club, Lake Venus, teach special basketball classes at elementary schools. The special classes broaden children's interests and foster their desire to learn.

Lake Venus represented Shiga Prefecture in the 77th National Sports Festival held in Tochigi last October. It was the first team from the prefecture to win the championship in adult women's basketball. They are striving to grow further for the 79th Japan Games scheduled to be held in their home of Shiga in 2025.

Helping children grow healthily

Sponsoring the Shigagin Cup

We are sponsors of the Shigagin Cup (SFA under-12 football tournament), the biggest football match in Shiga Prefecture for elementary school students, to raise healthy children — the bearers of our future.

Contributing to MLGs by supporting an environmental education vessel to raise the next generation

Installment of vending machines for Uminoko activities

In November 2022, the Bank planned and installed vending machines to support Uminoko and MLGs in cooperation with a beverage company. One percent of vending sales go to activities by Uminoko, a unique environmental learning ship of Shiga Prefecture. There are two machines at the Bank's head office.

The Bank will help children — the leaders of the next generation — learn about the environment, thus contributing to achieving the MLGs* proposed by Shiga Prefecture.

*MLGs: Mother Lake Goals.
The Lake Biwa version of SDGs established in Shiga Prefecture in July 2021. They are goals specific to Shiga Prefecture established to achieve a sustainable society by 2030 through Lake Biwa. They consist of 13 goals related to Lake Biwa.

SPECIAL FEATURE 2

Toward Vibrant Communities where Both People and Nature Shine

— Environmental Conservation Activities with Community —

Headquartered next to Lake Biwa, one of the oldest lakes in the world and home to a diverse range of organisms, the Bank has made it its social mission to practice environmental management. We are also striving to preserve the region's blessing of its natural environment with the regional community and achieve a sustainable society.

"Ikimonogatari" (Tales of life) activities to preserve Lake Biwa's environment and biodiversity

"Ikimonogatari" activities are volunteer environmental activities with a story carried out by the Bank, such as protecting and nurturing reed beds that serve as spawning grounds, protecting, nurturing, and releasing nigorobuna (carassius auratus grandoculis) and wataka fish (ischikauia steenackeri), species of endangered fish unique to the lake, and eliminating invasive non-native fish.

We are also working with the community by expanding activities into wide variety of initiatives being carried out across the prefecture.

Cut reeds are reborn as business cards!

Volunteers planting reed seedlings

Volunteers cutting reed

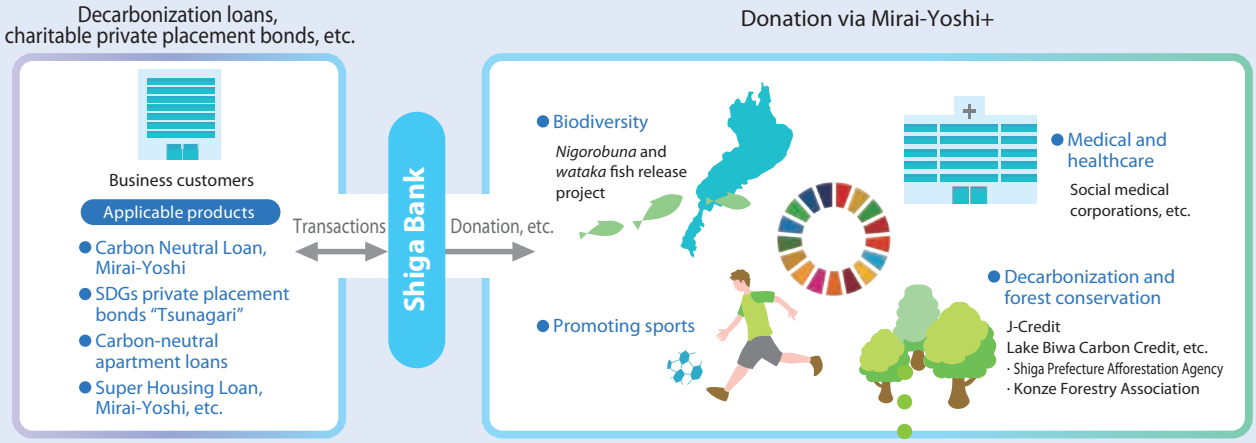
Activities to support the creation of forests

Releasing *nigorobuna* (carassius auratus grandoculis) and *wataka* fish (ischikauia steenackeri)

Volunteers fishing and removing fish of foreign origin

Mirai-Yoshi+, the Bank's unique donation scheme to promote SDGs in the region

The Bank donates funds in proportion to the performance of products, such as loans related to decarbonization like Carbon Neutral Loan, Mirai-Yoshi, and SDG private placement bonds, and provides support to a wide range of activities that promote SDGs in the region such as purchasing Lake Biwa Carbon Credit and releasing *nigorobuna* and *wataka* fish.



We held a press conference with Shiga Prefecture governor Taizo Mikazuki (right) and Takanori Nishikawa (center).

Pick Up! Helping Inazuma Rock Fes 2022 be a carbon-offset event

Inazuma Rock Fes 2022 was held in Kusatsu on September 17 and 18, 2022. We helped them run a carbon offset event by giving 30t-CO_2 of Lake Biwa Carbon Credits acquired through Mirai-Yoshi+. Offsetting CO_2 produced from electricity used at the venue and operating a shuttle also served as a message to promote carbon neutrality.

PET Bottle Recycled Mat Project to recycle regional resources

In August 2022, we carried out a project to collect polyethylene terephthalate (PET) bottles from the homes and workplaces of employees working at branches in Shiga Prefecture, and recycle them into carpets in collaboration with companies in the prefecture. Allowing employees to reduce the amount resources they throw away and recycle by themselves contributed to raising awareness.

CHALLENGES FOR VALUE CREATION

Risks and Opportunities

Business environment → Risks and Opportunities → Materiality → Basic strategies

Economy

- Regional economic downturn due to depopulation
- Ultra-low interest rate environment in Japan and rising interest rates outside Japan
- Reconstruction after the COVID-19
- Rising energy and commodity prices
- Expansion of ESG investment and financing
- Tightening requirements for supply chains to address climate change
- Changes in existing businesses and industrial structure

Society

- Further depopulation, low birthrate and aging population
- Accelerating rural flight and widening regional disparities
- Changes in sense of values and lifestyle
- Great leap forward made by the post-COVID generation such as the Generation Z
- Advancement in work style reform
- Prevalence of lifestyles including remote work
- Responding to an unknown viruses
- Tightening regulations for human rights protection
- Occurrence of conflicts and widening rich-poor gap
- Rise of protectionism and populism

Environment

- Rapid social change toward achieving a decarbonized society
- Tightening regulations to meet the Paris Agreement and address climate change (implementation of carbon pricing, disclosure of TCFD information, revision to the CG Code, etc.)
- Regulations on waste plastics
- Escalation of natural disasters (wind and flood damage)
- Tightening regulations to protect natural capital
- Increasing social demand for caring for the environment

Technology

- Progress in digital innovation
- Diversifying cashless payment methods
- Advancements in FinTech
- Increasing penetration of 5G and 6G
- Increasing use of big data and AI
- Advancements in renewable energy-related technologies such as Virtual Power Plant (VPP), wind power, hydrogen and ammonia

	Risks	Opportunities
Economy	• Decline in the prefectural GDP and decrease in capital needs due to an increase in business failure or discontinuance caused by labor shortages, absence of successors, and other reasons • Increase in outflow of deposits to other prefectures due to inheritance and other reasons as the migration of the youth from the prefecture increases • Continued decrease in interest income due to ultra-low interest rate environment • Declining personal buying appetite due to soaring energy and commodity prices • Changes in existing businesses and industrial structure	• Increase in capital needs from new business domains such as circular economy • Increase in needs for new businesses and relaunching • Capturing capital needs by using new financing methodologies such as sustainable finance • Expansion of businesses that are related to business succession such as M&A • Consulting for improving regional productivity
Society	• Intensifying competition for acquiring young and specialized human resources • Increase in reputation risk, driven by human rights and other issues • Increasing impact of geopolitical risk, conflict escalation, etc. on client companies • Complication of responses due to an increase in dementia sufferers	• Increase in fee business such as consulting on needs for resolving social issues • Expansion of businesses that create social impact • Rise of new generation as part of mainstream society; Diversifying customer needs attributable to changes in sense of values and lifestyle • Development of businesses for the elderly • Expansion of human resources placement business • Offering products and services tailored to lifestyle changes • Support for organizational management such as decent work and health and productivity management
Environment	• Increase in costs for achieving a decarbonized society such as those incurred for meeting the Paris Agreement and addressing climate change • Increase in transition risks that cause a decrease in asset value of customers due to, among other things, regulations for greenhouse gas emissions and market trends • Increase in physical risks such as typhoons and floods • Loss of economic base due to deterioration in natural capital	• Expansion of opportunities for environment-related businesses such as introduction of renewable energy, new materials and new technologies • Providing solutions for environmental regulations, etc. • Consulting for business transformation • Providing solutions for addressing physical risks such as typhoons and floods
Technology	• Loss of existing business domains particularly due to widespread use of AI technology • Responding to diversifying settlement methods, such as cashless payment • Intensifying competition with different industry players such as FinTech providers • Homogenization of services due to intensified competition	• Providing new services with the use of digital technologies • Providing diversifying settlement methods • Expanding new business domains through collaboration with different industry players • Streamlining business operations and implementing work style reform

Materiality

- Creating new industry
- Business succession
- Low birthrate and aging population/depopulation
- Promoting the digitalization of the regional communities
- Productivity improvement
- Efficient use of local resources
- Disaster prevention

Establishing the regional economy

Sustainability of the global environment

- Climate change
- Decarbonization/renewable energy
- Biodiversity
- Water preservation in Lake Biwa

Training a diversified workforce

- Developing human resources
- Health
- Work style reform
- Compliance
- Promotion of diversity

Basic strategies

01 Turning SDGs into business
⇨ P38

02 Increasing productivity of the regional communities
⇨ P40

03 Evolving into a problem-solution type financial information services provider
⇨ P42

04 Shifting to sustainable earnings structure
⇨ P44

05 Mindset-Work reforms
(mindset reform and work style reform)
⇨ P46

Value Creation Story

Value creation story

Input
(Capital to be Used)

Finance capital

- Diversified earnings structure
- Sound loan assets (fiscal year ended March 31, 2023)
  Average balance of loans and bills discounted during the period ¥4,228.3 billion
  Ratio of loans based on the Financial Reconstruction Act 1.92%
- Adequate Bank capital (as of March 31, 2023)
  Total capital ratio (consolidated) 15.80%
- Unrealized gain on securities ranks No. 5 among regional banks in Japan
  (as of March 31, 2023, source: Nikkin Report)

Human capital

- Human resources who have advanced financial knowledge
- Number of employees with financial qualifications ranks high among regional banks (fiscal year ended March 31, 2023)
  Number of employees with Financial Planning Grade 1 certification 231 persons
  Number of employees with Financial Planning Grade 2 certification 1,335 persons
  Number of Small and Medium Enterprise Management Consultants 39 persons

Intellectual capital

- Diversified financial methods
- Fulfilling consulting functions
  Number of Ratings Communication Service clients 4,985
- Environmental management and measures for SDGs
- Responding to digitalization

Social relationship capital

- Network of branches rooted in the community
- Asia network 3 bases
  (Hong Kong, Shanghai, and Bangkok)
- Region with a moderate rate of population decline
- Clusters of academic centers and corporate research institutes
- Regional community which carries on the "Sampo yoshi" philosophy

Natural capital

- Natural environment with rich biodiversity represented by Lake Biwa
- Local resources including national treasures and important cultural assets

① **Building a business model with materiality**(⇨P31) **in mind**

Strengths of Shiga Bank

1. Spirit inherited from Omi Merchants
2. Pioneering ESG regional financing
3. Solid equity capital
4. Broad network
5. Blessed market
6. Dominant market share
7. Advanced risk management system
8. Personnel with extensive financial knowledge
9. Transparent engagement with customers

⇨ P16

Basic strategies in the 7th Medium-Term Business Plan

Challenges to innovate the future

② **Offering products and services that help the region and customers to resolve their issues**

- **Turning SDGs into business** ⇨ P38
- **Increasing productivity of the regional communities** ⇨ P40
- **Evolving into a problem-solution type financial information services provider** ⇨ P42
- **Shifting to sustainable earnings structure** ⇨ P44
- **Mindset-Work reforms** (mindset reform and work style reform) ⇨ P46

Powers Supporting Value Creation ⇨ P52

Corporate Governance	Stakeholder Engagement	Risk Management	Compliance
⇨ P56	⇨ P66	⇨ P68	⇨ P74

The Bank's motto

CSR Charter (Management Principles) ⇨ P1

④ **Bolstering capital base for enhanced problem-solving capacity**

Virtuous cycle of happiness brought to the region

③ **Improving corporate value through creation of shared values (reconciliation of economic value and social value)**

Outcome
(Value to be provided)

Customers

- Improving earning power and productivity in the region
- Asset formation compatible with the 100-year life-cycle era
- Resolving management issues by providing a wide variety of solutions
- Improvement of customer convenience

Environment and society

- Resolving issues facing society through our main business
- Increase in nonresident population
- Regional employment creation
- Environmental preservation for Lake Biwa
- Reduction in local CO_2 emissions

Shareholders and investors

- Creating mid-to-long-term shareholder value
- Highly transparent disclosure including non-financial information
- Promotion of engagement

Employees

- Vigorous corporate Group
- Organization that encourages self-fulfillment with dreams and a sense of fulfillment
- Realization of diverse work styles and work-life balance
- Organization with diversity

Sustainability Vision (Long-term Vision)

The long-term vision of the Bank which serves as a guidepost for its business plans is based on the "vision for regional communities the Bank should aim to materialize." We have the following aspirations under our long-term vision, which was formulated not from the Bank's point of view, but from the point view of society and customers.

Work first from the sustainable prosperity for the regional community

As a community-based regional financial institution, we believe that our development is predicated on the sustainability and sound prosperity of the regional community in which we operate. Based on the recognition that the Bank's development is unattainable without the development of the region, we believe that the Bank can only be sustainable if we are working towards sustainable prosperity for the regional community.

Attach importance to social impact produced by ESG finance

With growing awareness of the SDGs and the Paris Agreement, there has been increasing interest in the importance of the social impact of finance on the environment and society. The Bank started off by indicating the "vision for regional communities the Bank should aim to materialize," clarified the social impact we should create, and then took a backcasting approach to formulate our medium-term business plan.

Aim to achieve the long-term vision through three milestones

To achieve our long-term vision, we have set the Milestones for 2030 from three perspectives: economic, environmental, and people. Through initiatives to achieve these milestones, we will create a social impact and realize a society where everyone can define their future and live happily.

Connecting the economy, environment and people (integrated development)

Target 2030

Milestones to achieve by 2030

Establishing the regional economy	Sustainability of the global environment	Training a diversified workforce
Sustainable Development Investment and financing to promote New investment and financing for a cumulative **total of 1 trillion yen**	Reduction in greenhouse gas emissions by **75% or more** (compared to fiscal 2013) Achieve **"Shiga CO_2 Net Zero"** * by 2050	Activities for promotion and improvement of SDGs and financial literacy; training of a next-generation workforce Aim to target at **30,000 persons**

*Shiga CO_2 Net Zero:
An initiative aiming to reduce CO_2 emissions in Shiga Prefecture to virtually zero by 2050 proposed by Shiga Prefecture.

⇨ P36

Sustainability Vision

Sustainability vision (Long-term Vision)

Unchanging spirit

The Bank's motto: Be tough on ourselves, kind to others and serve society
CSR Charter: Mutual prosperity with regional communities, all employees, and environment
(Management Principles)

Vision for regional communities that the Bank should aim to materialize

A society where everyone can define their future and live happily

—Realization of sustainable society through co-creation with the community—

We create and reconcile the twin imperatives of economic value and social value through the three benchmark challenges, and achieve sustainable development of regional communities.

Backcasting

(Identify issues that need to be done)

The 7th Medium-Term Business Plan

Medium-Term Business Plan

The next Medium-Term Business Plan and onward

- Fiscal year 2033 — **100th anniversary**
- Fiscal year 2032
- Fiscal year 2031
- Fiscal year 2030
- Fiscal year 2029
- Fiscal year 2028 — **95th anniversary**
- Fiscal year 2027
- Fiscal year 2026
- Fiscal year 2025 — **Japan Games held in Shiga Prefecture, Osaka World Expo**
- Fiscal year 2024
- Fiscal year 2023 — **90th anniversary**
- Fiscal year 2022
- Fiscal year 2021 — Tokyo Olympic Games
- Fiscal year 2020
- Fiscal year 2019

The 7th Medium-Term Business Plan

Outline of the plan and progress in year four

Our vision is to plan and create sustainable development of the region and customers. Four years have passed since we launched our 7th Medium-Term Business Plan to achieve this vision. This year is the final year. The progress on the five Sustainable Development targets ("SD targets") is outlined below.

- In investment and financing to promote Sustainable Development, we reached a total of 677.0 billion yen as a result of striving to engage in dialogue with customers and working on various types of sustainable financing such as sustainability linked loans (SLL).
- In support for value improvement of regional customers, human resources placement consultations and trust services remained steady, resulting in 1,798 requests.
- In support for asset formation of regional customers, we reached 219.1 billion yen, thanks to proposing products in line with customers' asset formation needs, such as the *Tsumitate* (accumulation) NISA (Nippon Individual Savings Account), and striving to provide information.
- In reduction in greenhouse gas emissions, emissions fell greatly by 66.80% compared to levels in fiscal 2013, and the target was met thanks to introducing CO_2 free electricity at our Head Office premises.
- In activities for promotion and improvement of SDG and financial literacy and training of next-generation workforce, we reached a total of 15,771 participants and met the target thanks to increasing opportunities to speak at online seminars and other efforts such as holding study sessions at SDG consulting clients and offering financial education at universities.

Progress towards SD targets is going smoothly.

Basic strategies of the 7th Medium-Term Business Plan

Vision

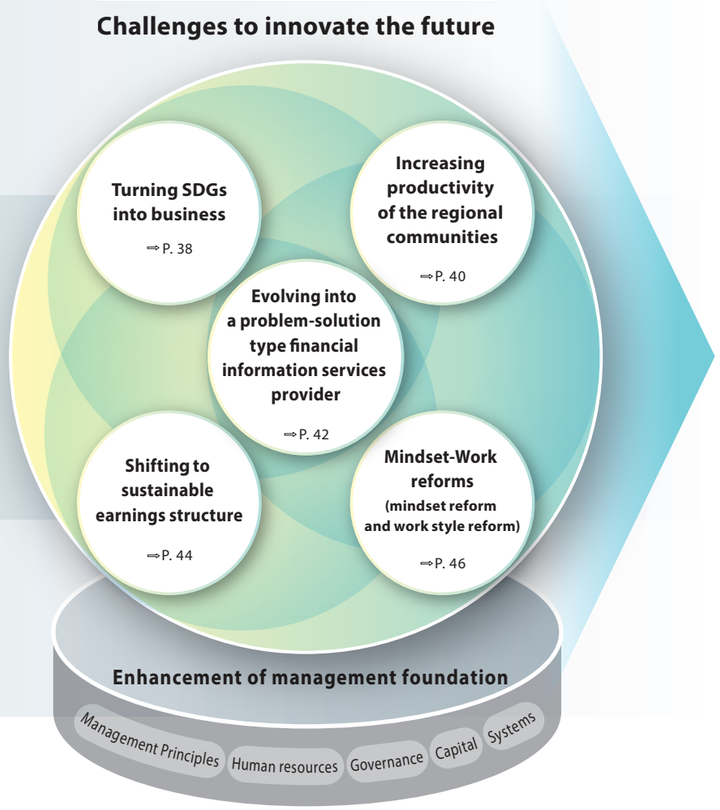
Sustainability Design Company

—Realizing mutual prosperity based on the "Sampo yoshi" philosophy—

Main theme

Define a future and realize a dream

—For the future of customers, regional communities and all employees—



Progress on benchmark challenges

		Targets and results		Progress
SD targets	Investment and financing to promote Sustainable Development (new investment and financing)	Target	Cumulative total of 700.0 billion yen	We successfully achieved steady results thanks to focusing on sustainable assessment loan efforts, including SLLs, and engaging in dialogue with customers through the Ratings Communication Service, ESG assessment system, etc.
		Result	**Cumulative total of 677.0 billion yen**	
	Support for value improvement of regional customers (number of requests for consultation per year)	Target	2024: 2,000 cases	As a result of our efforts to implement our goal-based support in accordance with a customer/market-oriented perspective, our consultation services performed well, particularity in our human resources placement and trust business.
		Result	**1,798 cases**	
	Support for asset formation of regional customers (balance of assets under custody)	Target	2024: 300.0 billion yen	Balance of assets under custody increased as a result of proposing products in line with customers' asset formation needs, such as the *Tsumitate* NISA, and striving to provide information that takes into account market trends.
		Result	**219.1 billion yen**	
	Reduction in greenhouse gas emissions (compared to levels in fiscal 2013)	Target	50% reduction	Efforts were made to reduce energy consumption through efficient business operations and consolidation of locations through branch policies. In addition, emissions reductions greatly exceeded the target due to introducing CO_2-free electricity at our Head Office premises.
		Result	**66.80% reduction**	
	Activities for promotion and improvement of SDGs and financial literacy; training of next-generation workforce (total number of participants)	Target	Total of 15,000 persons	In addition to speaking at online seminars more, we also increased study sessions at SDG consulting clients and customers, and financial education at universities, achieving the target.
		Result	**Total of 15,771 persons**	
Revenue targets	Net income attributable to owners of parent (consolidated)	Target	10.0 billion yen or more	We posted a loss due to revising our foreign bond portfolio, but we successfully secured a level of revenue exceeding our target thanks to an increase in interest income and posting proceeds from share sales.
		Result	**14.8 billion yen**	
	Income from services for customers	Target	2024: 3.0 billion yen	Although there were expenses due to costs related to the next-generation core system, interest income from interest on loans and interest and dividends on securities, etc. performed well and we were able to maintain a level above the target.
		Result	**4.0 billion yen**	
Long-term benchmark challenges	ROE (consolidated)	Target	5.0% or more	ROE was lower than last year due to decrease in net income. We will strive to improve this target by enhancing profitability and reducing costs through the efficient business operations.
		Result	**3.28%**	
	OHR	Target	65% or less	The high level is due to posting sales of foreign bonds and expenses related to the next-generation core system. It comes to 63.16% (estimated) if excluding costs related to the next-generation core system and loss from selling foreign bonds.
		Result	**97.82%**	

01 Turning SDGs into business

The international SDGs unanimously adopted by the member states at the UN summit in 2015 consist of 17 goals and 169 targets. The biggest difference from their predecessor MDGs (Millennium Development Goals) is that SDGs apply to all countries in the world and are easier for a wider range of stakeholders to participate, including companies and individuals. Many of the SDGs are related to economic activities and environmental conservation. Because the SDGs indicate ways to balance social issues and corporate activities, many companies are finding new business opportunities in them. And since the SDGs present problems that are easy for individuals to tackle, and allow more individuals to make SDGs their own business, then the concept has spread rapidly worldwide.

Corporate activities are expected to balance economic value with social value to solve social problems through business. Accomplishing this has many advantages also for companies such as obtaining new opportunities, improving productivity, and increasing trust and recognition in the company. The Bank works to achieve the SDGs and also assists customers tackle the goals through business. We provide attentive consulting services individualized to each customer, including SDGs consulting that could lead to support services and related ESG finance.

We have also launched new products and services to tackle the urgent global issue of decarbonization together with the entire regional community. For businesses, we have jointly developed a cloud-based service with Hitachi, Ltd. that enables customers to easily measure their CO_2 emissions, which will encourage decarbonized business and lead to continuous one-on-one support. We are also working earnestly towards achieving net zero emissions by 2050 through business, such as launching housing loan decarbonization plans for individual customers, and balancing economic value with social value, which will lead to improving the corporate value of the Bank.

Progress

We shared ESG management issues with customers and worked to incorporate the SDG philosophy into management strategies. In our ESG assessment system, we conducted 348 assessments as of the end of March 2023. We undertook a total of 165 SDGs consulting cases, and arranged 71 sustainable finance transactions for 52.3 billion yen. In addition, we carried out decarbonization measures in collaboration with business, consumer, and government sectors.

Remaining issues

We cannot be sure that SDGs have been instilled in the business of SMEs. The SDG philosophy is essential for solving the problems of regional communities, and we will continue to carry out activities that translate SDGs into business through a range of measures.

We have only just begun initiatives to decarbonize the region, and we need to drive initiatives to decarbonize SMEs in particular to achieve net zero emissions by 2050 proposed by Shiga Prefecture.

Major initiatives

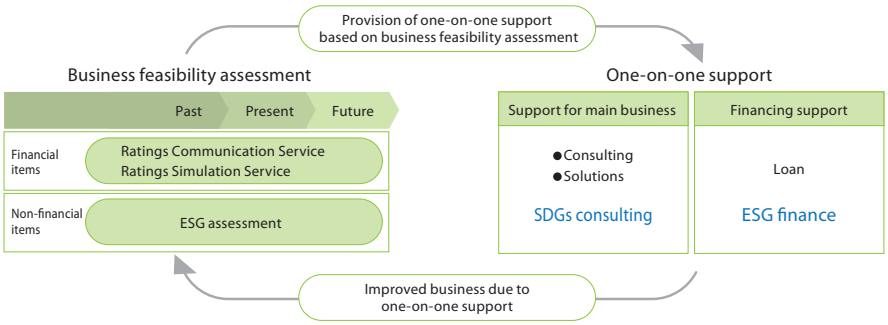
SDGs consulting

We offer "SDGs consulting," a service that provides support to integrate the concepts of SDGs and sustainability into customers' management strategies. Building a sustainability strategy that takes into account the environment, society, and economy is an effective way to make business sustainable. We help customers develop strategies, formulate action plans, and set KPIs through dialogue with them, and provide support for disclosing SDGs declarations and other commitments.

ESG finance

We have developed a system for providing ESG finance services that meet international guidelines. For example, we became the first ever regional bank to offer sustainability linked loans. In order to provide ESG finance services to a wider range of customers, we expanded our product lineup to offer "Shigagin Sustainable Assessment Loan"—a financial product that provides third-party assessments of customers' significant SDG initiatives. We provide one-on-one support through ESG finance services to achieve sustainability for customers.

We released a video with an explanation by the Bank's mascot Shiganosuke.



TOPICS

Arranging Positive Impact Finance loan through consulting

In March 2023, we entered into a Positive Impact Finance (PIF) agreement with OKUMURA ENGINEERING corp. (headquartered in Yasu City, Shiga Prefecture), a local specialized valve manufacturer listed on the Tokyo Stock Exchange Standard Market. When arranging the loan, we first provided SDGs consulting and analyzed the impact the company's business activities would have on society. We categorized areas that have a positive impact and areas that have a negative impact. As a result, we identified "contributing to a decarbonized society" and "co-prosperity with the regional community" as positive impacts, and "reduction of environmental impact" and "development of spiritually wealthy employees" as areas with both positive and negative impacts. Then we set targets to improve each one. We will help them realize sustainability management by engaging in dialogue and providing follow-up while monitoring their activities to achieve the targets.

President, Representative Director of OKUMURA ENGINEERING corp.
Shinichi Okumura

Voice

Our company's purpose is to "create a good flow," and we strive to continuously contribute to the development of society though manufacturing and selling valves.

Thanks to defining impacts to society based on one-on-one support by the Shiga Bank, we identified three issues of Materiality (priority issues): "global environment conservation initiatives," "contribution to the global community" and "improvement of employee satisfaction." Then we developed concrete actions and key indicators for each one.

Going forward we will accelerate sustainability initiatives by driving these companywide, and create a good flow internally, for customers, and for the global environment.

02

Increasing productivity of the regional communities

Due to decrease in the working-age population resulting from population decline and a declining birthrate and increasing aged population, and concentration of population in urban areas in Japan, there is concern that the gap between urban and rural areas will grow. Faced with this problem, increasing productivity of the entire regional community will be key for maintaining and advancing the region's economy.

Strangely enough, the global COVID-19 pandemic caused people to reevaluate lifestyles and business methods, and digitalization accelerated rapidly. However, Japan is behind other countries in digitalization and faces many risks including the 2025 Digital Cliff and business continuity plans (BCP). Digitalization is essential for improving the productivity of regional communities, and the Bank is working to digitalize the entire region in collaboration with fintech companies and the government.

One initiative to accomplish this is the Flexsus Project to switch our core system that had been in operation for over 30 years from a mainframe to an open system. Creating a highly secure but open financial system will make it easier to integrate with external systems and expand the range of products and services we can offer customers. It will also serve as a regional finance platform with the aim of contributing to the digital transformation of the region. Many young employees have volunteered to join the project, so it will also contribute to the development urgently needed digital talent.

The Bank has established the following basic policy for our digital strategy, and will strive to enhance financial services, streamline operations and control risks, and develop a system to achieve strategic business measures.

Basic Policies of the Digital Strategy

- Contributing to greater convenience and customer satisfaction through digitalization
- Improving the productivity of business operations
- Working to provide worry-free and secure digital services

Progress

In 2020 we established the Digital Promotion Office in the Business Promotion Department. It has carried out activities such as providing IT business support to customers to achieve the digital transformation of the region. As a result, we undertook a total of 63 IT business support projects as of the end of March 2023.

In addition, we drove various forms of digitalization also for individual customers, such as cashless initiatives and online housing loan procedures. We will continue striving to provide highly convenient services.

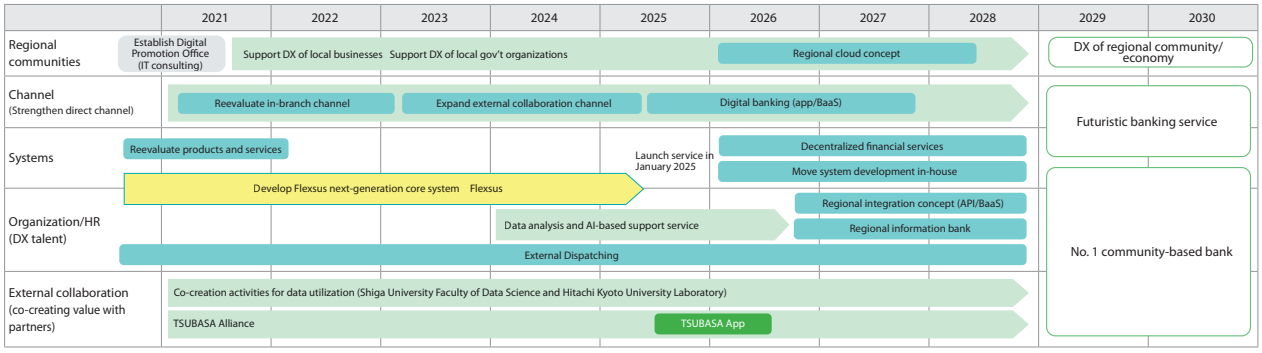
Remaining issues

Digital transformation of the region requires not only digital transformation of SMEs but also the government. We will strive to accelerate the digital transformation of the region in collaboration with local governments. We also recognize that another issue is utilizing data analysis, including the utilization of the Bank's data by the regional community.

Major initiatives

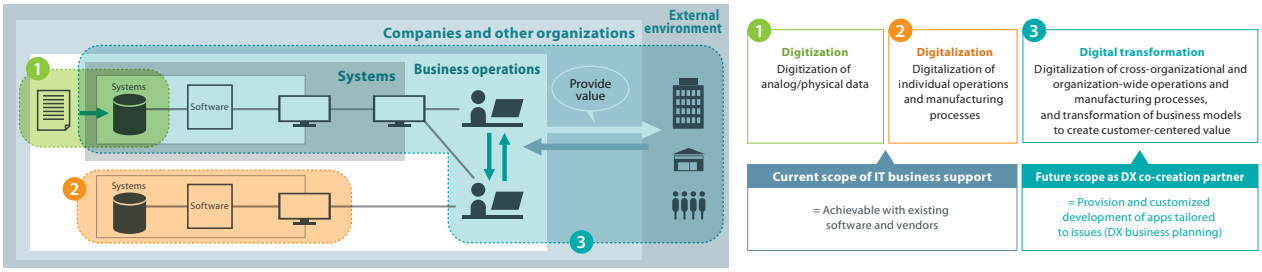
Digital Strategy Committee and DX roadmap

The committee, chaired by the President, presents and discusses the digital strategy as a roadmap based on the current status of digitalization and the possibilities and constraints of digitalization in the medium- to long-term, and each department shares a common understanding of this roadmap to contribute to investment decisions for individual systemization projects and the realization of medium- to long-term digitalization strategies.



IT Business Support — Paving the way to resolving customers' issues from the viewpoint of digitalization —

This initiative tackles the problems of region and customers from a digital perspective with the objective of resolving management issues. We will contribute to improving the sustainability of the region and customers by actively utilizing advanced digital technology. The initiative was selected among the "Examples of Distinctive Efforts by Financial Institutions, etc. that contribute to Regional Revitalization for Fiscal Year 2022" by the Cabinet Office.



TOPICS

Resolving management issues with IT business support

SG, Inc. faced the following management issues in diversifying their business. The Bank contributed to improving productivity and achieving data-driven management by working to resolve the issues through IT business support.

Customer's management issues	Support measures through IT business support
• Current system lacked scalability and required a large amount of analog tasks • Data from various departments are dispersed and much time is needed to understand the business situation	• Reduce analog operations by introducing a highly scalable system in cooperation with an external company • Implemented BI (data analysis and visualization) tools, enabling centralized management and instant ascertainment of business conditions

SG, Inc.
Representative Director and President
Norihiro Sugimoto

Voice

We took advantage of Shiga Bank's IT business support services because we felt the limitations of our existing system as the number of clients increased and the products we handled became more diverse. As a result, the new system eliminated duplicated work in each department and enabled us to quickly share information with our offices outside of the prefecture. In addition, the latest information can be checked in real time, enabling faster management decisions. We believe that this new system will lead to further improvement of services to our customers.

03

Evolving into a problem-solution type financial information services provider

Regional communities face a variety of issues. A wide range of issues emerge especially when looking at regional communities from the viewpoint of sustainability. Society as a whole must work quickly to resolve issues such as sustainability of the environment and resources, problems caused by the declining birthrate and increasing aged population, and the decline of rural communities due to polarization caused by overconcentration of the population in Tokyo, and ensure the next generation is not forced to deal with them.

The Bank is striving to evolve from a traditional financial intermediary service provider into a problem-solution type financial information services provider that finds clues to business in the issues of the regional community and customers and works to resolve them. To accomplish this, we are diversifying our consulting services, for example, we launched in-house human resources placement and trust services, and working on "Mindset-Work reforms" to switch from a bank-centric to customer-centric approach.

We are rolling out several initiatives to support new businesses that contribute to solving social problems such as the Shigagin Entrepreneurship and Business Management School, the Nonohana Prize for Innovation which is an incentive system for new businesses, and Shigagin Regional Revitalization SD Fund. We will also strengthen support for relaunching businesses to contribute to activating the regional economy.

And in this era of 100-year lifespans, we also need to systematically tackle building assets. Gaining money knowledge when you are young is important, and demand and interest in financial education has grown. The Bank is striving to increase financial literacy among young people by offering age-appropriate financial education from elementary school to university. We also meet the needs of adults who want to gain financial knowledge through efforts such as holding seminars at customers' workplaces and offering individualized money management consultations.

Progress

In 2021 we established the Solution Sales Office in the Business Promotion Department to enhance our consulting function and broaden the range of solutions, such as human resources placement services. As a result, the number of customers receiving new business support came to 162 and the number receiving business succession and M&A support came to 323 in the fiscal year ended March 31, 2023.

In addition, we actively approached people in the age group that is building assets and worked to resolve issues such as asset succession, testamentary trust services performed well, with a total of 315 cases commissioned since starting the service in April 2020.

Remaining issues

We believe our role as a local bank is to develop human resources that can provide solutions for activating the region and sustainability. Issues and needs of companies and individuals are constantly changing. We will continue developing problem-solution type human resources that can respond flexibly to these changes.

Major initiatives

Initiatives for new businesses

In addition to creating and cultivating new businesses, we have also established the Shigagin Entrepreneurship and Business Management School to support relaunching and changing businesses, and the Shigagin Nonohana Prize for Innovation that recognizes initiatives to start new businesses. Entrants for the Nonohana Prize plan, design, and implement a business plan with us, and we choose the winners of each prize in cooperation with ten listed companies in Shiga Prefecture.

Initiatives for business succession support (family business succession and M&As)

Business succession is a major issue for maintaining and developing the regional economy. When a candidate successor has already been decided internally, we provide a range of succession services to ensure smooth business succession, including the systematic training of successors, transfer of treasury shares, and acquisition of dispersed shares. When a customer is having difficulty finding a candidate successor, we assist them with third-party succession through means such as M&A in collaboration with external specialized institutions as needed. We also provide continuous support to further enhance customers' corporate value, including introducing core human resources for top management and reviewing employee evaluations, to ensure the successor can operate the business smoothly after succession.

To appropriately address diverse needs, we have been working to develop specialized human resources and build strategic ties with outside organizations.

Initiatives for asset formation and asset succession support

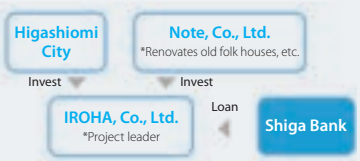
Due to the increasing aged population, the need to build assets early on has grown. The Bank offers financial and economic education to young people and personalized asset formation and asset management consultations so that people in the regional community can systematically build assets. It is also important to prepare to pass down valued assets to the next generation. The Bank works closely with the community and customers to help them realize their dreams with a goal-based support approach based on our "Policy for customer-first business operation."

Initiatives for improving financial literacy

We offer financial and economic education for young people mainly in Shiga Prefecture to provide opportunities to cultivate knowledge and decision-making skills needed to build assets. In fiscal 2022 we received requests from a wide range of schools, from elementary to university, for our financial and economic education program. Participants listened with keen interest as evidenced by the many questions from not only students but also teachers. We also offer seminars and consultations for our customers' employees to raise awareness of the need to build assets. Going forward, we will work to spread and improve financial literacy, and expand initiatives to provide the knowledge needed for asset formation to even more people.

TOPICS

IROHA, Co., Ltd.
Director Toyokazu Kurita

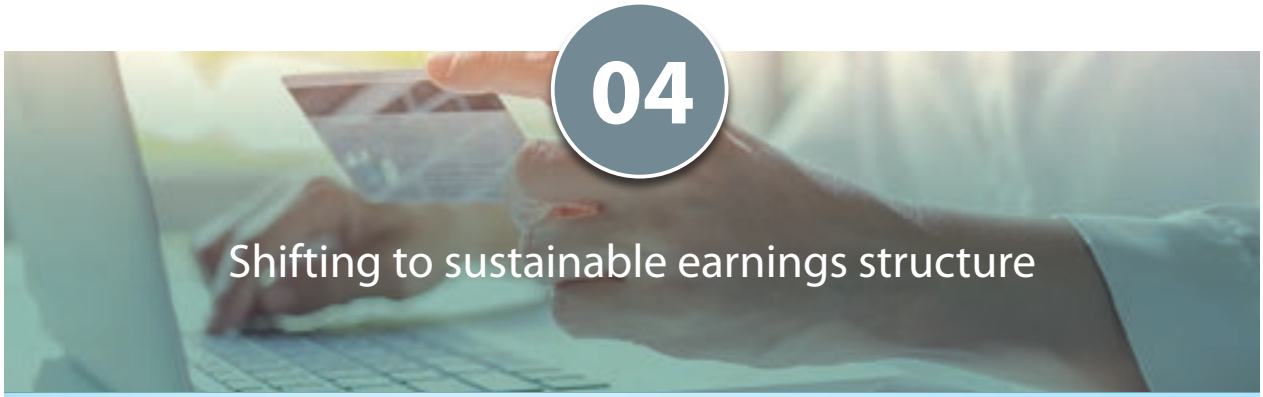


"We want to preserve the townscape that conveys the essence of Omi Merchants known for their 'Sampo yoshi' philosophy." The Bank helped to make their passion and dream a reality.

NIPPONIA Gokasho Omi Merchant's Town Uhei Tonomura Residence (Higashiomi City), an accommodation facility that also offers corporate training, opened in September 2022. A traditional Omi merchant's mansion was renovated as an accommodation facility where visitors can experience the spirit of the Omi merchants. With the local population declining and aging, the Bank sympathized with the community's passionate desire to preserve the townscape that conveys the essence of the Omi merchants, and provided financial support as well as introductions to partners necessary for the facility's operation.

Behind this initiative was the efforts of Mr. Toyokazu Kurita, who retired from Higashiomi City Hall and became the director of IROHA Co., Ltd. Mr. Kurita, who was then manager of the Tourism and Products Division, began talking with residents about ways to contribute to the revitalization of the community by preserving the townscape for many years to come, and at Mr. Kurita's suggestion, talks of collaboration with Note Co., Ltd. began about six years ago.

The facility is casually extravagant, but not showy, and is characterized by the Omi merchants' admonition to be frugal and to perpetuate the family business. Mr.Kurita said, "We hope that this facility will be a place where customers can deepen their outlook on life and create a positive influence on their corporate activities.



04 Shifting to sustainable earnings structure

Recently the number of customers visiting branches have continued to decrease due to factors such as population decline, widespread use of cashless payment, and advancement of smartphone apps. The balance between needs for face-to-face channels focused on branches and non-face-to-face channels such as online banking and apps have changed significantly.

The Bank is striving to switch to a sustainable revenue structure while maintaining customer convenience by rebuilding the in-branch channel, saving workload for desk job in branches, and enhancing non-face-to-face channel services. We announced that we would consolidate our branches into about 75% during the period of the 7th Medium-Term Business Plan, reexamined the current branch network, and moved forward in rebuilding branches in line with the characteristics of each region. Besides enhancing non-face-to-face channels for deposit and currency exchange transactions, we launched a completely online housing loan service in April 2023. Customers can carry out the entire process online, from signing the contract to executing the loan, without once making a visit to a branch. Along with the service launch, we also consolidated housing loan operations into the newly established the Housing Loan Center and developed a system for customer assistance.

In addition, we are working for information collaboration in different fields and improve efficiency of managerial resources and operations by strengthening the network with other financial institutions through joining the TSUBASA Alliance and other initiatives. We also actively engage in efforts like employee exchange to develop human resources by leveraging the strengths of each institution.

In June 2021, we established the Finance Office within the Financial Markets & International Department. The department has produced results as a profit center, by consolidating information and human resources scattered across the headquarters, arranging large-scale loans and highly-difficult transactions, and developing new financial instruments.

Progress

We worked to increase interest income by establishing the Finance Office in the Financial Markets & International Department and enhancing direct consumer loans.

We have reassigned personnel to strategic and digital departments after consolidating branches, changing branch formats, and overhauling operations. In addition, we strove to streamline business operations by actively collaborating with industry peers and other industries through initiatives such as the TSUBASA Alliance.

Remaining issues

Further branch measures and more efficient business operations are needed to continue driving the shifting to a sustainable earnings structure. We realize that we need to accelerate DX even further as well as to reexamine operations. In addition, we will appropriately allocate personnel in line with the Group's management strategy.

Major initiatives

Rebuilding the branch network and overhauling operations

Since the launch of the 7th Medium-Term Business Plan, we have been consolidating our branches to build a sustainable business model. We aim to build an efficient branch network while keeping any inconvenience to customers at a minimum. Under the Operational Overhaul Project to radically overhaul all administrative processes of branches, we greatly reduced administrative workload and costs. This has enabled employees to focus on consulting services and more attentively respond to customer needs and resolve their issues. The launch has thus helped the Bank provide higher value-added services to its customers than before.

Enhancing non-face-to-face channels

We are enhancing non-face-to-face channels along with rebuilding the branch network. We are striving to maintain and improve convenience for customers by upgrading the functions of our internet banking, apps, and ATMs, and also collaborating with other financial institutions. In May 2023, we launched an online account opening service that utilizes eKYC (on online identity verification solution).

TSUBASA Alliance — Business development that leverages economies of scale through widespread and large-scale collaborations

The Bank is a member of the TSUBASA Alliance. The purposes of the alliance are: to realize sustainable growth of the region and upgrade financial systems; to build an alliance contributing to the enhanced corporate value of the participant bank groups; to achieve growth of the top line; and to plan and promote cost-cutting measures. We will offer cutting-edge financial services to create a sustainable future for regional communities by leveraging the insights from the participating banks.

地域とともに未来へはばたく
TSUBASA
ALLIANCE

TOPICS

Achieving completely non-face-to-face services by merging digital and real-world channels

We are striving to improve the convenience of loan procedures and the efficiency of loan operations by using the internet and call center. In addition to consumer credit card loans and purpose-oriented loans, we introduced a completely non-face-to-face contract scheme and launched an online service also for housing loans in this April. Using this in combination with the real-world channel of a call center, has enabled us to provide customers attentive support. Along with this service launch, we also consolidated the three functions of promotion, screening, and admin for housing loans into the Housing Loan Center to help streamline loan operations.

Through these initiatives, we reevaluated housing loan personnel and worked to create new profit opportunities.

Service flowchart

	Apply	Screen	Enter contract	Execute
Online process	Apply via smartphone/computer (no need to visit branch)		Electronic contract (no need for revenue stamp)*1	Automatic execution by the system
	Product description and various procedures (non-face-to-face)*2			
Organization handling operations	Call center support (Housing Loan Center)			

*1 Housing loan electronic contract
*2 Watch video explaining housing loan product, make online advertising for creditors group insurance, and apply online for fire insurance

Business Promotion Department
Direct Sales Office
General Manager of the Housing Loan Center
Yuji Kumokawa

Voice

The Housing Loan Center has enhanced its customer support system by offering complete non-face-to-face services and stuffing full-time operators to ensure smooth procedures. Providing customers with attentive assistance and the improved convenience of non-face-to-face procedures is the strong suit of the Bank's direct channel. We will continue striving to offer products and services for even more customers in line with the needs of customers and the community, with the goal of having the top housing loan service in the region.

05

Mindset-Work reforms
(mindset reform and work style reform)

People's values and behavior have changed greatly in recent years due to factors such as rapid digitalization and the spread of the concepts of SDGs and DE&I (Diversity, Equity, and Inclusion). This has brought about changes in business, requiring flexible mindsets and work styles. The Bank is driving reforms to enable flexible mindsets and work styles, called "Mindset-Work reforms," which form the foundation to achieve the goals of the 7th Medium-Term Business Plan.

In order break away from the conventional way of thinking centered on the bank and consider matters from a perspective centered on the region and customers, we have been carrying out reforms such as changing our performance evaluation system and training programs. We place importance on thinking and working on our own to resolve issues faced by the region and customers rather than simply offering products and services. This has resulted in gradually changing how each and every employee thinks and works. Today autonomously considering what the issues of the region and customers are and how to resolve them has become a prominent best practice that has led to business. Diverse ideas and human resources are essential for problem-solving-oriented businesses. Rather than developing homogeneous human resources, we will continue to develop work environments and human resources to enable diverse human resources to play active roles by leveraging their individuality and strengths.

We are also reforming work styles to enable diverse and flexible work styles that suit individual circumstances, such as working from home, our "Select-time system" that allows employees to select their working hours, and side job program that makes the most of individuals' strengths. These efforts have produced positive results such as boosting productivity and improving skills. We will continue working to ensure the well-being* of each and every employee.

*In the Constitution of the World Health Organization, well-being refers to a positive state where all physical, mental, and social needs are met, not merely a healthy physical state.

Progress

In order to switch from the conventional perspective centered on the Bank to one centered on customers and the overall regional communities, we have engaged in efforts such as reevaluating our award system and our way of thinking.

We distributed tablets to all employees, and thanks to installing Microsoft365,* we broadened communication between employees and moved forward with efforts such as adopting business casual dress code and trying out working from home to inspire flexible mindsets.

*Subscription service of the Microsoft Office product lineup offered by Microsoft.

Remaining issues

The revision to the Banking Act widened the scope of business banks can engage in. We need to plan new business with a customer- and society-oriented approach. To do this, we need to consider development of human resources as a key issue.

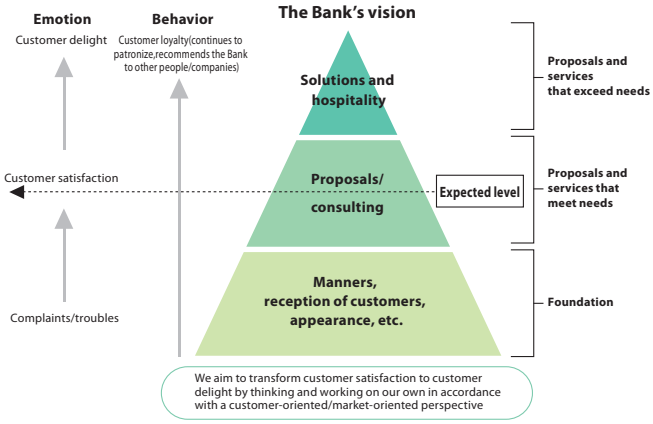
Ideas that go beyond the framework of a conventional bank will not emerge with only intra-bank communications. To develop human resources that can come up with new ideas, we need to more actively engage in efforts such as external secondments and participation in the regional community.

Major initiatives

Goal-based support — Shift from a Bank-oriented to a customers and society-oriented perspective

We have worked to transform our mindset and behaviors, from product-oriented to market-oriented, by thoroughly leveraging "Goal-based Support" which caters to the needs of the region and our customers and resolves their issues to help them achieve their dreams.

Guidelines for action and thinking	
Stance	Staying close to customers
Goal	Customers' dreams
What is main bank?	The bank that customers consult first and that cares most about customers
What it takes to achieve the goal	Staying close to and thinking together with customers



Loyalty improvement program

In order to go beyond customer satisfaction to achieve customer excitement, we are implementing loyalty improvement programs at each of our Headquarters, sales branches, and group companies. In order to achieve customer satisfaction, we identify issues that need to be addressed and formulate improvement plans based on the four skills of "listening," "approachability," "understanding," and "proposal," and make improvements in accordance with the PDCA cycle.

Performance Evaluation System to Assess "Thinking and Working"

In order to change our perspective from the bank to the customer, we have gradually evolved our performance evaluation system since the first year of the 7th Mid-Term Management Plan, and have been working toward the goal of enabling all officers and employees to think and act. In fiscal 2023, the final year of the 7th Mid-Term Management Plan, we will build "better points of contact" with the community and our customers. We will resolve issues faced by our customers and local communities through new collaborations and the provision of solution menus that are not bound by the framework of the Bank Group or our banks themselves.

TOPICS

Achieving mutual understanding in group-specific discussions to improve the branch's teamwork

To enable employees to reach their potential and provide better service to customers, you need a work environment with a good teamwork where each individual is respected. Hikone Branch holds monthly group-specific discussions to promote mutual understanding through conversations on a variety of themes, such as how to spend days off and recommended books. The branch also started "Hikone School" taught by the General Manager of the branch and others. Participants learn about a wide range of topics such as local history and industry, with the goal of creating a community-based branch.

General Manager of Hikone Branch
Shinya Fukuo

Voice

"Everyone works together" are the key words for business promotion at our branch. Group-specific discussions encourage interpersonal relations outside of work through understanding how coworkers think, their likes, and so on, and I think the overall capabilities of the branch has improved. Even employees who were hesitant to talk about themselves at first are now eager to learn about their coworkers; it has become a space for effective communication. Becoming a team where members communicate well and are considerate of one another contributes to the happiness of customers and the regional community.

Initiatives to Address the Climate Change and Preserve Biodiversity

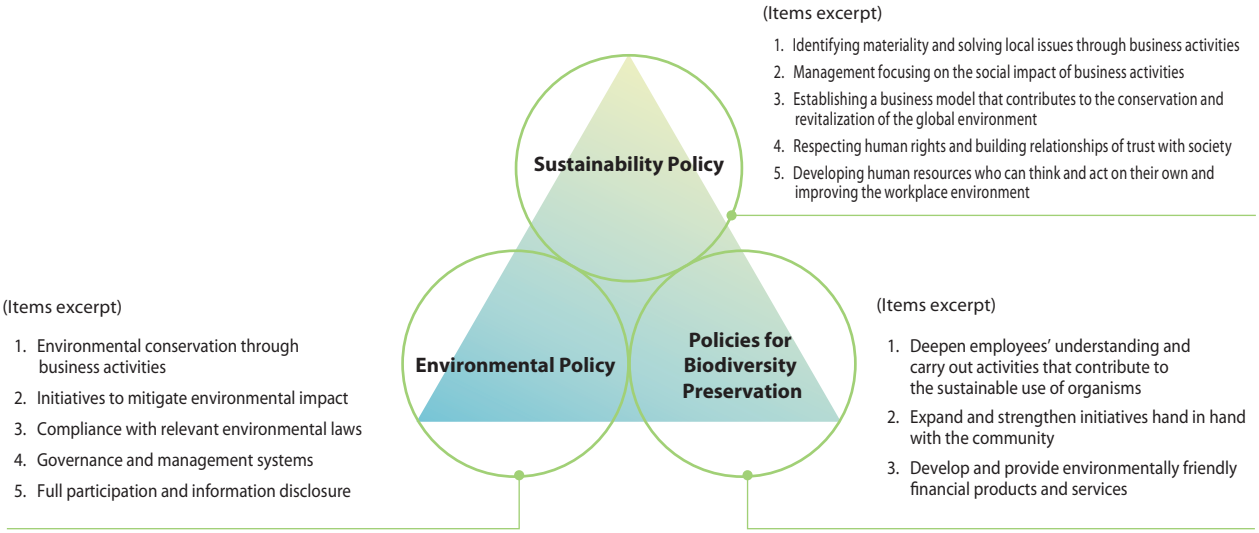
Lake Biwa is an asset we hold in trust for the future

In Shiga Prefecture, where the Bank is headquartered, Lake Biwa is an integral part of our lives and is considered to be an asset we hold in trust for the future. Lake Biwa is home to over 1,700 species of aquatic plants and animals, around 60 of which are unique to the lake, and supports the lives of 14.5 million people living nearby. It is one of the world's oldest lakes with a history of approximately four million years. We recognize that it is our mission in the modern world to "bring it back to the future" in its natural state.

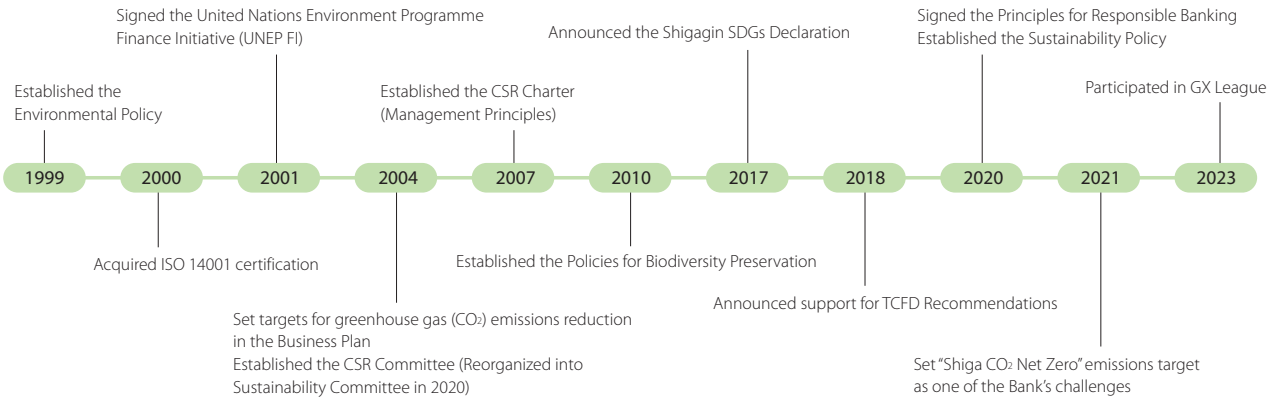
As a financial institution carrying on the "Sampo yoshi" philosophy of the Omi Merchants, the Bank has been practicing environmental management since the 1990s, incorporating environmental considerations into corporate management, and has been working to solve environmental issues by offering a wide range of environmental finance products and services. Amid growing concern about climate change and biodiversity, we have developed ESG finance by leveraging the advantage gained through experience to contribute to society, thereby balancing environmental conservation with the enhancement of corporate value.

1. Basic principles

We formulated our Environmental Policy in 1999 and Policies for Biodiversity Preservation in 2010 to promote initiatives for climate change and biodiversity preservation as important management issues. In 2020, we established the Sustainability Policy with the aim of creating social impact with a focus on sustainability.



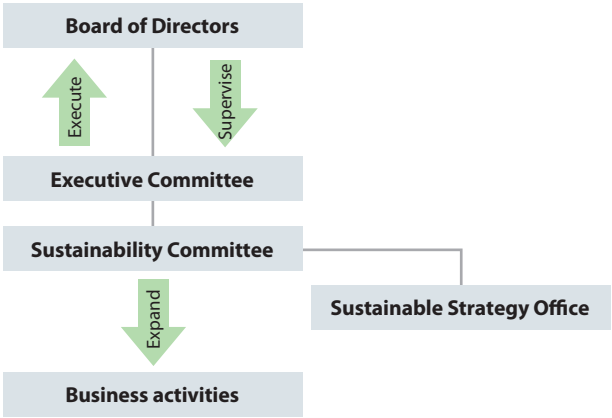
2. Timeline



3. Governance

Recognizing sustainability, including climate change and biodiversity preservation, as a core theme of our business activities, the Bank discusses these matters at the meetings of the Board of Directors and reflects the outcome in its management strategy and risk management. Specific measures and initiatives are discussed at the Sustainability Committee chaired by the President, the content of which are reported to the Board of Directors at least once a year. The Board of Directors is fully prepared to execute appropriate supervision on matters reported.

The Sustainability Committee meets three times a year with Management Meeting members, General Managers of each department and office, and presidents of consolidated subsidiaries as Committee members to deliberate on policies and plans for addressing medium- to long-term ESG challenges. Matters of significance are reported to the Management Meeting (Executive Committee) and the Board of Directors.

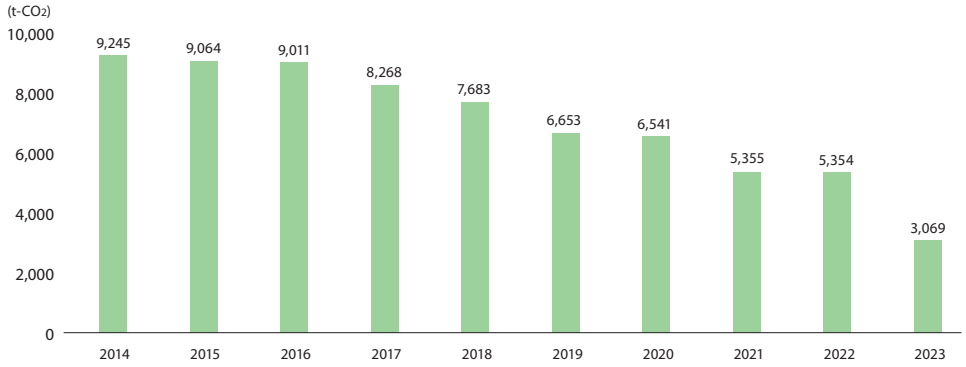


4. Climate initiatives (Responding to TCFD)

The Bank has regarded responding to global warming, a factor of climate change, as one of the important management issues and has begun setting targets for greenhouse gas emissions reduction in the Business Plan in 2004 to promote decarbonization. Having announced its support of the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in July 2018, the Bank has been disclosing information in line with the TCFD Recommendations since fiscal year 2019, with a view to building engagement with shareholders, investors and a wide range of other stakeholders through such disclosure.

For more information, please visit the Bank's website.

Reduction in greenhouse gas (CO_2) emissions



5. Biodiversity initiatives (Responding to TNFD)

As part of our social responsibility as a company headquartered next to Lake Biwa, we are committed to the conservation of the natural environment and biodiversity of Lake Biwa, which is also a designated wetland under the Ramsar Convention. One of our key initiatives, "Ikimonogatari" (Tales of Life) activities (see Page 28), encompasses a variety of environmental volunteering efforts with a story. The activities see a large turnout of Group employees throughout the year.

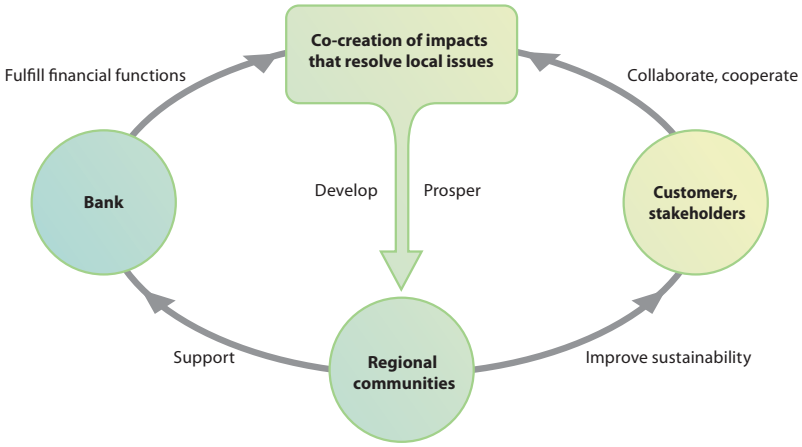
In addition, our Principles for Lake Biwa (PLB) rating system for biodiversity (PLB rating BD) launched in 2009 assesses customers' response to biodiversity preservation and encourages them to give consideration to it in their business activities. This system has been succeeded by the ESG Assessment System launched in November 2021 to facilitate dialogue that is more directly linked to corporate management.

Going forward, we will also use the Taskforce on Nature-related Financial Disclosures (TNFD), a framework for corporate risk management and disclosure related to nature, to further strengthen our activities for the restoration and sustainable use of natural capital together with stakeholders.

Implementing the Principles for Responsible Banking

In February 2020, we became the first regional bank in Japan to sign the Principles for Responsible Banking (PRB), which was drafted by the United Nations Environment Programme Finance Initiative (UNEP FI)* and launched in September 2019. Together with more than 270 other signatory financial institutions, we practice finance with sustainability at the core of business.

The PRB provide a framework for a bank to take a leading role and responsibility as a financial intermediary and voluntarily set out business strategies that are aligned with the Sustainable Development Goals (SDGs) and the Paris Agreement based on the recognition that sustainable social prosperity is key to development of the banking industry. In accordance with the six principles of the PRB, signatory banks are required to set their own strategies and targets and engage and partner with stakeholders including customers so as to increase the positive impacts as well as reduce the negative impacts of their business activities on the environment and regional communities.



*The United Nations Environment Programme Finance Initiative (UNEP FI)
UNEP FI was established in 1992 by the United Nations Environment Programme, a UN auxiliary organization that was formed in 1972. It is a partnership of more than 200 financial institutions around the world that is working to transform into financial systems integrating economic development with ESG (environmental, social, and governance) considerations. Currently, there are 14 participating institutions in Japan. The Bank signed the UNEP FI in 2001, a first for a commercial bank in Japan.

Six principles of Principles for Responsible Banking

The Bank is committed to the following principles set forth in the Principles for Responsible Banking.

Principle 1: Alignment

We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals (SDGs), the Paris Agreement, and relevant national and regional frameworks.

Principle 2: Impact and Target Setting

We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

Principle 3: Customers (Corporate and Retail)

We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

Principle 4: Stakeholders

We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

Principle 5: Governance and Corporate Culture

We will implement our commitment to these Principles through effective governance and a corporate culture of responsible banking.

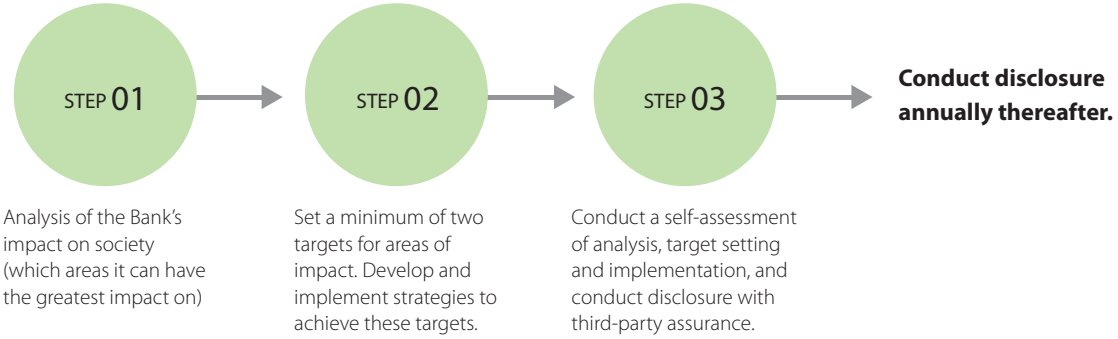
Principle 6: Transparency and Accountability

We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

Steps towards implementation for Principles for Responsible Banking

The PRB require signatory financial institutions to implement initiatives and disclose their progress in accordance with the following steps. Specifically, signatories are required to disclose the first report and self-assessment regarding the Principles within 18 months of signing, and annually thereafter, and to conduct an impact analysis, set and implement targets, and achieve accountability within four years.

The Bank made its first disclosure in fiscal 2021 and has provided disclosure annually thereafter in line with the PRB. Our progress outlined in the third report is disclosed on the Bank's website.



Summary of results and assessment of identified impact areas

In accordance with the impact protocol published by UNEP FI, we took the following steps to conduct an impact assessment of the Bank's business activities.

1. To ensure that the impact assessment is meaningful, take into account the characteristics of our businesses, and define our core business in terms of business activities and significance in the region as the scope of assessment.
2. To identify the Bank's priority impact areas, understand the international imperatives such as SDGs and the Paris Agreement as well as policies in Japan and Shiga Prefecture, our main area of activity, as the context of our core business. In assessing the impacts, use an analysis tool provided by UNEP FI. This tool is preloaded with international or country-specific impact needs, and allows users to input additional country and regional information to create a profile that outlines the impact needs of each business activity and region.
3. Analyze the portfolio composition for each core business and apply the context to identify the Bank's priority impact areas. In identifying such areas, use a tool provided by UNEP FI for each business activity. Enter information on the Bank's portfolio composition and the identified context information into the tool to get results. Then, compare them with the characteristics of the Bank's business areas to identify at least two priority impact areas for our business activities.

As a result of these steps, we defined the Bank's core business when implementing initiatives in line with the PRB framework as "retail and business banking in Shiga Prefecture." We also determined four priority needs in Japan and Shiga Prefecture as "livelihood," "climate stability," "biodiversity and healthy ecosystem," and "recycling," with "climate stability" and "employment" being the most significant impact areas for the Bank.

Since the Bank is in the process of formulating the 8th Medium-Term Business Plan, we assessed the alignment of the identified impact areas with the targets set in the current 7th Medium-Term Business Plan. As a result, we assessed that the CO_2 emission reduction target and the implementation target for investment and financing to promote Sustainable Development would significantly contribute to "climate stability" and "employment," respectively.

We will continue to work on setting more effective targets and implementing measures for the impact areas.

POWERS SUPPORTING VALUE CREATION

Initiatives for Human Capital

Sustainability vision (Long-term Vision)

A society where everyone can define their future and live happily

CSR Charter (Management Principles)

Mutual prosperity with regional communities, all employees, and environment

Vision in the 7th Medium-Term Business Plan

Sustainability Design Company

—Realizing mutual prosperity based on the "Sampo yoshi" philosophy—

The talent we need

People who can develop their personality, play a leading role in value creation, and take on challenges for the future of the region

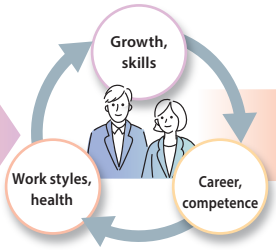
Value creation process for HR strategy

Growth, skills	Human resource development	Develop problem-solution type human resources and autonomous talent
Career, competence	Challenges and learning	Provide employees with opportunities to grow on their own
	Diversity	Respect and develop better relations with each employee so that diverse personnel can fulfill their potential
Work styles, health	Health management	Create a mentally and physically healthy work environment where people can work vigorously and healthily

Diversified and sophisticated customer needs

Problem-solution type human resources

Gaining a sense of fulfillment by solving problems of customers and the regional communities



Enhancing job satisfaction through proactive career development and flexible work styles

Autonomous talent

Flexible response to diversifying values and rapid environmental changes

Maximize human capital value

People are at the core of value creation

- Self-realization
- Diversity
- Engagement

Value creation

Economic value

Development of regional economy

Safe asset formation for customers

Enhancing our corporate value

Social value

Improved regional sustainability through business activities

Disclosure item of human capital (Fiscal 2022 results)

Input		Output				Outcome
Training hours per person	Training program of problem-solution type human resources (total number of participants during the 7th Medium-Term Business Plan period)	Number of employees with Financial Planning Grade 1 certification	Number of mid-career hires in management positions	Employment of people with disabilities	Average number of days of paid leave taken	Percentage of positive responses regarding satisfaction with the Bank
14 hours	928 persons	231 persons	21 persons	2.24%	17 days	66.7%

Basic policies for HR strategy

In the 7th Medium-Term Business Plan, the Bank has declared that it aims to become a Sustainability Design Company that designs sustainable growth for customers and regional communities beyond the concept of a bank and to become a company that is indispensable to the community. To realize this management strategy, we define the talent we need as "people who can develop their personality, play a leading role in value creation, and take on challenges for the future of the region." Under the human resources development policy and policies for improving the internal environment, we are working to develop problem-solution type human resources and autonomous talent.

Human resources development policy

"Development of bank employees needed by customers and the regional community"

- Bank employees having common sense as an adult and high professional ethics
- Future-oriented bank employees who can draw out "a true answer in a customer"
- Bank employees who can carry through their duties with pride, responding to environmental changes flexibly
- Kind and caring bank employees who can think and work on their own as a team and an organization member

Policies for improving the internal environment

Our Sustainability Policy aims to develop human resources who can think and act independently and improve the workplace environment. We strive to create a work environment for respecting diverse personalities and work styles, enhancing work-life balance, and having each employee fully demonstrate their abilities.

Facilitating human resource development

To meet the increasingly sophisticated and diverse customer needs, we focus on developing employees with specialized skills and flexible ideas through various consulting training sessions, head office traineeships for branch employees, and support for obtaining Financial Planning Grade 1 certification.

In addition, in order to develop autonomous talent who can develop new careers on their own in the era of drastic change, we provide tools (career paths, etc.) within the Bank to support the career development of each employee. We have also enhanced the internal recruitment system, self-development support tools, and incentives for the acquisition of qualifications to develop human resources who are self-motivated, self-improving, and flexible enough to respond to changes in the environment.

Enhancing the career support system

To ensure every employee feels their job is fulfilling and meaningful, it is important for them to have a mindset to develop their careers on their own. We have enhanced the "Discussion Program," a program to help employees grow and boost their motivation through means such as One-on-One Meetings. We offer various training courses and seminars and present career paths, as well as work on improving and sophisticating management capabilities to provide personal and attentive career development support to every employee.

Side job program (sole proprietor type)

Respecting the diverse needs and values in regard to work styles, we have implemented a side job program (sole proprietor type) to help employees find fulfillment and satisfaction in their work. One employee used the system to start a blueberry growing business with locals, and is working to revitalize the community by making it a tourist farm that people can enjoy with children. The number of applications for the program is on the rise and the system is gradually being utilized for a wider range of purposes.

This will allow our employees to utilize their diverse skills in revitalizing the regional economy, while also providing them with opportunities to enhance their human competence by gaining a sense of fulfillment and accomplishment from the second job and through new discoveries and encounters, leading to producing the autonomous talent.

Blueberry farm operated by our employees

Providing a variety of career opportunities

Providing opportunities to take on challenges

We have put in place a human resources recruitment system that allows employees to take on the challenges of the work of their choice. It is a program that enables employees to proactively broaden their careers. It also helps improve engagement and raise the growth curve of every individual. In recent years, we have been encouraging a wide range of age groups to apply and raising awareness in career development through means such as establishing divisions where young employees can take on challenges.

We also proactively create opportunities such as secondments and temporary training assignments in external organizations such as government agencies and consulting firms, and we accept employees seconded from external companies to accumulate expert knowledge.

Human resources recruitment system
Applications through FY2022
(Cumulative total)

575 persons

Providing opportunities to learn

We provide various learning opportunities, including seminars for branch and section managers and "pressure-free plan seminars" which employees can participate in on their days off, and online seminars called "e-JINZAI for Finance." In addition, we have encouraged our employees to participate in training programs of external educational institutions, such as SME Support Japan, the Graduate School of Shiga University, and the Graduate School of Management of GLOBIS University. This gives them opportunities to gain experience that cannot be acquired in the Bank's operation and acquire knowledge and skills.

Ensuring diversity

Diversity

We established the Diversity Promotion Committee to create a work environment where diverse individuality is respected and each individual can feel a sense of fulfillment in life and work by demonstrating his or her potential. And to incorporate diverse opinions into the activities of the Committee, we established the Diversity Promotion Team consisting of members recruited from sales branches. Currently, the Diversity Promotion Team is actively engaged in discussions with a focus on the utilization of diverse human resources and work style reform.

To support women's career design and networking within the Bank, we hold the Life & Career Design Seminars for sub-assistant general managers, providing an opportunity for female employees to reflect on their own careers.

Scene at a Diversity Promotion Team meeting

Work-life balance

We have implemented a work environment supportive of diverse and flexible work styles so that our employees can achieve a balance between work and private life while working with a sense of satisfaction and fulfillment, and choose a lifestyle that suits them.

We have adopted a business casual dress code since April 2021. We aim to reject stereotypes by creating an environment that allows employees to choose what to wear depending on time, place, and occasion, fostering a flat organizational culture and promoting diversity.

Our "Select-time system," which allows employees to select their working hours, enables flexible work styles and aims to improve the health of employees and their work-life balance. We also engage in efforts to enable work styles not restricted to the workplace, such as working from home with tablets, and are working to build a flexible work system tailored to each employee's lifestyles and life stage needs such as childcare and nursing care.

Practicing health management

We see health as the foundation for employees to fulfill their potential and are actively engaged in health management. Through establishing a work environment where all employees can work healthily and with vigor, and fully demonstrate their abilities, we promote their mental and physical health and help them find job satisfaction, thereby improving employee engagement.

Mental healthcare

We hold regular training courses on mental health and help create a better work environment for all employees. In order to prevent mental health problems, we implemented a counseling program that enables employees to talk to external specialists without worry and free of charge.

Physical healthcare

Once per year, we provide employees with the opportunity to take regular health checkups or complete medical checkups to help prevent and detect illness early. We recommend employees who are over 30 to receive complete medical checkups about once every two years and provide special leave to do so. To help prevent cancer, we are working to create an environment where employees can continue working healthily through means such as providing free cancer screening to employees over a certain age during their regular checkups to help ensure early detection and early treatment.

Respecting human rights

We established the Committee on Elimination of Discrimination against People from Dowa Districts (currently renamed Human Rights Education Committee) in August 1976 to promote human rights awareness and training with a view to realizing a bright society free of discrimination, both within and outside the Bank. We offer interactive training sessions, including opportunities for small group discussions. Although participation is voluntary, more than 90% of employees attend the training sessions each year. In addition, we have established dedicated hotlines and systems (see Page 74) to prevent sexual, power, and other forms of harassment, and provide appropriate training in a timely manner.

Corporate Governance

Basic views on corporate governance

As a regional bank headquartered in Shiga Prefecture, the Bank has a motto which carries on "Sampo yoshi" philosophy, a management philosophy embraced by Omi Merchants, which means to bring happiness to three sides: being good for the seller, the buyer, and society. The Bank made the motto "Be tough on ourselves, kind to others and serve society" the starting point for Corporate Social Responsibility (CSR), making effort to realize mutual prosperity with the regional communities, all employees, and the environment as in the Bank's Management Principles. For the purposes of ensuring sustainable growth and improvement in corporate value for the Bank over the mid- and long-term, we will expand and constantly upgrade our corporate governance standards based on the following basic views.

- Respect shareholder rights and safeguard shareholder equality
- Cooperate appropriately with stakeholders
- Duly disclose information, including non-financial data, and ensure transparency and fairness of decision-making
- Create an environment for allowing appropriate levels of risk-taking by management team members
- Contribute to sustainable growth and the mid- and long-term improvement in corporate value, by prioritizing dialogue with shareholders

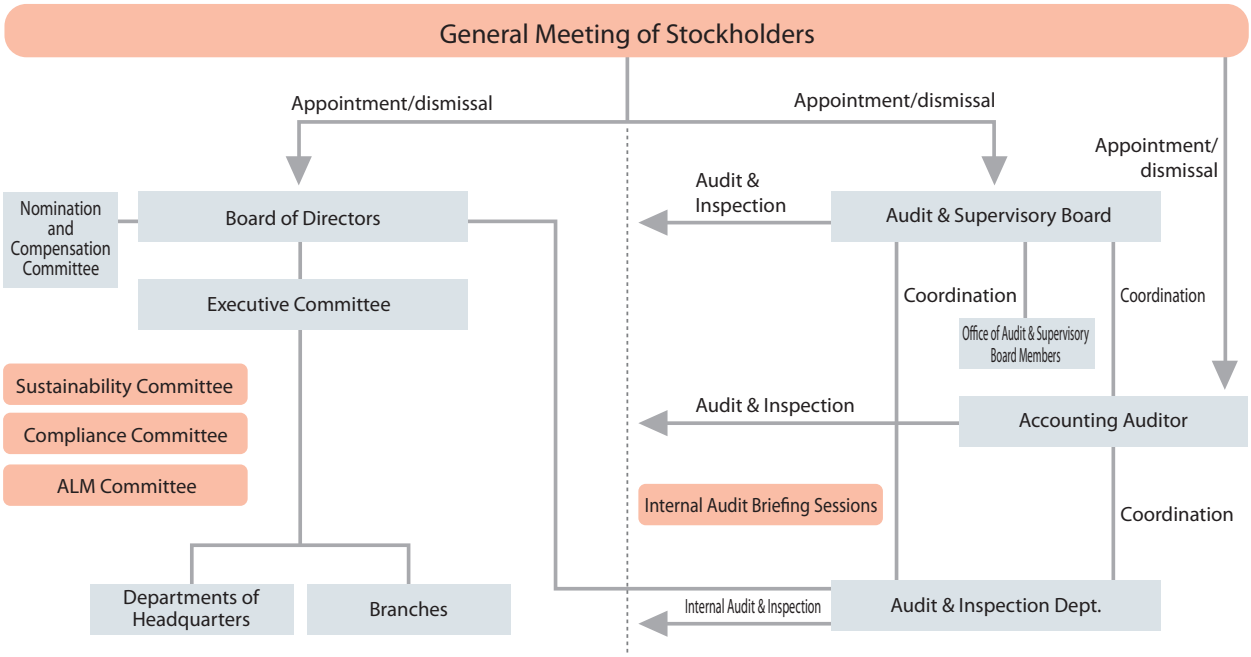
Overview of corporate governance system

The Bank has adopted the Audit & Supervisory Board system, under which the Board of Directors including Outside Directors supervise management and the Audit & Supervisory Board including Outside Audit & Supervisory Board Members checks the Board of Directors.

In terms of business operations, centered on the Executive Committee that is a decision-making body for business execution, the Compliance Committee and the ALM Committee have been established and the Audit & Supervisory Board Members monitor their operational status.

In December 2021, the "Nomination and Compensation Committee" was established as an Independent advisory body to the Board of Directors.

Shiga Bank's corporate governance system (as of June 30, 2023) is shown in the chart below.



1. Board of Directors

The Board of Directors, with nine members, including three from outside the Bank, meets once a month in principle. At the meetings, decisions are made on important business matters to conduct business. Audit & Supervisory Board Members attend all such meetings to monitor the performance of Directors. New matters of discussion were raised in December 2022, and since then essential and constructive ideas have been exchanged on important subjects such as management strategies and management issues.

Date of meeting	Main issues on the agenda	Attendance at meetings
April 22, 2022	**(Regular agenda items)** Matters concerning corporate accounting such as closing accounts Matters concerning important personnel affairs Matters concerning salaries and bonuses for employees Matters concerning management policy, business plan, and shares **(Agenda items of special note in the fiscal year)** Matters concerning dividend policy Matters concerning introduction of a restricted stock-based compensation system Matters concerning the 7th Medium-Term Business Plan Matters concerning the Flexsus Project Matters concerning prevention of misconduct recurrence **(Matters of discussion)** 8th Medium-Term Business Plan Human capital	Full attendance
May 13		(Same as above)
June 24		(Same as above)
July 28		(Same as above)
August 26		(Same as above)
September 21 (extraordinary)		(Same as above)
September 28		(Same as above)
October 21		(Same as above)
November 11		(Same as above)
December 16		(Same as above)
January 27, 2023		(Same as above)
February 22		(Same as above)
March 24		(Same as above)

2. Audit & Supervisory Board

The Audit & Supervisory Board, composed of four Audit & Supervisory Board Members including two from outside of the Bank, holds a meeting monthly in principle to resolve, discuss and report the important audit matters such as audit policies, audit plans, audit methods and division of audit duties.

Date of meeting	Main issues on the agenda	Attendance at meetings
April 22, 2022	**(Regular agenda items)** Matters concerning the development of audit plans by Audit & Supervisory Board Members Key contents of at meetings such as the Executive Committee and Internal Audit Briefing Sessions Status of execution of Accounting Auditor's duties (including Key Audit Matters) Matters concerning appointment or dismissal of Accounting Auditor Matters concerning audit reports prepared by Audit & Supervisory Board Members Matters concerning reports and recommendations provided by Audit & Supervisory Board Members to the President **(Agenda items of special note in the fiscal year)** Consent to a proposal for the election of an Audit & Supervisory Board Member Status of the discussion held to prevent recurrence of misconduct Matters concerning the Flexsus Project Status of credit risk (credit costs) management Status of management of the risk associated with diverse investment styles Matters concerning response to the revisions made to the IESBA Code of Ethics	Full attendance
May 12		(Same as above)
June 24		(Same as above)
July 28		(Same as above)
August 26		(Same as above)
September 28		(Same as above)
October 21		(Same as above)
October 21 (extraordinary)		(Same as above)
November 11		(Same as above)
December 16		(Same as above)
January 27, 2023		(Same as above)
February 22		(Same as above)
March 24		(Same as above)

3. Nomination and Compensation Committee

The Nomination and Compensation Committee consists of the Chairman, President, and Outside Directors (the majority of the members are Outside Directors). It deliberates matters concerning nomination and compensation upon requests from the Board of Directors, and provides advice and recommendations to the Board of Directors.

Date of meeting	Main issues on the agenda	Attendance at meetings
April 21, 2022	**(Matters concerning nomination)** Deliberation on candidates for Directors, Directors with specific titles, and Representative Director Deliberation on candidates for Audit & Supervisory Board Members and Substitute Audit & Supervisory Board Member Deliberation on positions at other companies concurrently held by Outside Directors Deliberation on requirements for successors and an information sheet of skills of Directors Deliberation on a way to complement skills Deliberation on a plan for successors (management personnel) **(Matters concerning compensation)** Deliberation on compensation for Directors Deliberation on introduction of a restricted stock compensation system	Full attendance
May 12		(Same as above)
June 23		(Same as above)
July 27		(Same as above)
September 27		(Same as above)
October 20		(Same as above)
November 10		(Same as above)
December 15		(Same as above)
January 26, 2023		(Same as above)
February 21		(Same as above)
March 23		(Same as above)

4. Executive Committee

The Executive Committee consists of the Chairman, President, Deputy President (currently vacant), 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, with Audit & Supervisory Board Members being in attendance. Important items related to the execution of business are submitted to the Board of Directors.

5. 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 systems are functioning properly, in accordance with annual internal audit plans approved each year by the Board of Directors. The internal Audit briefings are held as a rule once a month with the attendance of the management team including the President of the Bank, and hold discussions on reported audit findings and on the status, problem points and issues of departments and branches subject to auditing. This ensures that risk is minimized, administrative duties are carried out reliably and business management is appropriate.

Information is exchanged and coordination is ensured among three types of auditing (Audit & Supervisory Board Members, the Accounting Auditor, and the Audit & Inspection Department). Coordination with Outside Directors and Outside Audit & Supervisory Board Members is also provided to share perception of risks.

As an initiative to ensure the effectiveness of internal audits, rules have been established to ensure a direct reporting line to Audit & Supervisory Board Members. Moreover, a checking function performed by Audit & Supervisory Board Members has been stipulated to further enhance independence of the Audit & Inspection Department. In addition to continuous internal quality evaluations, the internal audit system receives external quality evaluations from third-party organizations to maintain and enhance the quality of internal audits.

6. Sustainability Committee

Chaired by the President, the Sustainability Committee discusses ESG (environment, social, governance) priorities and addresses social challenges for Shiga Bank Group from the medium to long term perspective to design the program to enhance sustainability of our communities, customers and the Group.

7. Compliance Committee

The Compliance Committee chaired by a Senior Managing Director and including the Audit & Supervisory Board Members as counselors focuses on internal risks in various issues and considers the issues comprehensively to ensure compliance with social norms, laws and regulations, and the Bank's internal rules for the purpose of contributing to execution of sincere and fair corporate activities.

8. ALM Committee

The ALM Committee chaired by the President is aimed at responding to comprehensive asset liability management (ALM) and contributing to an increase in stable earnings through the improvement of risk management. Through the "risk appetite framework" introduced by the Bank, the Committee determines a risk-taking policy based on risk profiling and discusses business strategy integrated with risk management.

9. Accounting Auditor

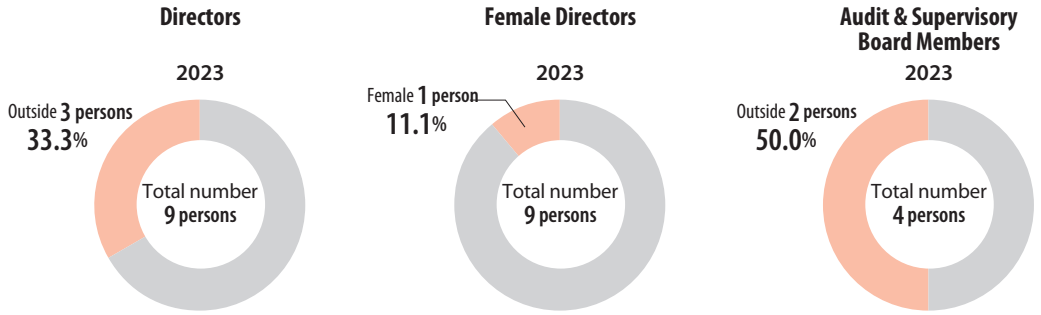
Deloitte Touche Tohmatsu LLC, with which the Bank concluded an audit agreement conducts audit as an accounting auditor.

Composition and skill matrix of the Board of Directors

Name		Expertise and Experience							
		Management Strategy	SDGs/ESG	Business Strategy	Market Operations	Risk Management	Financial Strategy/Assets & Liabilities Management	HR & Diversity	DX & ICT Strategy
Director	Shojiro Takahashi	●	●	●		●		●	
	Shinya Kubota	●	●				●	●	●
	Takahiro Saito	●	●	●		●	●		
	Katsuyoshi Horiuchi	●		●	●	●	●		
	Hidekazu Toda	●				●			●
	Yoshinori Endo		●	●		●			
Outside Director	Minako Takeuchi	●	●					●	●
	Rikiya Hattori	●		●		●			
	Sawaichiro Kamata	●			●	●			●

* This table does not show all of the skills possessed by each Board of Director.

Number of Officers and Ratio of Outside Officers



Independent Outside Officers

Name	Position	Reason for appointment	The rate of attendance at meetings of Board of Directors in fiscal 2022
Minako Takeuchi	Outside Director	She has a wealth of experience and a wide range of insight into overall management as a company manager. The Bank expects that she will utilize her experience and insight to supervise the management of the Bank from the independent viewpoint, while contributing to the sustainable growth of the Bank and higher corporate value.	13 out of 13 regular meetings of the Board of Directors (attendance ratio: 100%)
Rikiya Hattori	Outside Director	He has a wealth of experience and a wide range of insight into finance and corporate management as a Deputy President and a Deputy Chairman at Sumitomo Mitsui Trust Bank, Limited. The Bank expects that he will utilize his experience and insight to supervise the management of the Bank from the independent viewpoint, while contributing to the sustainable growth of the Bank and higher corporate value.	13 out of 13 regular meetings of the Board of Directors (attendance ratio: 100%)
Sawaichiro Kamata	Outside Director	He has a wealth of experience and a wide range of insight into finance accumulated at the Bank of Japan and the Japan Securities Dealers Association. The Bank expects that he will utilize his experience and insight to supervise the management of the Bank from the independent viewpoint, while contributing to the sustainable growth of the Bank and higher corporate value.	13 out of 13 regular meetings of the Board of Directors (attendance ratio: 100%)
Yasuhito Matsui	Outside Audit & Supervisory Board Member	The Bank expects that he will reflect in auditing the Bank his professional expertise and a wealth of experience as a lawyer involved in corporate legal affairs.	13 out of 13 regular meetings of the Board of Directors (attendance ratio: 100%)
Kazukiyo Onishi	Outside Audit & Supervisory Board Member	The Bank expects that he will reflect in auditing the Bank his high insight gained through experience as an auditor and other roles at private enterprises as well as involvement especially in public finance and tax administration at the Ministry of Finance.	13 out of 13 regular meetings of the Board of Directors (attendance ratio: 100%)

Evaluation of Effectiveness of the Bank's Board of Directors

The Board of Directors evaluates the effectiveness of the Board of Directors against the "Criteria for Evaluation of the Board of Directors" once a year.

Criteria for Evaluation of the Board of Directors

① Frequency with which the Board of Directors holds meetings
② The number of agenda items and contents thereof
③ The quality and quantity of materials used for deliberation
④ Reserved time for deliberation
⑤ Appropriateness of the conduct of proceedings

A survey on the overall effectiveness of the Board of Directors for fiscal 2022 was conducted through a questionnaire distributed to all the Directors and Audit & Supervisory Board Members. The questionnaire survey was conducted using a third-party external organization to ensure objectivity and transparency, and the Board of Directors conducted an evaluation as described below based on results of the survey.

From the results of the survey, the way of management of the Board of Directors and discussions that were held to improve sustainability were on the whole positively evaluated. For constructive discussion about important subjects such as management strategies and management issues, the Bank made efforts, including allowing a new period of time for discussion and exchanging ideas at the Board of Directors, to improve the effectiveness of the Board of Directors.

Consequently, it was confirmed that both decision-making and supervisory functions of the Board of Directors were properly fulfilled and the effectiveness of the Board of Directors remained largely in place. The Board of Directors shares the following challenge.

- Through the use of the new allowed period of discussion time and proper selection of agenda items, the Board of Directors will hold more constructive discussions in an effort to enhance corporate value for the Bank over the mid- to long-term.

Message from Outside Directors

Outside Director Minako Takeuchi

What do you think the role expected of you as an Outside Director is?

I think I have three major roles as an independent Outside Director. The first is to provide opinions and views that are difficult to express internally, governance-related critiques, experience from other industries, and so on. Opinions and views from a perspective based on a long-established corporate culture can at times be very homogeneous and down-to-earth, so I think they sometimes hinder the business growth and catch-up with needs in a diverse and greatly changing market.

The second is to promote lively discussions to improve corporate value while questioning the Bank's mid- to long-term vision. Internal views tend to be shortsighted, emphasizing short-term results and risks. Balance is important, but a key to improving the effectiveness of the Board of Directors is to routinely discuss mid- to long-term strategies and share the direction and issues. This enables you to share issues and information early on and refine measures to move in the direction you are aiming for.

The last is, speaking from my own area of expertise, to provide the Bank with some awareness by defining potential problems related to people, the organization, and organizational culture in agenda items and pointing out problems when necessary. Whether you are talking about carrying out mid- to long-term corporate strategies or reforming business models or business portfolios, it is people and organizations that support and embody it. Without that foundation, discussions remain inconclusive. I also think that being a company with a diverse group of people where each and every executive and regular employee works with dreams and a sense of fulfillment will be even more important also in terms of human resource strategies going forward. If you have the foundation to continue being company that values people, I believe you can continue to be company that earns the expectations and trust of local customers and stakeholders.

As an Outside Director, how are you involved in assessing our human capital initiatives, including recognition of issues?

I believe the Bank's human capital initiatives, in other words its human resource and organizational strategies, should be directly linked to its management strategy, of course. To put it another way, the key is to develop human resources that can realize the Bank's vision of becoming a Sustainability Design Company by the strengths of each and show the embodied vision in form of an organization to our customers. For a shift to that type of human resources, or problem-solution type human resources, we need to consider how to develop human resources with a more flexible way of thinking, the skills to discover problems faced by customers and society, and the ability to build solutions that meet customer needs while staying close to customers, and provide customers services that they accept and trust, and take concrete action.

Therefore, although the need to have a wide range of strength (or to learn and accumulate a large amount of knowledge and skills) remains unchanged, more important than that is how we build solutions by selecting and combining those knowledge and skills in line with changes in customers and society; in other words, we need to learn how to use our strength and refine our ability use it (i.e., player competency). And management needs to be trained on how to teach that, in other words to develop subordinates.

One thing we started last fiscal year to focus on this teaching skill, or management competency, and encourage the creation of an action learning program for managers to engage with and help subordinates grow and translate their development into organizational strength. This fiscal year we will accelerate this, so I hope that human resource development capabilities — a key human capital initiative — continue to improve. It should help us also improve employee engagement.

I believe that doing this will boost the capabilities of each employee, improve the quality of consulting, enable employees to experience and demonstrate self-growth (in the area of player competency), to contribute to the organization, community, and society, and enable visualization of true human capital initiatives in which each employee can feel a sense of fulfillment and accomplishment.

Outside Director Rikiya Hattori

What have you been doing as an Outside Director to improve the effectiveness of the Board of Directors?

Article 15 of the Bank's Corporate Governance Guidelines specifies the role of the Board of Directors, and I verify that each item is being carried out effectively in the annual evaluation of effectiveness of the Board of Directors. The main items to verify include: (1) size and composition of the Board of Directors, (2) operation of the Board of Directors, (3) relationship with shareholders and investors, and (4) discussions within the Board of Directors. In fiscal 2022, the Bank outsourced the evaluation to an external third party. According to the results, the method of operation of the Board of Directors and discussions on improving sustainability were evaluated positively. In regard to the enhanced discussion about important topics such as management strategies and management issues that was an issue previously, this fiscal year we engaged in further efforts to improve the effectiveness of the Board of Directors such as setting a new period of time for discussion to exchange ideas at the Board of Directors. Thanks to these efforts, the Board was evaluated to be operating properly overall.

An issue to tackle going forward is identifying more themes and conducting deep dives in regard to key issues. Possible themes include: (1) having to change the business model in response the rapidly changing environment surrounding regional banks, (2) the difficulty of securing diverse and outstanding human resources due to increased job mobility, (3) the need to take bold risks and effectively use capital due to the advancement of risk management, (4) cultivating a corporate culture that can manage a wide range of compliance-related issues, and (5) the need to transform into a culture that enables free and frank exchange of opinions and discussion. I firmly believe that it is the role and duty of the Board of Directors to thoroughly discuss these themes from a variety of angles and ensure their implementation.

The Bank established the Nomination and Compensation Committee in December 2021, but what is your evaluation, including recognition of issues, of the Committee's efforts for the year?

The Bank's Nomination and Compensation Committee discussed how the officer portfolio should be built considering the environment surrounding the Bank. Next I think we need to discuss ideal human resources and the human resource portfolio, which includes both officers and employees, from the perspective of enhancing human capital in a broad sense. Specific topics for examination include: (1) qualification requirements for successors, (2) skill sheets, (3) officer's compensation system, and (4) current conditions and future challenges in human resources including employees.

First, in regard to (1) and (2), although we spent a considerable amount of time discussing skills and competencies to enable agile response in a rapidly changing environment, we intend to continue refining. The composition of officers often tend to be made up of the same type of people, but we are striving to build a human resource portfolio that is diverse and complementary as an organization. These skills and competencies apply not only to the top management and Directors, but also executive officers and those in positions under them, and I hope they can be also utilized for developing human resources needed to build the future human resource portfolio. I think (3) needs to be revised going forward. The key to do this is to quantitatively and qualitatively define the targets related to the roles and responsibilities of Directors, executive officers, and positions equal to or above General Manager, and evaluate the results. Although there are issues that first need to be resolved such as reexamining the organization and refining revenue management, I look forward to pushing ahead. Lastly, in regard to (4), the business model requires diverse human resources. It is important for us to use both general people with a wide range of skills and also experts who excel in specific areas in various situations, so I would also like to discuss the development of human resources and their organization.

As a company that is supported and recognized by customers, I want the Bank to develop human resources and build an organization where employees work with a sense of fulfillment.

Outside Director **Sawaichiro Kamata**

What have you been doing as an Outside Director to improve corporate value?

Although the banking industry is a regulated industry that must have a certain amount of equity capital, the need to efficiently use capital and increase market evaluation to help enhance corporate value is just the same as with any other industry. The best way to do this is by continuously increasing profit. From this perspective, I have been working to contribute to developing the right strategies and ensuring they are executed through the Board of Directors and other means.

The revenue environment of banks is becoming more challenging due to the decrease in the growth potential of the Japanese economy and decline in capital requirements of companies. In addition to the conventional business model of earning revenue with interest earned on loans, we also need to diversify sources of revenue such as operating a fee-based business. Business regulations have been relaxed recently, and our corporate value is likely to change significantly in the next 10 years depending on how well we can make use of it. To do this I believe we need to change the organizational culture of the Bank in the following two ways.

The first is to create a culture of taking on challenges. New business models are generated only by challenges. In the past, practicing sound management has been the Bank's foundation, but going forward we need the courage to leap forward into unprecedented territory. The Bank boasts high soundness indicators and its risk management capabilities have an established reputation. This suggests that there is more room to take risks.

The second is to create a culture of leveraging collective intelligence. Going forward it will be crucial to gather, compare, and examine the wisdom and innovative ideas of many instead of only having a small number of people at the headquarters formulate strategies. A culture of *waigaya* (open, frank discussion), where everyone, whether it be the headquarters or a branch, can make proposals and express opinions will be essential.

I share this with everyone in the Bank whenever I have the opportunity and strive to practice it myself.

What is your assessment, including issues, and thoughts about the future development of the Bank's role and efforts in the regional revitalization?

Growth of the regional community is essential for increasing the Bank's revenue. The Bank cannot increase profit on its own if the region does not grow. Regional revitalization goes beyond the category of regional contribution, and we should tackle it with the understanding that it is a pressing issue that has to do with our own survival.

This region has only a gradual population decline and boasts many manufacturing giants, so housing demand, employment, and consumption are steady. But it is important to actively work to maintain and develop this advantageous external environment for the future instead of just accepting it passively.

For example, we need to be involved in community development to ensure the influx of younger generations do not stop and it continues to be an easy place for the elderly to live. Another issue is boosting the capabilities of local companies to enhance connections with companies that have expanded into the region through parts supply and other businesses. Also important are fostering industry that has consolidated knowledge and high added value, stimulating the emergence of more national and listed companies from Shiga Prefecture, and utilizing IT to improve the efficiency of the entire region including SMEs. There is great potential in taking advantage of in-bound demand by allowing travelers to discover appealing regional resources like Lake Biwa.

The Bank has worked to create new businesses through means such as Saturday School for Entrepreneurship and the Shigagin Regional Revitalization SD Fund, and provided support to local companies with various types of consulting such as business succession, M&As, human resources placement, SDGs, and decarbonization. We also contribute to increasing the appeal of the regional community through regional contribution activities like environmental conservation efforts. We must maintain and develop such efforts, and further collaborations with local governments.

Regional revitalization is the field that requires the ability to design sustainability advocated by the Bank, and it is a real pleasure to work for a regional financial institution.

Directors and Executive Officers

(As of June 27, 2023)

Directors

Chairman Shojiro Takahashi

April 1979 Joined the Bank
June 2006 General Manager of Business Promotion Dept.
June 2008 Director and General Manager of Business Promotion Dept.
June 2009 Director and General Manager of Kyoto Branch
June 2011 Managing Director
June 2014 Senior Managing Director
June 2015 Deputy President
April 2016 President
June 2023 Chairman (current position)

President & CEO Shinya Kubota

April 1986 Joined the Bank
June 2015 General Manager of General Planning Dept.
June 2017 Director and General Manager of General Planning Dept.
June 2018 Managing Director
June 2020 Senior Managing Director
June 2023 President (current position)

Senior Managing Director & CRO & CCO Takahiro Saito

April 1983 Joined the Bank
February 2014 General Manager of Credit Supervision Dept.
June 2014 Director and General Manager of Credit Supervision Dept.
June 2017 Managing Director
June 2023 Senior Managing Director (current position)

Managing Director & CFO Katsuyoshi Horiuchi

April 1987 Joined the Bank
June 2014 General Manager of Risk Supervisory Dept.
June 2017 Executive Officer and General Manager of Business Promotion Dept.
June 2019 Director and General Manager of Kyoto Branch
June 2021 Managing Director and General Manager of Financial Markets & International Dept.
February 2022 Managing Director (current position)

Managing Director & CIO Hidekazu Toda

April 1990 Joined the Bank
June 2020 Executive Officer and General Manager of Administration Dept.
June 2021 Managing Executive Officer and General Manager of Administration Dept.
June 2023 Managing Director (current position)

Managing Director Yoshinori Endo

April 1991 Joined the Bank
June 2019 General Manager of General Affairs Dept.
June 2020 Executive Officer and General Manager of General Affairs Dept.
June 2021 Managing Executive Officer and General Manager of Kyoto Branch
June 2023 Managing Director (current position)

Outside Director Minako Takeuchi

April 1983 Joined NEC Corporation
December 2002 Retired from NEC Corporation
January 2003 Joined Stanton Chase International
June 2013 Retired from Stanton Chase International
August 2013 Representative Director, TM Future Corporation (current position)
June 2019 Outside Director, the Bank (current position)
June 2020 Outside Director, Nihon M&A Center Inc. (currently Nihon M&A Center Holdings Inc.) (current position)
June 2022 Outside Director, Mitsubishi Steel Mfg. Co., Ltd. (current position)

Outside Director Sawaichiro Kamata

April 1984 Joined Bank of Japan
July 2012 General Manager of Kyoto Branch, Bank of Japan
June 2015 Retired from Bank of Japan
July 2015 Senior Advisor of Policy Making Headquarters, Japan Securities Dealers Association
July 2017 Joint General Manager of Administration Headquarters (Chief Information Officer and Chief Risk Officer), Japan Securities Dealers Association
June 2021 Retired from Japan Securities Dealers Association
June 2021 Outside Director, the Bank (current position)

Outside Director Rikiya Hattori

April 1978 Joined Sumitomo Trust & Banking Co. Ltd. (currently Sumitomo Mitsui Trust Bank, Limited)
April 2012 Director, Senior Managing Executive Officer, Sumitomo Mitsui Trust Bank, Limited
April 2013 Deputy President Executive Officer, Sumitomo Mitsui Trust Holdings, Inc.
Deputy President, Sumitomo Mitsui Trust Bank, Limited
June 2015 Deputy President, Sumitomo Mitsui Trust Holdings, Inc.
April 2017 Director, Sumitomo Mitsui Trust Holdings, Inc.
Deputy Chairman, Sumitomo Mitsui Trust Bank, Limited
June 2017 Retired as Director, Sumitomo Mitsui Trust Holdings, Inc.
April 2018 Executive Advisor, Sumitomo Mitsui Trust Bank, Limited
Chairman, Sumitomo Mitsui Trust Panasonic Finance Co., Ltd.
June 2018 Corporate Auditor, Sumitomo Densetsu Co., Ltd.
March 2020 Retired as Executive Advisor, Sumitomo Mitsui Trust Bank, Limited
June 2020 Outside Director, the Bank (current position)
February 2021 Retired as Chairman, Sumitomo Mitsui Trust Panasonic Finance Co., Ltd.
June 2021 Retired as Outside Auditor, Sumitomo Densetsu Co., Ltd.
June 2021 Outside Director, Sumitomo Densetsu Co., Ltd. (current position)

Audit & Supervisory Board Members

Full-time Audit & Supervisory Board Member
Yasunaga Ono

April 1983 Joined the Bank
June 2013 General Manager of Business Promotion Dept.
June 2014 Director and General Manager of Business Promotion Dept.
June 2015 Managing Director
June 2020 Full-time Audit & Supervisory Board Member (current position)

Full-time Audit & Supervisory Board Member
Hideki Sugie

April 1985 Joined the Bank
June 2012 Secretarial, Secretariat
June 2016 Retired from the Bank
June 2016 Managing Director, Biwako Broadcasting Co., Ltd.
March 2022 Retired as Managing Director, Biwako Broadcasting Co., Ltd.
April 2022 Deputy Director-General, the Bank
June 2022 Full-time Audit & Supervisory Board Member (current position)

Outside Audit & Supervisory Board Member
Yasuhito Matsui

April 2000 Registered as a Lawyer
April 2000 Joined Karasuma Law Office
January 2005 Registered as a lawyer in New York State
April 2005 Resigned from Karasuma Law Office
May 2005 Joined Miyake & Partners
May 2009 Appointed Partner, Miyake & Partners
May 2012 Registered as a Patent Attorney
June 2017 Outside Audit & Supervisory Board Member, the Bank (current position)
January 2019 Retired from Miyake & Partners
February 2019 Partner, Nishikibashi Partners LPC (current position)

Outside Audit & Supervisory Board Member
Kazukiyo Onishi

April 1980 Joined the Ministry of Finance
July 2014 Director-General of Yokohama Customs, Ministry of Finance
July 2015 Retired from the Ministry of Finance
October 2015 Advisor, Aioi Nissay Dowa Insurance Co., Ltd.
June 2016 Retired as Advisor, Aioi Nissay Dowa Insurance Co., Ltd.
June 2016 Audit & Supervisory Board Member, Takasago International Corporation
June 2020 Retired as Audit & Supervisory Board Member, Takasago International Corporation
June 2020 Outside Audit & Supervisory Board Member, the Bank (current position)

Executive Officers

Nobuyuki Tanaka

Managing Executive Officer and General Manager of Audit & Inspection Dept.

Hiroyoshi Inoue

Managing Executive Officer and General Manager of Credit Supervision Dept.

Kazuaki Kataoka

Managing Executive Officer and General Manager of Kyoto Branch

Isokazu Yamamoto

Managing Executive Officer and General Manager of Head Office Business Dept.

Yasuhiko Nakamura

Executive Officer and General Manager of Financial Markets & International Dept.

Tomohito Takatsu

Executive Officer and General Manager of Computer System Dept.

Hidetoshi Oshima

Executive Officer, General Manager of Tokyo Branch and Counselor for Financial Markets & International Dept.

Kengo Matsunaka

Executive Officer and General Manager of Risk Supervisory Dept.

Stakeholder engagement

The Shiga Bank strives to offer better value by recognizing various issues through engagement with stakeholders, including our customers, communities, shareholders, and the officers and employees, and pursuing initiatives to resolve such issues. We aim for sustainable development of the local community and enhancement of corporate value by sincerely listening to opinions from stakeholders and utilizing the opinions for better management.

We value transparent and speedy disclosure of information so that stakeholders can appropriately make decisions on dealings with the Shiga Bank Group and investment in the Bank's shares.

Communication with customers

We improve the quality of products and services by evaluating the opinions and requests from our customers via such cannels as questionnaires or Customer Consultation Office.

Services launched to reflect the voice of customers

- ATMs that support passbook renewals
- Alliances with other financial institutes (The Senshu Ikeda Bank, Kansai Mirai Bank, etc.) to make Shiga Bank's and its partners' ATMs available free of charge
- Communication assistance board, board communication by writing, etc.

Meanwhile, the deep dialogue through our consulting service helps to solve the customer's issues.

Communication channel
Via questionnaires, Customer Consultation Office, Ratings Communication Service, and ESG assessment system

Communication with communities

We contribute to a more vibrant region by solving social issues through engagement with local communities, responding to potential needs and promoting regional branding toward the achievement of a sustainable society.

Officers and employees in the Shiga Bank Group actively take part in regional volunteer activities to value relationships with local communities. In addition, in response to requests from schools in local communities, we provide education on SDGs and finance to help children to improve their SDGs and financial literacy.

Communication channel
Kakehashi, a general information magazine for the region, Shigagin Welfare Fund, participation in various civil activities, local economic associations, culture business and sports promotion, and local gatherings

Communication with employees

We respect human rights, support diverse work styles and put in place a career support system toward self-realization so that each and every officer and employee in the Shiga Bank Group can display their maximum capabilities feeling high job satisfaction.

With "full participation of every officer and employee" as one of themes, we plan to have a commemorative project in which everyone can participate in a responsible way in October 2023, which marks the 90th anniversary of the founding of the Bank.

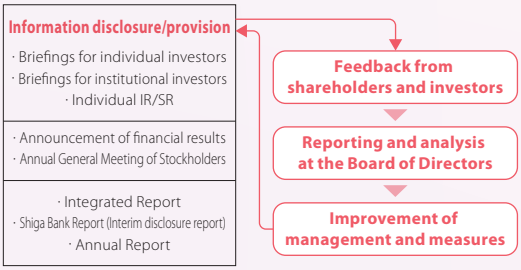
The Bank is seeking to enlarge communication opportunities in the Group including the management team, especially by setting up a place for the management team and employees to communicate interactively, such as through plans in its in-house journals.

Communication channel
Discussion program; one-on-one meetings; Diversity Promotion Committee; human resources recruitment system; internal reporting system; proposal system; in-house journals; multi-degree feedback, etc.

Communication with shareholders and investors

We work to conduct constructive dialogues with shareholders and investors and disclose corporation and management information transparently for sustainable growth and corporate value enhancement. We are seeking to enhance provided information. In fiscal 2023, we have arranged briefings for institutional investors and individual investors respectively, using online streaming at the briefings for institutional investors.

Communication channel
Announcement of financial results; General Meeting of Stockholders; Financial results briefings for the investors; Integrated Report/Annual Report; Report on the business, etc.



Communication with the global environment

We will strive to create a society where children who will lead the next generation can live with peace of mind by discussing how to cope with environmental issues such as climate change and crises to regional resources and ecosystems with external parties and conducting direct and indirect activities through volunteering and our main business. The Bank, which is headquartered next to Lake Biwa, conducts "Ikimonogatari" (Tales of Life) activities, environmental volunteering (see Page 28), to protect biodiversity in Lake Biwa and help its employees to improve their environmental literacy.

Communication channel
Environmental volunteering: "Ikimonogatari" (Tales of Life) activities, participation in and dialogue with various initiatives, lectures on SDGs and the environment, disclosure of environmental accounting, environmental management organizations, etc.

Communication with administrative and educational bodies, NPO/NGO, etc.

We realize high-quality solutions by linking new research ideas with local needs through our partnerships with administrative agencies and experts. We are enhancing cooperation with the Prefecture and municipalities through initiatives for decarbonization and digitalization in an effort to make the regional communities sustainable.

Communication channel
Relationship with regulatory authorities; joint projects and dialogues among industry, academia, government and finance

Risk Management

Basic views

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

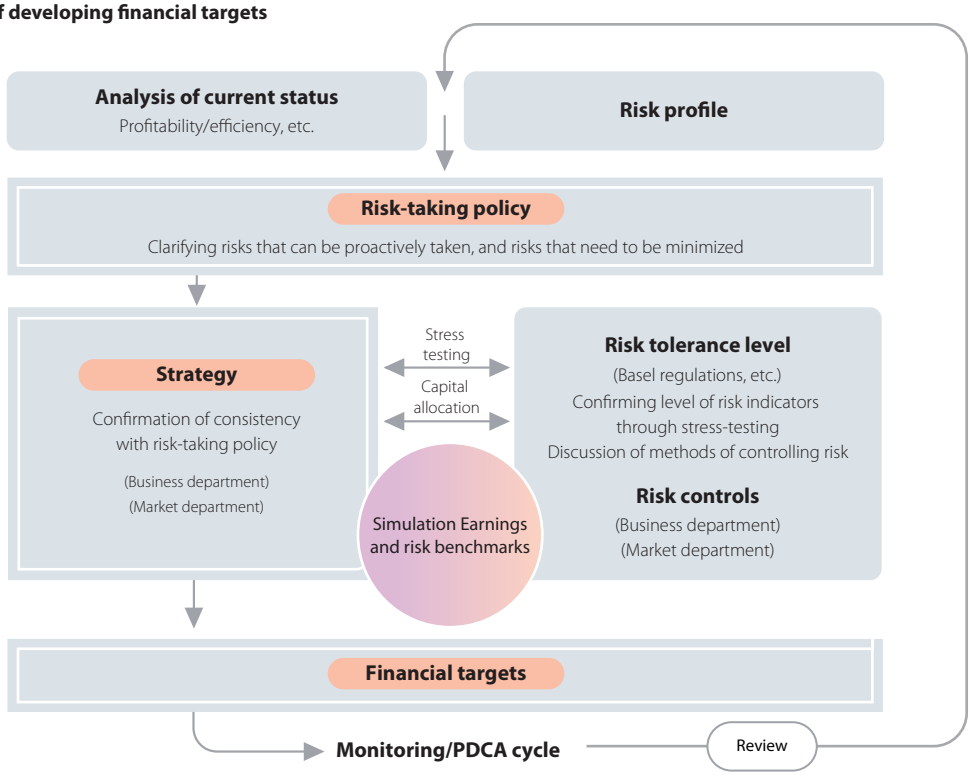
We are building Internal Rating System and Comprehensive Risk Management System in order to accurately assess and control risk using rational criteria without undue reliance on personal intuition or experience. We have also introduced a "Risk Appetite Framework" that will incorporate business strategy in an integrated risk management model in order to ensure continuous profitability based on reasonable risk-taking.

Risk Appetite Framework (RAF)

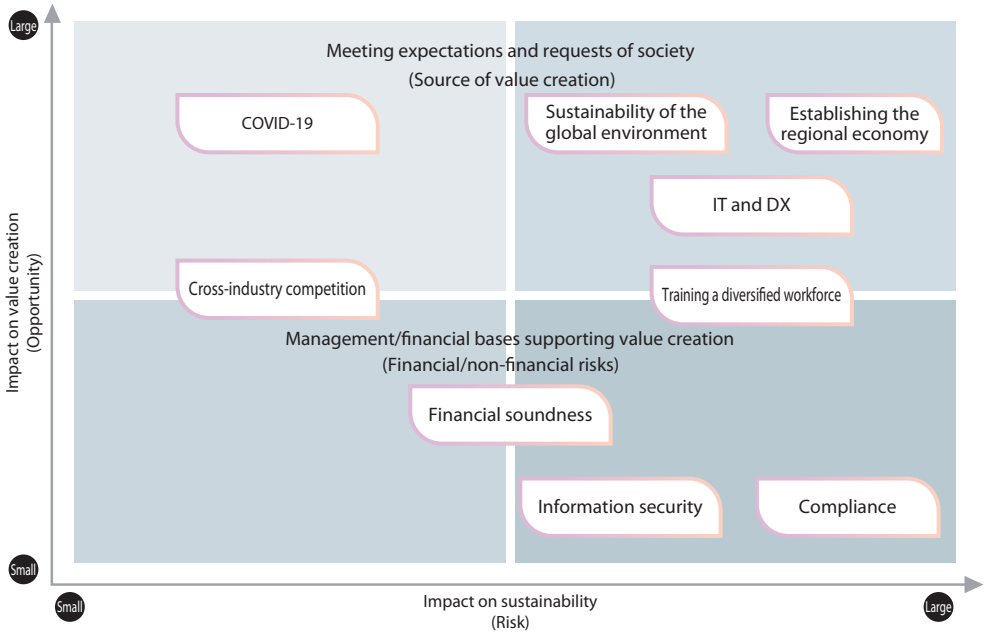
The "Risk Appetite Framework" refers to frameworks for business and risk management that enable clarification of risk by type and level that the Bank is prepared to take on, as well as sharing and monitoring of it for the purposes of accomplishing business strategy and financial targets.

Regarding the formulation of financial targets, the Bank 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 based on the strategy, and sets target earnings and risk benchmarks. In addition, we assume several highly probable scenarios from a forward-looking perspective and verify the effects of the scenarios on financial targets. 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. 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



Also from a sustainability point of view, we consider events that may significantly affect corporate value over the medium to long term as "Risks and Opportunities." We take necessary measures in advance to minimize risks through the "Risk Appetite Framework," while the management team members discuss and share risks we should take on.



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.

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 level of 99% and a holding period of one year in its internal management.

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" integrated with the financial plan are instituted semiannually at the Board of Directors' meeting after clarifying "risk appetite" in light of the Bank's strategic goals and risk status. Since the management of risks such as those associated with compliance and anti-money laundering is becoming increasingly important, the Bank is strengthening its management system such as establishing a separate committee.

These statuses of risk and return are properly managed by having it reported to management through each 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.

Based on the above, the Bank's Risk supervisory division comprehensively identifies and manages all risks. Additionally, the Bank conducts its business operations so as to control risk within the scope of own capital with an integrative risk management system (the capital allocation system and internal capital adequacy assessment process) which measures and manages various types of risk using such integrated yardsticks as the (maximum) Value at Risk (VaR) formula.

Capital allocation system

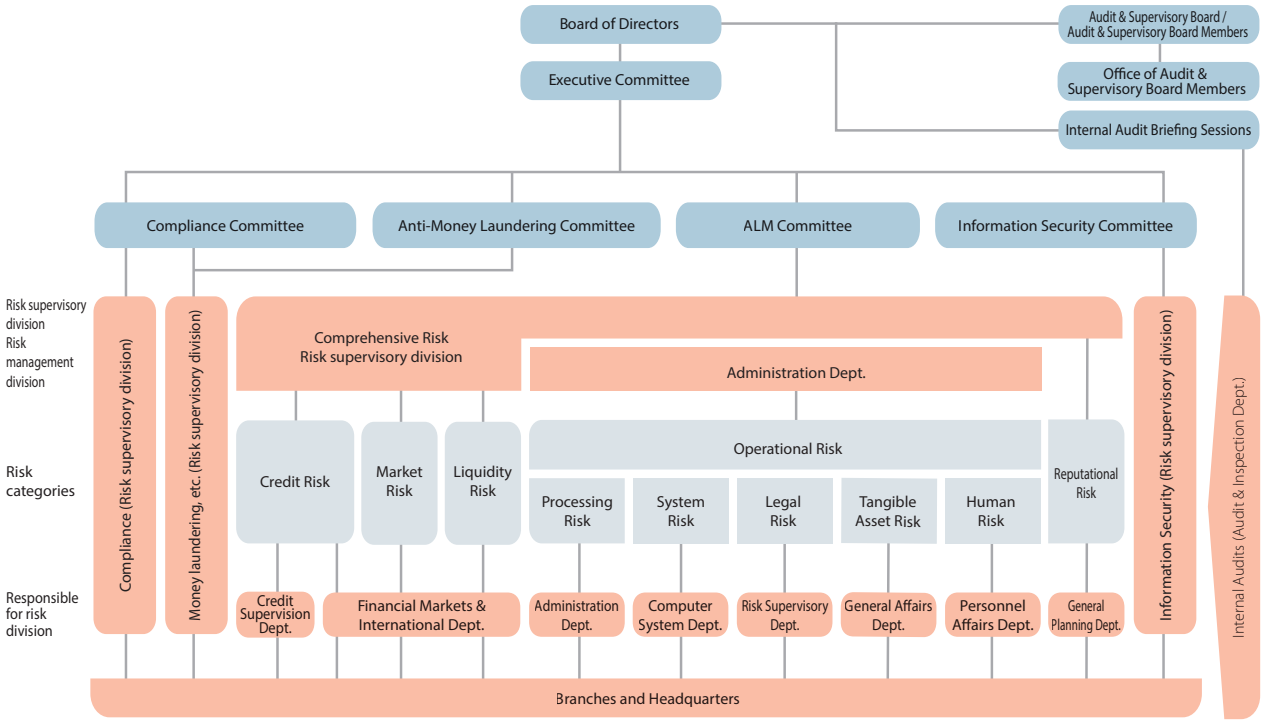
The Bank allocates its own capital to risk generated by holding financial products such as loans, securities and deposits (credit risk, market risk, etc.) and risk generated from operational execution (operational risk, etc.) by business division and risk category.

Specifically, the Bank controls risk by keeping it within the specified ratio to both regulatory capital (own capital needed to satisfy capital adequacy regulations) and 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 price change risk in investments in securities by keeping it within a specified range.

Internal capital adequacy assessment process (stress test)

To ensure the present and future soundness of the Bank, we assess its own capital adequacy under stress events such as deterioration in gain or loss on valuation of securities due to an increase in credit costs in a recession period and a rapid change in the financial market, in light of changes in the external environment and the risk profile of the Bank.

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 degree of impact, the Bank believes that establishing a management system for credit risk, which accounts for the majority of risk, and rationally controlling the risk are essential for "Co-existence and Co-prosperity". Based on this view, the Bank introduced its own "Corporate Credit Ratings System" and has endeavored to improve its credit risk management.

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, 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 for sustainable growth 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 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. Also, we control the credit portfolio appropriately to avoid excess credit concentration on large customers and specific sectors and are 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.

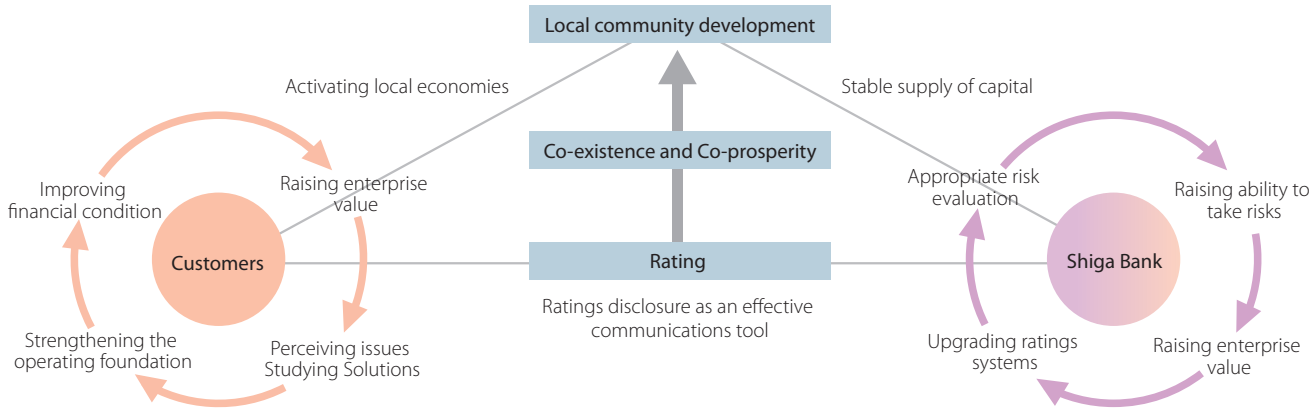
For organizational aspects, the credit risk control unit independent of the business promotion and credit supervision units has designed a self-assessment system of credit ratings and conducted various verification to check the operations of the others and build a solid operation system.

The Significance and Purpose of the Corporate Credit Rating System

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 internal ratings system is ultimately a tool for pursuing mutual prosperity with the regional communities, the Bank recognizes that the building of a solid internal ratings system is essential for consistent implementation of the responsible management model.

From this viewpoint, the Bank, in adopting Basel II in March 2007, has selected the Foundation Internal Ratings Based-Approach (FIRB). Under an environment where financial transactions are increasingly diversified and sophisticated, the Bank 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 the regional communities, through its main business.



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.

The Bank strives to secure stable revenues by controlling market risks within a certain range.

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.

For the market risks 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 such risks do 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 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 and 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.

Liquidity risk is viewed as a fundamental risk faced by the Bank. We take measures to ensure accurate understanding of fundraising 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 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 Risk supervisory division 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 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 disasters.

The Bank has formulated the Operational Risk Management Rules, divided operational risk into five kinds of risk: (i) processing risk, (ii) system 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.

In response to cyber-attacks, which are a growing concern in the digital society, we have created a cross-departmental team in the Bank (the Shigagin 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.

*CSIRT: Computer Security Incident Response Team

Management systems for system risk and cybersecurity

The Bank has established management systems for system risk*1 and cybersecurity*2 to operate financial services safely and stably and protect customers' valuable assets from cyber-attacks, concerns over which are increasing in a digital society.

As for system risk, we work to prevent recurrence of any system failure which occurred by analyzing the cause(s) and using the result in improving the development and operation of the system. In addition, we conduct self-assessment of system risks to prevent system failures from occurring, whereby identifying latent risks in systems and taking measures against them. Through these measures, we strive to mitigate system risk.

As for cybersecurity, the Bank has deployed antivirus software and receives monitoring of telecommunication, etc. through services of external parties. The Bank takes actions against cyberattacks with the cross-departmental team "Shigagin CSIRT" playing a central role, and has been preparing for emergency by conducting drills to counter cyberattacks and improving its contingency plan*3. We strive to improve literacy of officers and employees by conducting drills for targeted email attacks and providing security education on a periodic basis.

A system has been in place in which the status of system risk and cybersecurity is reported to the Management Meeting regularly to enable appropriate management decision-making.

Through these measures, we strive to realize digitalization in a safe and reliable manner.

*1 Risk that customers and/or the Bank suffers loss due to a system failure, etc.
*2 A state in which safety control measures for digital information and information systems (prevention of leakage, etc.) have been in place and a fact that the state is appropriately maintained and managed
*3 An emergency response plan. Predetermined procedures to cope with such events as disasters and accidents

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 Risk Supervisory Dept., 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

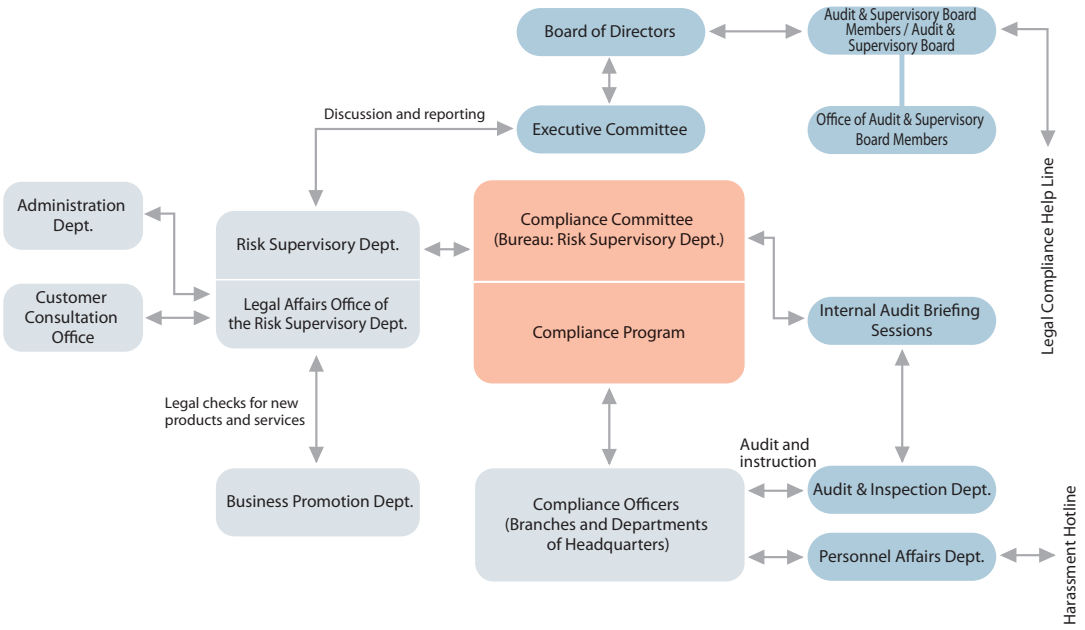
The Bank has stipulated the Code of Conduct based on the CSR Charter, our Management Principles. In order to comply with them and to thoroughly comply with laws and regulations, the Board of Directors formulates a Compliance Program every fiscal year, after deliberation by the Legal Compliance Committee. In addition, we strive to raise the awareness of employees by conducting training at all departments, branches and affiliates, as well as implementing monitoring to prevent recurrence of misconduct. Moreover, the PDCA cycle is continuously implemented through monitoring of the implementation status of the above program by the Legal Affairs Office of the Risk supervisory division, and reporting to the Legal Compliance Committee and the Board of Directors.

Each department and branch has its "Compliance Officer" in place who works to maintain and improve the legal compliance system in cooperation with the Legal Affairs Office of the Risk supervisory division.

Whistle-blowing system established

In order to promote compliance management, we have established internal and external whistle-blowing hotlines (the Legal Compliance Help Line and the Harassment Hotline) for all officers and employees of the Group 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. In addition, the Bank stipulates matters such as confidentiality of whistleblower information and prohibition of disadvantageous treatment of whistleblowers in its internal regulations, and thereby works to build and operate an effective whistle-blowing system.

Legal compliance system



Outline of misconduct and recurrence prevention measures

We deeply apologize for all the inconveniences and concern caused to our customers and parties involved by a case of fraud, announced by the Bank on September 22, 2022, where a former employee of the Bank embezzled money from his customers.

Since the detection of the case, the audit offices of the Bank has investigated all the branches and checked whether similar embezzlement or fraud is found in transactions that have been handled by customer relations personnel at the Bank for their customers, as well as by the former employee for his customers, and the Bank has taken measures to prevent recurrence.

Initiatives to prevent recurrence

We have developed recurrence prevention measures in terms of the fraud triangle "opportunity, incentive, and rationalization."

We have formulated rules or a mechanism by which "opportunities" for committing a fraud are not given by taking measures such as prohibiting, as a rule, personnel in charge of customers relations from delivering cash to customers and a superior of a customers relations person alone visiting or phoning the person's customer to check. However, it is difficult to completely prevent recurrence only with measures against the provision of opportunities. Since financial problems that the person in question was faced with created an "incentive" in this fraud case, we will foster a culture where each employees can discuss their personal troubles including financial worries ordinarily. We will strive to foster each employee's awareness of compliance and create an organizational culture that allows a proper checking function to be fulfilled to discourage our employee from "rationalizing" his or her inappropriate behavior.

	Cause/Problem points	Outline of key recurrence prevention measures
Opportunities	Customers relations personnel handing cash are insufficiently checked and monitored	• Prohibiting, as a rule, personnel in charge of customers relations from delivering cash to customers • A superior of a customers relations person alone visiting the person's customer
Incentive	An employee who faces financial problems is insufficiently grasped and checked	Fostering a culture where each employee can discuss their personal troubles including financial worries ordinarily, with the aim of "detecting an employee in dire financial straits early and relieving the employee"
Rationalization	Awareness of compliance is insufficiently fostered	Redefining "Compliance = Doing right duly" and making it thoroughly known through means such as compliance training to foster each employee's awareness of compliance and create an organizational culture that allows a proper checking function to be fulfilled

Measures to eliminate anti-social forces

The Bank takes active measures to eliminate anti-social forces, specifying an "anti-social forces elimination clause" to the Ordinary Deposit Regulations and other rules together with establishing the "Shiga Bank Anti-social Forces Elimination Regulations."

Measures against money laundering

In recent years, countermeasures against anti-money laundering, terrorism financing, and proliferation financing (hereinafter referred to as the "money laundering") are becoming increasingly important. The Bank is taking countermeasures to effectively prevent more complex and sophisticated form of money laundering by cooperating with related authorities.

The Financial Services Agency announced the "Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism" that clarify basic approaches of effective measures against the money laundering taken by financial institutions.

Under the guidelines, banks and other financial institutions are required to additionally confirm more items than required by the Act on Prevention of Transfer of Criminal Proceeds, depending on details and conditions of customer transactions, in addition to items required by the said Act and other laws.

The Bank's main efforts

- In July 2018, the "Project team for Anti-money Laundering and Financing of Terrorism was launched to promote cross-organizational efforts.
- In January 2019, the "Anti-Money Laundering Office" was established and installed as a specialized supervisory organization to strengthen the anti-money laundering system in the Risk Supervisory Dept
- In April 2020, the Bank introduced the system to detect illegal transactions involving money laundering, etc.
- In October 2020, the system for evaluating and determining the degree of the risk of money laundering, etc. based on our bank's standards, and information that meets certain conditions were extracted. Our bank introduced the system to record transaction response and collected information.
- In January 2021, the Bank began regularly updating customer information with the "Customer Information Confirmation Letter."
- In March 2021, the Bank began running newspaper advertisements about the "Confirming Customer Information."
- In December 2021, "The Anti-Money Laundering, Terrorist Financing and Proliferation Financing Policy" was revised.
- In March 2022, we launched a banner advertisement displayed on our bank ATM screen asking customers for their cooperation in "Customer Information Confirmation."
- In February 2023, the Bank began training for all employees to retain knowledge about anti-money laundering operations and foster their awareness of such operations.
- In April 2023, the Bank established the "Anti-Money Laundering Committee" to make cross-organizational efforts undertaken for measures against money laundering permanent.

In addition to enhancing various training programs and encouraging officers and employees to acquire related qualifications, the Bank is proceeding with measures one by one to reduce its money laundering and other risks based on risk evaluation report.

Continuous customer management system

The Bank is pursuing initiatives to update customer information to prevent unauthorized use and other forms of misuse of customers' bank accounts by a third party. Through these efforts, the Bank strives to strengthen its management system for the measures against money laundering and allow customers to use the Bank's products and services including bank accounts in a safe and reliable manner.

- Send the "Customer Information Confirmation Letter" by mail
- Update customer information at the Bank's branches, etc.

Special fraud prevention system

In order to protect customers' important deposits from "special fraud," which has become a social problem, and to ensure that customers receive our services with peace of mind, we offer a variety of services. We are working on it.

The Bank's main efforts

- In the Bank's branches and at ATM corners, employees call out to customers and pay attention to their facial expressions, behavior carefully.
- Posting of alerts on the Bank's website
- Adoption of the "Cashier's Check Plan"
- Restrictions on some ATM transfer functions
- Strengthening cooperation with police and related organizations (holding study sessions, distribution of fraud alert flyers, use of automated calls, etc.)
- Conducting internal training programs
- Conducting lectured at each branch

System for managing conflict of interest

"Managing conflict of interest" refers to appropriately managing transactions that may cause a conflict of interest in order not to harm interests of customers unfairly as increasingly sophisticated financial transactions more likely lead to a conflict of interest between customers and financial institutions.

The Bank executes its business not to harm interests of customers unfairly, concerning transactions that may cause a conflict of interest "between a customer and the Bank or its affiliate" and "between customers of the Bank and its affiliates," in accordance with laws and regulations.

Personal information protection and management

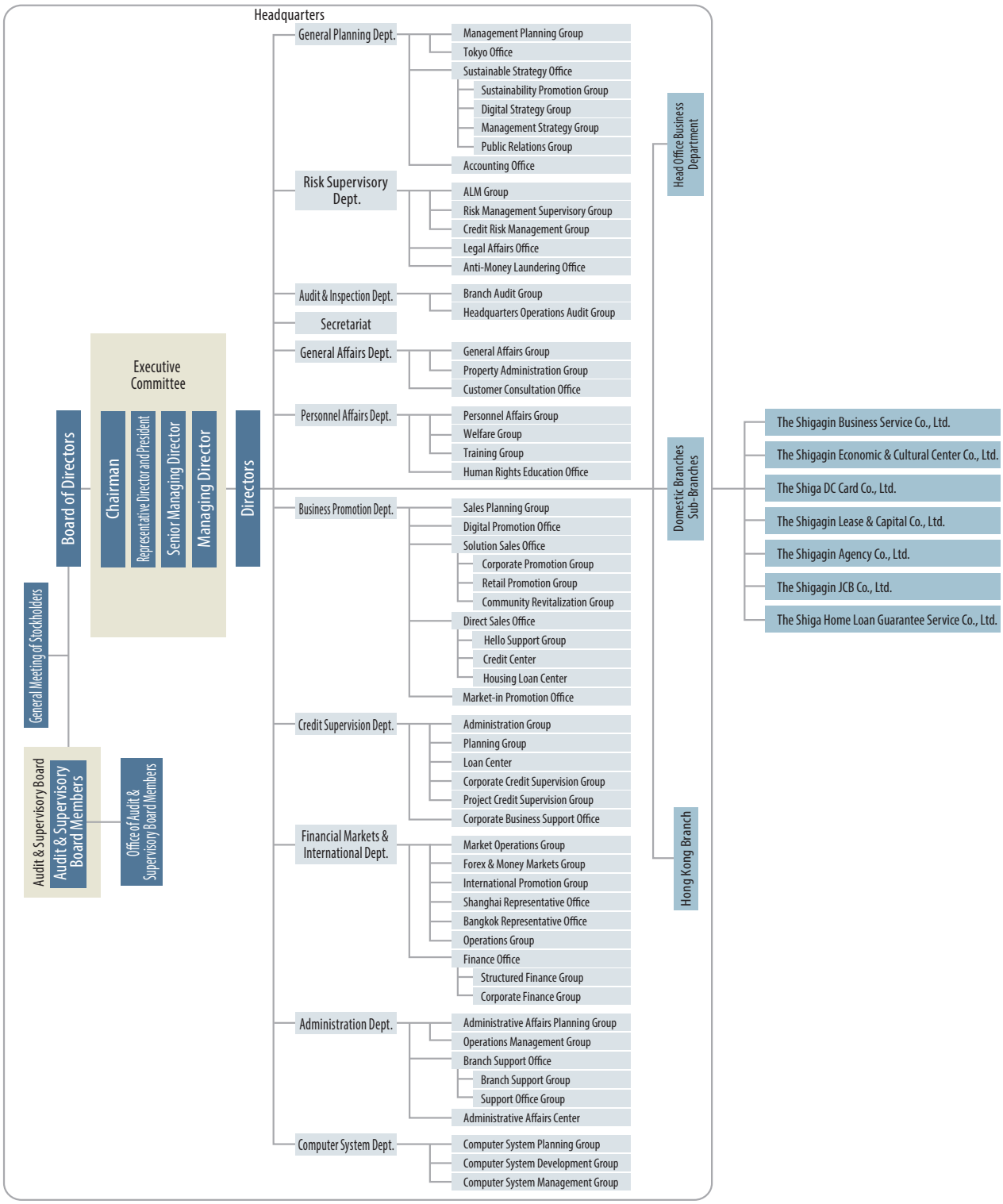
While advanced information and communication technology represented by the Internet, social media, cloud services and FinTech has brought more convenient services, it has also been pointing to growing importance of appropriate protection and management of personal information.

We established the "Personal Information Protection Policy" and the "Basic Policy on Handling of Specific Personal Information, etc." as basic policies for appropriate and strict handling of personal information. (These policies are available in Japanese on the Bank's website.)

Based on these policies, we only use the personal information within the scope informed through our website in advance. In addition, to prevent leakage of information, we put various safety management measures in place for administrative procedures and system technologies, and regularly review these measures for improvement.

FINANCIAL SECTION

Organization Chart (As of June 27, 2023)



Profile

(As of March 31, 2023)

Corporate Name :	THE SHIGA BANK, LTD.
Head Office :	1-38, Hamamachi, Otsu, Shiga 520-8686, Japan
Established :	October 1, 1933
Total Assets :	¥7,281.9 billion
Deposits :	¥5,762.4 billion
Loans :	¥4,360.2 billion
Common Stock :	¥33.0 billion
Employees :	1,915
Offices and Branches :	133 (including 33 agents)

Financial Section

The Shiga Bank, Ltd. and Consolidated Subsidiaries

Consolidated Five-year Summary

	Millions of yen				
	2023	2022	2021	2020	2019
As of March 31					
Total assets	**¥7,305,698**	¥7,537,956	¥7,793,748	¥6,285,002	¥6,115,271
Investment securities	**1,515,578**	1,511,864	1,586,506	1,307,107	1,352,017
Loans and bills discounted	**4,343,641**	4,064,683	4,001,698	3,859,363	3,779,056
Deposits	**5,714,368**	5,611,084	5,398,851	4,886,433	4,849,187
Total equity	**441,222**	464,214	495,469	375,801	402,227
Years ended March 31					
Total income	**115,498**	98,307	88,127	93,873	98,586
Total expenses	**95,330**	74,899	75,075	76,084	77,587
Income before income taxes	**20,168**	23,408	13,051	17,788	20,998
Net income attributable to owners of the parent	**14,858**	17,715	11,448	12,412	14,681
Per share data (in yen)					
Cash dividends	**¥ 80.00**	¥ 80.00	¥ 40.00	¥ 40.00	¥ 42.50
Net income	**310.57**	359.50	228.12	243.05	282.24
Net equity	**9,293.39**	9,552.14	9,958.46	7,482.34	7,863.37
Ratio					
Capital ratio	**15.80%**	15.14%	17.19%	14.12%	15.68%
ROE	**3.69%**	3.69%	2.62%	3.19%	3.62%

Financial review (Consolidated basis)

The Japanese economy in the fiscal year ended March 31, 2023, despite the impact of soaring resource prices and other factors, has been on gradual recovery trend amid an ongoing effort to balance between the prevention of the novel coronavirus infection and economic activities. The economic sentiment of the manufacturing sector deteriorated overall, particularly in the electrical machinery sector, due to concerns over the global economic slowdown, though the automotive industry improved as the impact of parts shortages has eased. The non-manufacturing sector saw mixed business sentiment, with the retail sector improving while the lodging and dining service sector remained challenging.

Shiga Prefecture's economy has been slow to join the recovery trend. Production in the manufacturing sector has weakened due to the effects of high resource prices and other factors. On the demand side, retail sales have increased, but they are in fact declining taking into account the rise in prices. On the investment side, housing investment and public investment have turned to an increasing trend while private capital expenditure has declined.

Balance sheets

Regarding the financial position, the balance of total assets was ¥7,305,698 million, a decrease of ¥232,258 million from the end of the previous fiscal year. With regards to the main account balance of assets, securities stood at ¥1,515,578 million (an increase of ¥3,713 million from the end of the previous fiscal year), and loans and bills discounted totaled ¥4,343,641 million (an increase of ¥278,957 million from the end of the previous fiscal year).

Meanwhile, total liabilities were ¥6,864,476 million, a decrease of ¥209,265 million from the end of the previous fiscal year. With regards to the main account balance of liabilities, deposits totaled ¥5,714,368 million (an increase of ¥103,283 million from the end of the previous fiscal year), negotiable certificates of deposit were ¥30,332 million (a decrease of ¥11,548 million from the end of the previous fiscal year), call money and bills sold were ¥237,906 million (an increase of ¥92,096 million from the end of the previous fiscal year), payables under securities lending transactions were ¥205,572 million (an increase of ¥19,892 million from the end of the previous fiscal year), and borrowed money was ¥538,456 million (a decrease of ¥398,383 million from the end of the previous fiscal year).

Total equity amounted to ¥441,222 million, a decrease of ¥22,992 million from the end of the previous fiscal year. This was mainly due to a decrease of ¥41,170 million in net unrealized gains on available-for-sale securities from the end of the previous fiscal year, despite an increase of ¥9,553 million in deferred gains on derivatives under hedge accounting from the end of the previous fiscal year.

Statements of operations

Regarding operating results, total income was ¥115,289 million, an increase of ¥16,982 million year on year. This was mainly due to an increase in interest income (an increase of ¥8,309 million year on year) due in part to an increase in interest on loans and discounts and interest and dividends on securities, and an increase in other income (an increase of ¥4,398 million year on year) due in part to an increase in gains on sales of stocks and other securities. On the other hand, ordinary expenses were ¥95,247 million, an increase of ¥20,940 million year on year. This was mainly due to an increase in other operating expenses (an increase of ¥17,969 million year on year) due in part to an increase in losses on sales of bonds.

As a result, ordinary profit for the fiscal year under review decreased by ¥3,958 million year on year to ¥20,041 million, and net income attributable to owners of the parent decreased by ¥2,857 million year on year to ¥14,858 million.

Furthermore, comprehensive income increased by ¥11,620 million year on year to ¥(15,071) million, primarily resulting from a smaller decrease in net unrealized gains on available-for-sale securities.

Additionally, as the Group consists of a single segment in the banking business, business results by segment are not provided.

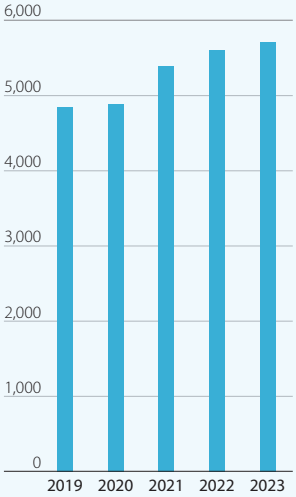
Cash flows

The Group's status of cash flows for the fiscal year under review is as follows.

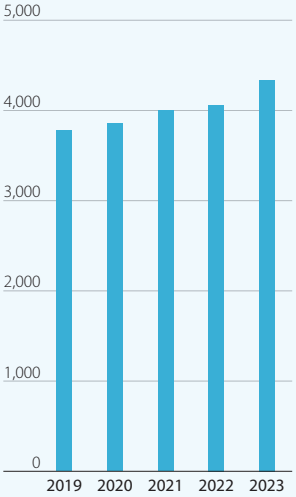
Net cash used in operating activities was ¥483,433 million, a year-on-year increase in outflow of ¥204,474 million, mainly due to a decrease in borrowed money, despite an increase in loans and bills discounted. Net cash used in investing activities was ¥57,989 million, a year-on-year increase in outflow of ¥79,813 million, with the expenditures involved in purchases of securities exceeding proceeds from sales and redemptions of securities. Furthermore, net cash used in financing activities was ¥7,954 million, a year-on-year increase in outflow of ¥3,470 million due to increased dividends paid for the purpose of providing shareholder returns and increased expenditures arising from the purchases of treasury stock.

As a result, cash and cash equivalents as of the end of the fiscal year under review amounted to ¥1,201,299 million, a decrease of ¥549,377 million year-on-year.

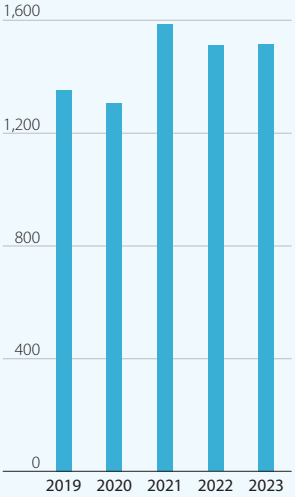
Deposits
(Billions of yen)



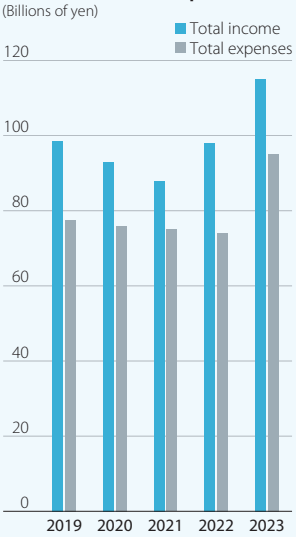
Loans and bills discounted
(Billions of yen)



Investment securities
(Billions of yen)



Total income and expenses
(Billions of yen)



The Shiga Bank, Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet

As of March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Assets			
Cash and due from banks (Notes 3 and 33)	¥1,201,938	¥1,751,539	$ 9,001,258
Call loans and bills bought	17,759	8,444	132,996
Debt purchased	2,514	3,594	18,827
Trading securities (Note 4)	488	468	3,654
Money held in trust (Note 5)	27,059	15,359	202,643
Investment securities (Notes 4, 7, 12, 19 and 33)	1,515,578	1,511,864	11,350,093
Loans and bills discounted (Notes 7, 12, 13, 33 and 39)	4,343,641	4,064,683	32,529,326
Foreign exchange assets (Notes 7 and 8)	6,730	7,063	50,400
Other assets (Notes 7, 9 and 12)	119,185	109,742	892,570
Tangible fixed assets (Notes 10, 11 and 14)	52,349	50,114	392,039
Intangible fixed assets	2,180	1,641	16,325
Asset for retirement benefits (Note 31)	19,650	13,323	147,157
Deferred tax assets (Note 32)	572	593	4,283
Customers' liabilities for acceptances and guarantees (Notes 7 and 19)	28,226	32,340	211,383
Allowance for loan losses	(32,177)	(32,815)	(240,972)
Total assets	7,305,698	7,537,956	54,712,034
Liabilities			
Deposits (Notes 12, 15 and 33)	5,714,368	5,611,084	42,794,637
Negotiable certificates of deposit (Note 33)	30,332	41,880	227,154
Call money and bills sold (Note 33)	237,906	145,809	1,781,667
Payables under securities lending transactions (Notes 12 and 33)	205,572	185,680	1,539,519
Borrowed money (Notes 12, 16 and 33)	538,456	936,840	4,032,472
Foreign exchange liabilities (Note 8)	377	246	2,823
Borrowed money from trust account (Note 17)	187	214	1,400
Other liabilities (Notes 18 and 39)	61,346	59,226	459,417
Liability for retirement benefits (Note 31)	159	157	1,190
Liability for retirement benefits of directors and Audit & Supervisory Board Members	4	4	29
Liability for reimbursement of deposits	—	83	—
Allowance for repayment of excess interest	10	12	74
Reserve for other contingent losses	140	134	1,048
Deferred tax liabilities (Note 32)	41,893	54,507	313,734
Deferred tax liabilities for land revaluation (Note 14)	5,495	5,520	41,151
Acceptances and guarantees (Note 19)	28,226	32,340	211,383
Total liabilities	6,864,476	7,073,742	51,407,743
Equity (Notes 20, 21 and 37)			
Common stock, authorized, 100,000,000 shares; issued, 53,090,081 shares as of March 31, 2023 and 2022	33,076	33,076	247,704
Capital surplus	24,540	24,536	183,778
Stock acquisition rights	—	103	—
Retained earnings	258,053	248,089	1,932,546
Treasury stock – at cost 5,613,090 shares and 4,502,938 shares as of March 31, 2023 and 2022, respectively	(14,488)	(11,619)	(108,499)
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities (Notes 4 and 6)	107,785	148,955	807,196
Deferred gains on derivatives under hedge accounting	15,599	6,045	116,820
Land revaluation surplus (Note 14)	8,312	8,369	62,248
Defined retirement benefit plans	8,343	6,656	62,480
Total equity	441,222	464,214	3,304,291
Total liabilities and equity	¥7,305,698	¥7,537,956	$54,712,034

See Notes to Consolidated Financial Statements.

The Shiga Bank, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income

Years ended March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Income (Notes 22 and 38)			
Interest income:			
Interest on loans and discounts	¥38,192	¥33,414	$286,018
Interest and dividends on securities	19,024	14,521	142,469
Other interest income	821	1,792	6,148
Trust fees	0	0	0
Fees and commissions	17,651	17,366	132,187
Other operating income (Note 23)	20,188	16,198	151,186
Other income (Note 24)	19,619	15,013	146,925
Total income	115,498	98,307	864,959
Expenses			
Interest expenses:			
Interest on deposits	1,194	632	8,941
Interest on borrowing and rediscounts	4,746	418	35,542
Other interest expenses	3,069	1,897	22,983
Fees and commissions	4,873	4,092	36,493
Other operating expenses (Note 25)	33,788	15,818	253,036
General and administrative expenses (Note 26)	44,420	46,382	332,659
Other expenses (Note 27)	3,236	5,657	24,234
Total expenses	95,330	74,899	713,921
Income before income taxes	20,168	23,408	151,037
Income taxes (Note 32)			
Current	4,731	6,186	35,430
Deferred	578	(493)	4,328
Net income	14,858	17,715	111,270
Net income attributable to owners of the parent	¥14,858	¥17,715	$111,270

	Yen		U.S. dollars
	2023	2022	2023
Per share information (Note 36)			
Basic net income	¥310.57	¥359.50	$2.325
Diluted net income	310.49	359.20	2.325
Cash dividends applicable to the year	80.00	80.00	0.599

See Notes to Consolidated Financial Statements.

The Shiga Bank, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

Years ended March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Net income	¥ 14,858	¥ 17,715	$ 111,270
Other comprehensive income (Note 35):			
Net unrealized losses on available-for-sale securities	(41,170)	(46,218)	(308,320)
Deferred gains on derivatives under hedge accounting	9,553	4,410	71,541
Defined retirement benefit plans	1,687	(2,600)	12,633
Total other comprehensive loss	(29,930)	(44,408)	(224,144)
Comprehensive loss	¥(15,071)	¥(26,692)	$(112,866)
Attributable to			
Owners of the parent	¥(15,071)	¥(26,692)	$(112,866)

See Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

Years ended March 31, 2023 and 2022

	Thousands	Millions of yen									
							Accumulated Other Comprehensive Income				
	Outstanding number of shares of common stock	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Net unrealized gains (losses) on available-for-sale securities	Deferred gains on derivatives under hedge accounting	Land revaluation surplus	Defined retirement benefit plans	Total equity
Balance as of April 1, 2021	49,745	¥33,076	¥24,536	¥ 84	¥232,289	¥ (9,116)	¥195,174	¥ 1,634	¥8,532	¥ 9,257	¥495,469
Cumulative effects of changes in accounting policies					(97)						(97)
Restated balance	49,745	33,076	24,536	84	232,191	(9,116)	195,174	1,634	8,532	9,257	495,372
Changes during the year:											
Net income attributable to owners of the parent					17,715						17,715
Cash dividends, ¥40.00 per share					(1,981)						(1,981)
Purchase of treasury stock	(1,158)					(2,502)					(2,502)
Sales of treasury stock					(0)	0					0
Reversal of land revaluation surplus					162						162
Other changes	0			18			(46,218)	4,410	(162)	(2,600)	(44,552)
Net change in the year		—	—	18	15,897	(2,502)	(46,218)	4,410	(162)	(2,600)	(31,157)
Balance as of March 31, 2022	48,587	33,076	24,536	103	248,089	(11,619)	148,955	6,045	8,369	6,656	464,214
Changes during the year:											
Net income attributable to owners of the parent					14,858						14,858
Cash dividends, ¥102.50 per share					(4,951)						(4,951)
Purchase of treasury stock	(1,161)					(3,002)					(3,002)
Sales of treasury stock	51		3			133					137
Reversal of land revaluation surplus					56						56
Other changes				(103)			(41,170)	9,553	(56)	1,687	(30,090)
Net change in the year		—	3	(103)	9,963	(2,869)	(41,170)	9,553	(56)	1,687	(22,992)
Balance as of March 31, 2023	47,476	¥33,076	¥24,540	¥ —	¥258,053	¥(14,488)	¥107,785	¥15,599	¥8,312	¥ 8,343	¥441,222

	Thousands of U.S. dollars (Note 1)									
						Accumulated Other Comprehensive Income				
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Net unrealized gains (losses) on available-for-sale securities	Deferred gains on derivatives under hedge accounting	Land revaluation surplus	Defined retirement benefit plans	Total equity
Balance as of April 1, 2022	$247,704	$183,748	$ 771	$1,857,927	$ (87,014)	$1,115,517	$ 45,270	$62,675	$49,846	$3,476,477
Changes during the year:										
Net income attributable to owners of the parent				111,270						111,270
Cash dividends, $0.76 per share				(37,077)						(37,077)
Purchase of treasury stock					(22,481)					(22,481)
Sales of treasury stock		22			996					1,025
Reversal of land revaluation surplus				419						419
Other changes			(771)			(308,320)	71,541	(419)	12,633	(225,342)
Net change in the year	—	22	(771)	74,612	(21,485)	(308,320)	71,541	(419)	12,633	(172,186)
Balance as of March 31, 2023	$247,704	$183,778	$ —	$1,932,546	$(108,499)	$ 807,196	$116,820	$62,248	$62,480	$3,304,291

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

Years ended March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Operating activities:			
Income before income taxes	¥ 20,168	¥ 23,408	$ 151,037
Depreciation	1,846	2,247	13,824
Losses on impairment of long-lived assets	—	509	—
Decrease in allowance for loan losses	(637)	(877)	(4,770)
Increase (decrease) in reserve for other contingent losses	6	(22)	44
Increase in asset for retirement benefits	(6,326)	(353)	(47,375)
Increase in liability for retirement benefits	1	14	7
Increase (decrease) in liability for retirement benefits of directors and Audit & Supervisory Board Members	0	(0)	0
Decrease in liability for reimbursement of deposits	(83)	(184)	(621)
Decrease in allowance for repayment of excess interest	(2)	(7)	(14)
Interest income	(58,038)	(49,728)	(434,643)
Interest expense	9,010	2,948	67,475
Losses (gains) on sales and write-down of investment securities	5,424	(8,307)	40,620
Gains on money held in trust	(66)	(265)	(494)
Foreign exchange gains	(2)	(2)	(14)
Losses (gains) on disposals of fixed assets – net	(126)	81	(943)
Net increase in loans and bills discounted	(278,957)	(62,984)	(2,089,096)
Net increase in deposits	103,283	212,232	773,481
Net decrease in negotiable certificate of deposits	(11,548)	(7,679)	(86,482)
Net increase (decrease) in borrowed money (excluding subordinated loans)	(398,383)	37,785	(2,983,471)
Net decrease in due from banks (excluding deposits in Bank of Japan)	222	94	1,662
Net decrease (increase) in call loans and others	(8,234)	2,178	(61,664)
Net increase (decrease) in call money and bills sold	92,096	(370,267)	689,702
Net increase (decrease) in payables under securities lending transactions	19,892	(86,974)	148,970
Net decrease in foreign exchange assets	332	1,271	2,486
Net increase (decrease) in foreign exchange liabilities	131	(57)	981
Net increase (decrease) in borrowed money from trust account	(26)	48	(194)
Interest received (cash basis)	57,582	50,756	431,228
Interest paid (cash basis)	(5,848)	(2,970)	(43,795)
Other	(18,521)	(14,678)	(138,702)
Subtotal	(476,807)	(271,786)	(3,570,785)
Income taxes – paid	(6,626)	(7,172)	(49,621)
Net cash used in operating activities	(483,433)	(278,958)	(3,620,407)
Investing activities:			
Purchases of securities	(700,336)	(1,003,543)	(5,244,783)
Proceeds from sales of securities	571,189	915,771	4,277,608
Proceeds from redemptions of securities	87,575	115,356	655,845
Increase in money held in trust	(11,840)	(681)	(88,669)
Purchases of tangible fixed assets	(4,235)	(4,660)	(31,715)
Proceeds from sales of tangible fixed assets	509	32	3,811
Purchases of intangible fixed assets	(849)	(451)	(6,358)
Net cash provided by (used in) investing activities	(57,989)	21,823	(434,276)
Financing activities:			
Purchases of treasury stock	(3,002)	(2,502)	(22,481)
Proceeds from sales of treasury stock	—	0	—
Dividends paid	(4,951)	(1,981)	(37,077)
Net cash used in financing activities	(7,954)	(4,483)	(59,567)
Foreign currency translation adjustments on cash and cash equivalents	(0)	0	(0)
Net decrease in cash and cash equivalents	(549,377)	(261,618)	(4,114,258)
Cash and cash equivalents, beginning of year	1,750,676	2,012,295	13,110,731
Cash and cash equivalents, end of year (Note 3)	¥1,201,299	¥ 1,750,676	$ 8,996,472

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Years ended March 31, 2023 and 2022

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 significant 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 the 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 ¥133.53 to U.S.$1, the rate of exchange at March 31, 2023, 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 include the accounts of the Bank and seven consolidated subsidiaries for the years ended March 31, 2023 and 2022.

The consolidated subsidiaries' respective fiscal periods end March 31 for the years ended March 31, 2023 and 2022.

The Bank has two other nonconsolidated subsidiaries in 2023 and 2022, respectively, 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 Group'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.

Shigagin Growth Strategy Fund Investment Limited Partnership was dissolved on April 29, 2022 and its liquidation was completed on April 28, 2023.

(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 are stated at fair value (cost of sales, in principle, is computed by the moving-average method). Shares, etc. that do not have market price are stated at cost using the moving-average method. Investment in capital of investment partnership and others are recorded at the net amount of the Bank's share of their assets based on the most recent financial statements of the partnership and others. 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. Securities that constitute trust assets in money held in trust are stated using the same methods described in (i) above.

iii. Beneficiary rights included in "debt purchased" 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 they 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 which includes the method of designating hedging instruments to hedged items as well as the method stipulated in "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (JICPA Industry Committee Practical Guidelines No. 24, March 17, 2022).

With regard to the assessment of hedge effectiveness, 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 critical 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.

With regard to the effectiveness of cash flow hedges, hedge effectiveness is assessed by verifying the relationship of the interest rate fluctuation factors of the hedged items and the hedging instruments.

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 Committee Practical Guidelines No. 25, October 8, 2020).

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.

To hedge foreign exchange fluctuation risks of foreign currency-denominated securities (other than bonds), the Bank identifies in advance the specific foreign currency-denominated securities to be hedged and applies fair value hedging as a comprehensive hedge on the conditions, including but not limited to the Bank having direct liabilities for such foreign currency-denominated securities in excess of the acquisition cost on a foreign currency basis.

(f) Bills discounted

Bills discounted are accounted for as financial transactions in accordance with JICPA Industry Committee Practical Guidelines No. 24. The Bank has rights to sell or pledge bank acceptances bought, commercial bills discounted, documentary bills and foreign exchanges bought without restrictions.

(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), and fittings and equipment and structures purchased on or after April 1, 2016, 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 laws 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 ¥3,487 million ($26,113 thousand) and ¥3,538 million at March 31, 2023 and 2022, respectively.

(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 loan losses

Allowance for 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 become 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, using the following methods.

(i) For large debtors with credit exposure above a certain amount, an allowance is provided for the non-protected amount, net of an estimate of the amount collectible through cash flow based on a comprehensive assessment of the debtor's situation (cash flow deduction method).

(ii) For loans to debtors other than (i), an allowance is provided for the expected losses for the subsequent three years. Expected losses are determined based on the average loan loss ratio over a certain period of time calculated using historical loan loss experience over three years with required adjustments for future forecasts and others.

For loans to other debtors, with regard to debtors who are recognized as having good business conditions and no particular problems with their financial conditions (hereinafter, "normal debtors") and debtors who require careful management (hereinafter, "debtors on close watch") such as debtors that have problems with loan terms, debtors with performance issues, debtors with weak or unstable business conditions, and debtors that have problems with their financial conditions, an allowance is provided for the expected losses for subsequent one year. Among the debtors on close watch, for debtors whose loans are in need of management (restructured loans and loans that are delinquent for three months or more), an allowance is provided for the expected losses for the subsequent three years. Expected losses are determined based on the average loan loss ratio over a certain period of time calculated using historical loan loss experience over one year or three years with required adjustments for future forecasts and others.

*Necessary revision and determination method of the expected loss ratio due to future forecasts, etc.

The expected loss ratio used in the calculation of the allowance is determined by comparing the average value of the most recent three calculation periods with the long-term average value that takes into account the business cycle. The average of the three most recent calculation periods is calculated after reviewing the current situation, future forecasts, and other necessary adjustments.

All loans are assessed by the branches and the operating divisions based on the Bank's internal rules for self-assessment of assets. The risk management sector, which is independent from the branches and the operating divisions, subsequently verifies the appropriateness of self-assessment results, write-offs and allowances.

For collateralized or guaranteed claims to debtors who are legally bankrupt or virtually bankrupt, the amount deemed unrecoverable, which is the amount of claims exceeding the estimated value of collateral or guarantees, has been written off and amounted to ¥8,161 million ($61,117 thousand) and ¥9,235 million as of March 31, 2023 and 2022, respectively.

Allowance for 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 collectability of specific claims.

(l) Retirement and Pension Plans

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

The projected benefit obligations are attributed to periods on a benefit formula basis. Past service costs are amortized on a straight-line basis over 10 years within the average remaining service period.

Actuarial gains and losses are amortized on a straight-line basis over 10 years within the average remaining service period from the fiscal year following the respective fiscal year in which the difference is recognized.

Consolidated subsidiaries adopt a simplified method where the amount to be required for voluntary termination at the fiscal year end is recorded as projected benefit obligations in the calculation of their liability for retirement benefits and retirement benefit costs.

(m) Liability for retirement of directors and Audit & Supervisory Board Members

Consolidated subsidiaries provide Liability for retirement benefits of directors and Audit & Supervisory Board Members at the amount required if they all retired at the fiscal year-end, which is calculated based on the internal rules of the Group.

(n) Liability for reimbursement of deposits

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

(o) 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's consolidated subsidiaries may be required to refund upon customers' claims.

(p) 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.

(q) 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.

(r) Accounting for leases

In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions.

i. As lessee

Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet.

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.

(s) Income taxes

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

(t) 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.

(u) Per share information

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

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

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

(v) Significant accounting estimates

Items for which the amount was recorded in the consolidated financial statements for the current fiscal year based on accounting estimates, and which may have a significant impact on the consolidated financial statements for the following fiscal year, are as follows.

Allowance for loan losses

(1) Amounts recorded in the consolidated financial statements
Allowance for loan losses was ¥32,177 million ($240,972 thousand) and ¥32,815 million at March 31, 2023 and 2022, respectively.

(2) Information that contributes to an understanding of the content of significant accounting estimates for identified items

i. Calculation method

The method of calculating the allowance for loan losses is described in "(k) Allowance for loan losses" in "2. Summary of significant accounting policies." In addition, the Bank has recorded an allowance for loan losses by revising the debtor classifications based on the current deterioration in business performance and estimates related to impacts that are not yet reflected in financial information in order to prepare for expected losses due to such impacts based on the following assumptions. For certain borrowers in specific industries that have been materially impacted by the spread of the novel coronavirus infection, an additional allowance for loan losses is provided based on the expected loss ratio, with necessary adjustments to the loan loss ratio, in consideration of the expected deterioration in their business performance.

ii. Major assumptions

The major assumption is the "future forecasts of business environments of the borrower in determining the debtor classifications." It is set based on the individual evaluation of each debtor's ability to earn income. In addition, assumptions regarding the impact of the novel coronavirus infection that may have a significant impact on the "future forecasts of business environments of the borrower in determining the debtor classifications" are as follows.

(Assumptions regarding the impact of novel coronavirus infections)

Since the end of March 2022, the Group has been making accounting estimates for the allowance for loan losses, etc. based on the assumption that the spread of the novel coronavirus infection would continue to be a constraint on various economic activities, and its impact would continue at least until March 2023.

However, based on the schedule for changes in the position of the novel coronavirus infection under the Infectious Diseases Control Law, as of the end of March 2023, the Group has revised its assumptions regarding the impact of the novel coronavirus infection as follows.

Assumptions regarding the impact of novel coronavirus infections as of the end of March 2023

Although restrictions on various economic activities are changing due to the schedule for changes in the position under the Infectious Diseases Control Law, the impact of the novel coronavirus infection remains.

The credit risk inherent in loans to certain borrowers in specific industries affected by the spread of the novel coronavirus infection remains high.

iii. Impacts on the consolidated financial statements for the following fiscal year

The Group conducts self-assessment with scrutiny and takes measures such as setting aside an allowance for loan losses as deemed necessary. However, due to the high degree of uncertainty in the above assumptions, changes in the assumptions used for the initial estimates due to changes in the performance of individual borrowers or other factors, as well as the future spread of the novel coronavirus infection and its impact on the economy, may have a significant impact on the allowance for loan losses in the consolidated financial statements for the following fiscal year (ending March 31, 2024) and thereafter.

In addition, the uncertainty may grow even greater when the determination of the debtor classifications depends on future forecasts of business environments, such as the business improvement plan of the borrower.

(w) Changes in accounting policies

(Application of the Implementation Guidance on Accounting Standard for Fair Value Measurement)

Effective April 1, 2022, the Bank has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021, hereinafter referred to as "Fair Value Measurement Standard Implementation Guidance"), and has applied the new accounting policy set by the Fair Value Measurement Standard Implementation Guidance prospectively, in accordance with the transitional treatment set forth in Paragraph 27-2 of the said Guidance.

The new standard did not have an impact on the Bank's consolidated financial statements.

In addition, Paragraph 27-3 of the Fair Value Measurement Standard Implementation Guidance does not require the disclosure of prior year information regarding the disclosure of investment trusts in the notes on fair value information (Note 33) by level within the fair value hierarchy under the notes on financial instruments. Therefore, the disclosure pertaining to the prior fiscal year is not presented.

(x) New accounting pronouncements

"Accounting Standard for Current Income Taxes" (ASBJ Statement No. 27 issued on October 28, 2022)
"Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25 issued on October 28, 2022)
"Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28 issued on October 28, 2022)

(1) Summary
Provisions on the classification of recording of income taxes, etc. when taxing other comprehensive income and the treatment of tax effects related to the sale of subsidiary shares, etc. when the group corporate tax system is applied.

(2) Effective date
The Group expects to apply the new guidance effective from the beginning of the fiscal year ending March 31, 2025.

(3) Effects of application of the standards and guidance
The Group is currently evaluating the impact of applying this guidance.

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, 2023 and 2022, is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Cash and due from banks	¥1,201,938	¥1,751,539	$9,001,258
Other due from banks	(639)	(862)	(4,785)
Cash and cash equivalents	¥1,201,299	¥1,750,676	$8,996,472

4. Securities

Securities at March 31, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Japanese government bonds	¥ 324,224	¥ 334,714	$ 2,428,098
Japanese local government bonds	228,191	198,178	1,708,911
Japanese corporate bonds	310,074	307,851	2,322,129
Corporate stocks	284,360	315,263	2,129,558
Other securities	368,726	355,857	2,761,371
Total	¥1,515,578	¥1,511,864	$11,350,093

Securities lent under unsecured loan (bond lending transactions) amounted to ¥52,819 million ($395,559 thousand) and ¥53,103 million are included in Japanese government bonds of securities at March 31, 2023 and 2022, respectively.

Fair value and other information on securities at March 31, 2023 and 2022 were as follows. Securities include "Trading securities" and trust beneficiary right under "Debt purchased," in addition to "Investment securities," which are presented on the consolidated balance sheet.

Securities

(1) Trading securities

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
	Losses included in loss during the fiscal year		
Trading securities	¥0	¥(1)	$0

(2) Held-to-maturity securities

Held-to-maturity securities as of March 31, 2023 and 2022 were as follows:

	Millions of yen		
	2023		
	Consolidated balance sheet amount	Fair value	Difference
Fair value exceeding consolidated balance sheet amount:			
Japanese government bonds	¥ —	¥ —	¥ —
Japanese local government bonds	—	—	—
Japanese corporate bonds	—	—	—
Others	—	—	—
Subtotal	¥ —	¥ —	¥ —
Fair value not exceeding consolidated balance sheet amount:			
Japanese government bonds	¥66,958	¥61,806	¥(5,152)
Japanese local government bonds	—	—	—
Japanese corporate bonds	—	—	—
Others	—	—	—
Subtotal	66,958	61,806	(5,152)
Total	¥66,958	¥61,806	¥(5,152)

	Millions of yen		
	2022		
	Consolidated balance sheet amount	Fair value	Difference
Fair value exceeding consolidated balance sheet amount:			
Japanese government bonds	¥ 4,816	¥ 4,826	¥ 10
Japanese local government bonds	—	—	—
Japanese corporate bonds	—	—	—
Others	—	—	—
Subtotal	¥ 4,816	¥ 4,826	¥ 10
Fair value not exceeding consolidated balance sheet amount:			
Japanese government bonds	¥55,130	¥52,953	¥(2,177)
Japanese local government bonds	—	—	—
Japanese corporate bonds	—	—	—
Others	—	—	—
Subtotal	55,130	52,953	(2,177)
Total	¥59,946	¥57,779	¥(2,166)

	Thousands of U.S. dollars		
	2023		
	Consolidated balance sheet amount	Fair value	Difference
Fair value exceeding consolidated balance sheet amount:			
Japanese government bonds	$ —	$ —	$ —
Japanese local government bonds	—	—	—
Japanese corporate bonds	—	—	—
Others	—	—	—
Subtotal	$ —	$ —	$ —
Fair value not exceeding consolidated balance sheet amount:			
Japanese government bonds	$501,445	$462,862	$(38,583)
Japanese local government bonds	—	—	—
Japanese corporate bonds	—	—	—
Others	—	—	—
Subtotal	501,445	462,862	(38,583)
Total	$501,445	$462,862	$(38,583)

(3) Available-for-sale securities

Available-for-sale securities as of March 31, 2023 and 2022 were as follows:

	Millions of yen		
	2023		
	Consolidated balance sheet amount	Cost	Unrealized gains (losses)
Consolidated balance sheet amount exceeding cost:			
Stocks	¥ 267,227	¥ 82,563	¥184,663
Bonds:	214,445	211,130	3,315
Japanese government bonds	82,915	80,784	2,130
Japanese local government bonds	48,773	48,462	311
Japanese corporate bonds	82,757	81,883	873
Others	86,486	83,598	2,887
Subtotal	¥ 568,159	¥ 377,292	¥190,866
Consolidated balance sheet amount not exceeding cost:			
Stocks	¥ 13,717	¥ 14,410	¥ (692)
Bonds:	581,086	595,456	(14,370)
Japanese government bonds	174,350	181,991	(7,640)
Japanese local government bonds	179,418	181,699	(2,281)
Japanese corporate bonds	227,317	231,765	(4,448)
Others	268,677	293,987	(25,309)
Subtotal	863,481	903,854	(40,372)
Total	¥1,431,641	¥1,281,146	¥150,494

	Millions of yen		
	2022		
	Consolidated balance sheet amount	Cost	Unrealized gains (losses)
Consolidated balance sheet amount exceeding cost:			
Stocks	¥ 301,821	¥ 79,211	¥222,609
Bonds:	307,718	305,449	2,269
Japanese government bonds	119,049	118,626	422
Japanese local government bonds	61,590	61,190	399
Japanese corporate bonds	127,078	125,631	1,446
Others	104,200	101,487	2,713
Subtotal	¥ 713,740	¥ 486,147	¥227,592
Consolidated balance sheet amount not exceeding cost:			
Stocks	¥ 9,564	¥ 9,961	¥ (396)
Bonds:	473,078	479,149	(6,071)
Japanese government bonds	155,718	159,323	(3,605)
Japanese local government bonds	136,588	137,612	(1,024)
Japanese corporate bonds	180,772	182,213	(1,441)
Others	244,062	255,439	(11,377)
Subtotal	726,705	744,550	(17,845)
Total	¥1,440,446	¥1,230,698	¥209,747

	Thousands of U.S. dollars		
	2023		
	Consolidated balance sheet amount	Cost	Unrealized gains (losses)
Consolidated balance sheet amount exceeding cost:			
Stocks	$ 2,001,250	$ 618,310	$1,382,932
Bonds:	1,605,968	1,581,142	24,825
Japanese government bonds	620,946	604,987	15,951
Japanese local government bonds	365,258	362,929	2,329
Japanese corporate bonds	619,763	613,218	6,537
Others	647,689	626,061	21,620
Subtotal	$ 4,254,916	$2,825,522	$1,429,386
Consolidated balance sheet amount not exceeding cost:			
Stocks	$ 102,725	$ 107,915	$ (5,182)
Bonds:	4,351,726	4,459,342	(107,616)
Japanese government bonds	1,305,699	1,362,922	(57,215)
Japanese local government bonds	1,343,653	1,360,735	(17,082)
Japanese corporate bonds	1,702,366	1,735,677	(33,310)
Others	2,012,109	2,201,655	(189,537)
Subtotal	6,466,569	6,768,920	(302,344)
Total	$10,721,493	$9,594,443	$1,127,042

(4) Bonds classified as held to maturity were not sold for the years ended March 31, 2023 and 2022.

(5) Available-for-sale securities sold

	Millions of yen		
	2023		
	Sales amount	Gains on sales	Losses on sales
Stocks	¥ 53,825	¥17,616	¥ 985
Bonds:	289,507	685	4,943
Japanese government bonds	272,955	678	4,898
Japanese local government bonds	—	—	—
Japanese corporate bonds	16,552	7	44
Others	170,584	555	18,511
Total	¥513,917	¥18,857	¥24,440

	Millions of yen		
	2022		
	Sales amount	Gains on sales	Losses on sales
Stocks	¥ 41,071	¥13,560	¥2,652
Bonds:	596,745	958	2,469
Japanese government bonds	548,481	780	2,459
Japanese local government bonds	45,087	131	9
Japanese corporate bonds	3,176	46	—
Others	223,406	3,131	4,126
Total	¥861,223	¥17,650	¥9,248

	Thousands of U.S. dollars		
	2023		
	Sales amount	Gains on sales	Losses on sales
Stocks	$ 403,092	$131,925	$ 7,376
Bonds:	2,168,104	5,129	37,017
Japanese government bonds	2,044,147	5,077	36,680
Japanese local government bonds	—	—	—
Japanese corporate bonds	123,957	52	329
Others	1,277,495	4,156	138,628
Total	$3,848,700	$141,219	$183,030

(6) Reclassification of investment securities due to change in intent of holding

There were no reclassifications of investment securities due to change in intent of holding for the years ended March 31, 2023 and 2022.

(7) Impairment losses on securities

For available-for-sale securities with market quotations (other than shares, etc. that do not have market price and investment in capital of investment partnership and others), in cases where the fair value has fallen substantially from the acquisition cost and there is believed to be little likelihood of a recovery in 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 less than a million yen (less than a thousand dollars) which consisted of all bonds of less than a million yen (less than a thousand dollars); and ¥83 million which consisted of stocks of ¥82 million and bonds of ¥1 million; as of March 31, 2023 and 2022, respectively.

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			
	2023		2022	
	Consolidated balance sheet amount	Gains (losses) included in profit (loss) during the fiscal year	Consolidated balance sheet amount	Gains (losses) included in profit (loss) during the fiscal year
Money held in trust classified as trading	¥24,517	¥(75)	¥14,630	¥49

	Thousands of U.S. dollars	
	2023	
	Consolidated balance sheet amount	Gains (losses) included in profit (loss) during the fiscal year
Money held in trust classified as trading	$183,606	$(561)

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

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

	Millions of yen				
	2023				
	Consolidated balance sheet amount	Cost	Unrealized gains (losses)	Consolidated balance sheet amount exceeding cost	Consolidated balance sheet amount not exceeding cost
Other money held in trust	¥2,542	¥2,578	¥(36)	—	¥36

	Millions of yen				
	2022				
	Consolidated balance sheet amount	Cost	Unrealized gains (losses)	Consolidated balance sheet amount exceeding cost	Consolidated balance sheet amount not exceeding cost
Other money held in trust	¥729	¥729	—	—	—

(Note) "Consolidated balance sheet amount exceeding cost" and "consolidated balance sheet amount not exceeding cost" are components of unrealized gains (losses).

	Thousands of U.S. dollars				
	2023				
	Consolidated balance sheet amount	Cost	Unrealized gains (losses)	Consolidated balance sheet amount exceeding cost	Consolidated balance sheet amount not exceeding cost
Other money held in trust	$19,036	$19,306	$(269)	—	$269

(Note) "Consolidated balance sheet amount exceeding cost" and "consolidated balance sheet amount not exceeding cost" are components of unrealized gains (losses).

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
	2023	2022	2023
Net unrealized gains on investment securities	¥150,169	¥209,459	$1,124,608
Available-for-sale securities	150,205	209,459	1,124,878
Other money held in trust	(36)	—	(269)
Deferred tax liabilities	(42,384)	(60,503)	(317,411)
Noncontrolling interests	—	—	—
Net unrealized gains on available-for-sale securities	¥107,785	¥148,955	$ 807,196

7. Loans and bills discounted

Loans and bills discounted at March 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Bills discounted	¥ 5,793	¥ 7,522	$ 43,383
Loans on bills	72,600	73,481	543,698
Loans on deeds	3,853,207	3,603,514	28,856,489
Overdrafts	412,039	380,163	3,085,741
Total	¥4,343,641	¥4,064,683	$32,529,326

Claims under the Banking Act and the Act on Emergency Measures for the Revitalization of the Financial Functions are as follows. The claims include corporate bonds in "investment securities" in the consolidated balance sheets (limited to those for which redemption of the principal and payment of interest is guaranteed in whole or in part, and for which the bonds were issued through private placement of securities (Article 2, Paragraph 3 of the Financial Instruments and Exchange Act)), loans and bills discounted, foreign exchange assets, accrued interest and suspense payments in "other assets," customers' liabilities for acceptances and guarantees and the securities in the case of a loan of securities (limited to those under a loan-for-use or lease agreement) that is indicated in the notes.

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Claims subject to legal bankruptcy proceedings and reorganization proceedings and any other type of claims equivalent thereto	¥ 2,838	¥ 1,916	$ 21,253
Claims with risks	48,314	45,107	361,821
Loans overdue for three months or more	68	57	509
Restructured loans	33,340	36,429	249,681
Total	¥84,561	¥83,510	$633,273

Claims subject to legal bankruptcy proceedings and reorganization proceedings and any other type of claims equivalent thereto mean the claim held against debtors with failed business status due to the grounds such as commencement of bankruptcy proceedings, commencement of reorganization proceedings, or commencement of rehabilitation proceedings, and any other type of claims equivalent thereto.

Claims with risks mean the claims whose debtor is not yet in the status of failure in business although such debtor's financial conditions and business performance are worsening, and for which it is highly likely that the collection of principal or receipt of interest in accordance with the contract is impossible, excluding the claims subject to legal bankruptcy proceedings and reorganization proceedings and any other type of claims equivalent thereto.

Loans overdue for three months or more mean loans for which payment of principal or interest has been delayed for three months or more from the date following the agreed payment date, excluding the claims subject to legal bankruptcy proceedings and reorganization proceedings and any other type of claims equivalent thereto and the claims with risks.

Restructured loans mean 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 in recovering from financial difficulties and eventually being able to pay creditors, excluding the claims subject to legal bankruptcy proceedings and reorganization proceedings and any other type of claims equivalent thereto, the claims with risks and the loans overdue for three months or more.

The total face value of bills discounted at March 31, 2023 and 2022 was ¥5,935 million ($44,446 thousand) and ¥7,664 million, respectively.

8. Foreign exchanges

Foreign exchange assets and liabilities at March 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Assets:			
Due from foreign correspondents	¥6,258	¥6,589	$46,865
Foreign bills of exchange purchased	0	2	0
Foreign bills of exchange receivable	471	470	3,527
Total	¥6,730	¥7,063	$50,400
Liabilities:			
Foreign bills of exchange sold	¥ 172	¥ 107	$ 1,288
Accrued foreign bills of exchange	205	138	1,535
Total	¥ 377	¥ 246	$ 2,823

9. Other assets

Other assets at March 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Prepaid expenses	¥ 259	¥ 282	$ 1,939
Accrued income	5,705	3,961	42,724
Derivatives	30,135	12,829	225,679
Other (Note 12)	83,085	92,669	622,219
Total	¥119,185	¥109,742	$892,570

10. Tangible fixed assets

Tangible fixed assets at March 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Buildings	¥13,670	¥13,241	$102,373
Land	32,054	32,196	240,050
Construction in progress	4,531	2,614	33,932
Other	2,092	2,061	15,666
Total	¥52,349	¥50,114	$392,039

Accumulated depreciation on tangible fixed assets at March 31, 2023 and 2022 amounted to ¥47,305 million ($354,264 thousand) and ¥47,166 million, respectively.

11. Long-lived assets

The Group recognized impairment losses for the years ended March 31, 2023 and 2022, as follows:

The Bank groups assets by the methods described in the "Overview of asset groups and grouping method" below. Subsidiaries group their assets by unit, which periodically manages profit and loss. There are no impairment losses to be recognized for the year ended March 31, 2023. The Bank wrote down the carrying amounts to the recoverable amounts and recognized impairment losses of ¥509 million for the year ended March 31, 2022 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 the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The discount rate used for computation of the present value of future cash flows was 5% and the net selling price was determined by quotations from real estate appraisal information, less estimated costs to dispose.

			Impairment losses		
			Millions of yen		Thousands of U.S. dollars
Location	Description	Classification	2023	2022	2023
Shiga Prefecture	Business assets	Land, buildings and equipment	¥—	¥509	$—
Total			¥—	¥509	$—

Impairment losses are included in other expenses (Note 27).

Overview of asset groups and grouping method

(1) Outline of asset groups

i. Idle assets

Stores, former company housing sites, etc.

ii. Operating assets

Assets used for business purposes

iii. Common assets

Assets related to the entire bank (headquarters, office centers, dormitories, company housing, etc.)

(2) Methods of grouping

i. Idle assets

Grouping as independent assets.

ii. Operating assets

Grouping is done by store groups or store units that constitute full-banking functions.

iii. Common assets

Grouping of the entire bank as a whole.

12. Assets pledged

Assets pledged as collateral and related liabilities at March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Investment securities	¥656,024	¥546,776	$4,912,933
Loans and bills discounted	199,653	880,282	1,495,192
Other assets (investments in leases)	—	226	—

	Millions of yen		Thousands of U.S. dollars
Related liabilities	2023	2022	2023
Deposits	¥ 25,115	¥ 26,917	$ 188,085
Payables under securities lending transactions	205,572	185,680	1,539,519
Borrowed money	533,391	931,599	3,994,540

In addition, other assets (deposits to central counterparty) of ¥43,553 million ($326,166 thousand) and ¥35,653 million at March 31, 2023 and 2022, respectively.

Other assets include guarantee deposits of ¥378 million ($2,830 thousand) and ¥385 million at March 31, 2023 and 2022, respectively.

13. Overdrafts and commitment lines

Overdraft agreements and commitment line agreements are agreements that oblige the Group to lend funds up to a certain limit agreed in advance. The Group 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, 2023 and 2022 amounted to ¥1,018,015 million ($7,623,867 thousand) and ¥1,036,014 million, respectively, and the amounts of unused commitments whose original contract terms are within one year or unconditionally cancelable at any time were ¥914,616 million ($6,849,516 thousand) and ¥940,660 million at March 31, 2023 and 2022, respectively. In many cases, the term of the agreement expires 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 that allow the Group 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 Group's credit. The Group takes various measures to protect its credit. Such measures include having the obligor pledge collateral to the Group in the form of real estate, securities, etc. on signing the loan agreements or, in accordance with the Group'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 revision 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, 2023 and 2022, the carrying amount of the land after the above one-time revaluation exceeded the fair value by ¥3,634 million ($27,214 thousand) and ¥3,660 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 2-3 of the Enforcement Ordinance of the Act of Land Revaluation effective March 31, 1998.

15. Deposits

Deposits at March 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Current deposits	¥ 246,969	¥ 255,260	$ 1,849,539
Ordinary deposits	3,352,562	3,189,277	25,107,181
Deposits at notice	55,454	69,400	415,292
Time deposits	1,955,961	1,994,866	14,648,101
Other deposits	103,420	102,279	774,507
Total	¥5,714,368	¥5,611,084	$42,794,637

16. Borrowed money

At March 31, 2023 and 2022, the weighted-average interest rates applicable to borrowed money were 1.10% and 0.06%, respectively.

Borrowed money at March 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Borrowing from banks and other	¥538,456	¥936,840	$4,032,472
Total	¥538,456	¥936,840	$4,032,472

Annual maturities of borrowed money at March 31, 2023 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2024	¥197,505	$1,479,105
2025	31,285	234,291
2026	40,101	300,314
2027	263,057	1,970,021
2028	2,357	17,651
2029 and thereafter	4,149	31,071
Total	¥538,456	$4,032,472

17. Borrowed money from trust account

Principal amounts of trusts with a principal compensation agreement at March 31, 2023 and 2022 were ¥187 million ($1,400 thousand) and ¥214 million, respectively.

18. Other liabilities

Other liabilities at March 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Accrued income taxes	¥ 730	¥ 2,721	$ 5,466
Accrued expenses	6,502	3,414	48,693
Unearned income	8,841	8,788	66,209
Derivatives	13,479	11,638	100,943
Other	31,791	32,663	238,081
Total	¥61,346	¥59,226	$459,417

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 of "Acceptances and guarantees" and "Customers' liabilities for acceptances and guarantees" amounting to ¥11,026 million ($82,573 thousand) and ¥15,913 million as of March 31, 2023 and 2022, respectively, were set off because those that were relevant to corporate bonds and the guaranteed bonds were held by the Bank itself.

20. Equity

(1) Capital stock and capital surplus

The Bank implemented a 1-for-5 reverse stock split on October 1, 2018. As a result, the number of shares of common stock issued decreased from 265,450 thousand shares to 53,090 thousand shares. The numbers of shares in the consolidated statement of changes in equity are calculated on the assumption that the reverse stock split was implemented on April 1, 2017.

(2) Companies Act

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions 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 a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, 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 aggregate amount of 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 that is determined by a specific formula. Under the Companies Act, stock acquisition rights are 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, 2023 was proposed at the Bank's ordinary general shareholders' meeting held on June 27, 2023.

	Millions of yen	Thousands of U.S. dollars
Cash dividends (dividend amount per share: ¥40 ($0.300))	¥1,899	$14,221

21. Stock options

The stock options outstanding as of March 31, 2023, are as follows:

Description	Persons granted	Number of options granted (*)	Date of grant	Exercise price	Exercise period
2013 Stock Option	— directors	— shares	August 20, 2013	¥ 1 ($ 0.01)	From August 21, 2013 to August 20, 2043
2014 Stock Option	— directors	— shares	August 20, 2014	¥ 1 ($ 0.01)	From August 21, 2014 to August 20, 2044
2015 Stock Option	— directors	— shares	August 20, 2015	¥ 1 ($ 0.01)	From August 21, 2015 to August 20, 2045
2016 Stock Option	— directors	— shares	August 19, 2016	¥ 1 ($ 0.01)	From August 20, 2016 to August 19, 2046
2017 Stock Option	— directors	— shares	August 18, 2017	¥ 1 ($ 0.01)	From August 19, 2017 to August 18, 2047
2018 Stock Option	— directors	— shares	August 20, 2018	¥ 1 ($ 0.01)	From August 21, 2018 to August 20, 2048
2019 Stock Option	— directors	— shares	August 20, 2019	¥ 1 ($ 0.01)	From August 21, 2019 to August 20, 2049
2020 Stock Option	— directors	— shares	August 20, 2020	¥ 1 ($ 0.01)	From August 21, 2020 to August 20, 2050
2021 Stock Option	— directors	— shares	August 20, 2021	¥ 1 ($ 0.01)	From August 21, 2021 to August 20, 2051

From the consolidated fiscal year ended March 31, 2023, the Bank has abolished the share remuneration-type stock option plan and introduced a restricted stock compensation plan. As a result, there are no stock options as of March 31, 2023.

The stock option activity is as follows:

	2013 Stock Option	2014 Stock Option	2015 Stock Option
Year Ended March 31, 2023			
Non-vested			
April 1, 2022—Outstanding	—	—	—
Granted	—	—	—
Canceled	—	—	—
Vested	—	—	—
March 31, 2023—Outstanding	—	—	—
Vested			
April 1, 2022—Outstanding	1,980	2,660	2,620
Vested	—	—	—
Exercised	880	760	700
Canceled	1,100	1,900	1,920
March 31, 2023—Outstanding	—	—	—

	2016 Stock Option	2017 Stock Option	2018 Stock Option
Year Ended March 31, 2023			
Non-vested			
April 1, 2022—Outstanding	—	—	—
Granted	—	—	—
Canceled	—	—	—
Vested	—	—	—
March 31, 2023—Outstanding	—	—	—
Vested			
April 1, 2022—Outstanding	4,240	4,460	4,580
Vested	—	—	—
Exercised	1,240	1,020	1,000
Canceled	3,000	3,440	3,580
March 31, 2023—Outstanding	—	—	—

	2019 Stock Option	2020 Stock Option	2021 Stock Option
Year Ended March 31, 2023			
Non-vested			
April 1, 2022—Outstanding	—	—	2,690
Granted	—	—	—
Canceled	—	—	—
Vested	—	—	2,690
March 31, 2023—Outstanding	—	—	—
Vested			
April 1, 2022—Outstanding	6,400	7,900	8,070
Vested	—	—	2,690
Exercised	1,200	1,440	1,900
Canceled	5,200	6,460	8,860
March 31, 2023—Outstanding	—	—	—

	2013 Stock Option	2014 Stock Option	2015 Stock Option
Exercise price	¥ 1	¥ 1	¥ 1
	($ 0.01)	($ 0.01)	($ 0.01)
Average stock price at exercise (*)	¥2,711	¥2,711	¥2,711
	($20.30)	($20.30)	($20.30)
Fair value price at grant date (*)	¥2,640	¥2,945	¥3,170
	($19.77)	($22.05)	($23.74)

	2016 Stock Option	2017 Stock Option	2018 Stock Option
Exercise price	¥ 1	¥ 1	¥ 1
	($ 0.01)	($ 0.01)	($ 0.01)
Average stock price at exercise (*)	¥2,711	¥2,711	¥2,711
	($20.30)	($20.30)	($20.30)
Fair value price at grant date (*)	¥2,365	¥2,785	¥2,800
	($17.71)	($20.86)	($20.97)

	2019 Stock Option	2020 Stock Option	2021 Stock Option
Exercise price	¥ 1	¥ 1	¥ 1
	($ 0.01)	($ 0.01)	($ 0.01)
Average stock price at exercise (*)	¥2,711	¥2,711	¥2,711
	($20.30)	($20.30)	($20.30)
Fair value price at grant date (*)	¥2,204	¥2,359	¥1,732
	($16.51)	($17.67)	($12.97)

(*) Average stock price at exercise and fair value price at grant date have been restated, as appropriate, to reflect a 1-for-5 reverse stock split on October 1, 2018.

22. Revenue recognition

Disaggregation of revenue from contracts with customers

Category	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Income	¥115,289	¥98,306	$863,393
Of which, fees and commissions	17,651	17,366	132,187
Deposit and loan services	4,003	3,769	29,978
Foreign exchange services	2,843	2,915	21,291
Trust related services	135	105	1,011
Securities related services	234	443	1,752
Agency services	313	318	2,344
Safe-deposit and safe-deposit box services	113	117	846
Guarantee services	1,007	1,037	7,541
Credit card services	3,228	3,015	24,174
Investment trust and insurance sales	4,100	3,972	30,704
Others	1,670	1,670	12,506
Of which, trust fees	0	0	0

The above table also includes income based on "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10).

23. Other operating income

Other operating income for the years ended March 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Gains on foreign exchange transactions-net	¥ —	¥ 914	$ —
Gains on sales of bonds	870	3,907	6,515
Gains on derivative financial instruments	9,075	1,211	67,962
Other	10,242	10,166	76,701
Total	¥20,188	¥16,198	$151,186

24. Other income

Other income for the years ended March 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Gains on sales of stocks and other securities	¥18,382	¥13,753	$137,661
Recovery of claims previously charged-off	615	498	4,605
Other	621	761	4,650
Total	¥19,619	¥15,013	$146,925

25. Other operating expenses

Other operating expenses for the years ended March 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Losses on sales of government bonds	¥23,426	¥ 6,531	$175,436
Amortization of bonds	0	1	0
Losses on redemption of bonds	198	—	1,482
Other	10,163	9,284	76,110
Total	¥33,788	¥15,818	$253,036

26. R&D expenses

R&D expenses included in General and administrative expenses for the years ended March 31, 2023 and 2022 were ¥4,888 million ($36,606 thousand) and ¥7,832 million, respectively.

27. Other expenses

Other expenses for the years ended March 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Provision of allowance for loan losses	¥ 886	¥1,607	$ 6,635
Losses on sales of stocks and other securities	1,014	2,734	7,593
Charge-off of loans and bills discounted	989	500	7,406
Losses on devaluation of stocks and other securities	37	83	277
Losses on disposal of fixed assets	82	82	614
Losses on impairment of long-lived assets	—	509	—
Other	227	139	1,699
Total	¥3,236	¥5,657	$24,234

28. Gains (losses) related to bonds

Gains (losses) related to bonds for the years ended March 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Gains (losses) related to bonds including Japanese government bonds:			
Gains on sales of bonds	¥ 870	¥ 3,907	$ 6,515
Losses on sales of bonds	(23,426)	(6,531)	(175,436)
Losses on redemption of bonds	(198)	—	(1,482)
Losses on devaluation of bonds	(0)	(1)	(0)
Total	¥(22,754)	¥(2,626)	$(170,403)
Gains on derivatives:	¥ 9,075	¥ 1,211	$ 67,962
Losses related to bonds	¥(13,678)	¥(1,415)	$(102,433)

29. Gains (losses) related to stocks and other securities

Gains (losses) related to stocks and other securities for the years ended March 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Gains (losses) related to stocks and other securities:			
Gains on sales of stocks and other securities	¥18,382	¥13,753	$137,661
Losses on sales of stocks and other securities	(1,014)	(2,734)	(7,593)
Losses on devaluation of stocks and other securities	(37)	(83)	(277)
Net income on stocks and securities	¥17,331	¥10,935	$129,791

30. Leases

Lessor

One subsidiary lease certain equipment and other assets.

As stated in Note 2 (r) ii, finance lease transactions other than those in 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, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Gross lease receivables	¥14,933	¥15,581	$111,832
Unguaranteed residual values	390	417	2,920
Unearned interest income	(1,221)	(1,294)	(9,144)
Investments in leases	¥14,102	¥14,705	$105,609

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, 2023 are as follows:

	Millions of yen	Thousands of U.S. dollars
2024	¥445	$3,332
2025	253	1,894
2026	231	1,729
2027	136	1,018
2028	21	157
2029 and thereafter	21	157

Maturities of gross lease receivables related to investments in leases as of March 31, 2023 are as follows:

	Millions of yen	Thousands of U.S. dollars
2024	¥4,834	$36,201
2025	3,842	28,772
2026	2,763	20,691
2027	1,941	14,536
2028	1,121	8,395
2029 and thereafter	429	3,212

The minimum rental commitments under noncancelable operating leases as of March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Due within one year	¥13	¥ 6	$ 97
Due after one year	37	17	277
Total	¥50	¥24	$374

31. Retirement benefit plans

The Bank and consolidated subsidiaries have either funded or unfunded defined benefit plans. The Bank's funded defined benefit corporate pension plan (contract type) provides lump-sum or annuity payments, the amounts of which are determined based on the length of service and certain other factors. The Bank's lump-sum severance payment plan, which became a funded plan as a result of setting a retirement benefits trust, provides lump-sum payments determined based on the length of service, position, and certain other factors. As of October 1, 2017, the Bank has transferred a part of its funded defined benefit corporate pension plan to a defined contribution plan. The consolidated subsidiaries' unfunded lump-sum severance payment plans are based on a simplified method in the calculation of their liability for retirement benefits and retirement benefit costs.

1. Defined benefit plan (except for the plan adopting the simplified method)

(1) The changes in defined benefit obligation for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Balance at beginning of year	¥47,217	¥47,605	$353,605
Current service cost	1,709	1,725	12,798
Interest cost	203	204	1,520
Actuarial losses (gains)	(4,508)	311	(33,760)
Benefits paid	(2,477)	(2,630)	(18,550)
Prior service cost	—	—	—
Balance at end of year	¥42,143	¥47,217	$315,606

(2) The changes in plan assets for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Balance at beginning of year	¥60,540	¥60,575	$453,381
Expected return on plan assets	1,219	1,141	9,129
Actuarial losses	(349)	(1,575)	(2,613)
Contribution from the employer	1,697	1,748	12,708
Benefits paid	(1,314)	(1,350)	(9,840)
Balance at end of year	¥61,793	¥60,540	$462,764

(3) Reconciliation between the asset recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Funded defined benefit obligation	¥ 42,143	¥ 47,217	$ 315,606
Plan assets	(61,793)	(60,540)	(462,764)
Net asset arising from the balance sheet	¥(19,650)	¥(13,323)	$(147,157)

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Liability for retirement benefits	¥ —	¥ —	$ —
Asset for retirement benefits	19,650	13,323	147,157
Net asset arising from the balance sheet	¥(19,650)	¥(13,323)	$(147,157)

(4) The components of net periodic benefit costs for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Service cost	¥ 1,709	¥ 1,725	$ 12,798
Interest cost	203	204	1,520
Expected return on plan assets	(1,219)	(1,141)	(9,129)
Recognized actuarial gains	(1,733)	(1,852)	(12,978)
Amortization of prior service cost	—	—	—
Net periodic benefit costs	¥(1,039)	¥(1,064)	$ (7,781)

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Prior service cost	¥ —	¥ —	$ —
Actuarial losses (gains)	(2,425)	3,739	(18,160)
Total	¥(2,425)	¥3,739	$(18,160)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Unrecognized prior service cost	¥ —	¥ —	$ —
Unrecognized actuarial gains	(11,996)	(9,570)	(89,837)
Total	¥(11,996)	¥(9,570)	$(89,837)

(7) Plan assets:

a. Components of plan assets

	2023	2022
Bonds	12%	13%
Stocks	60	61
Cash and cash equivalents	10	8
General accounts	18	18
Total	100%	100%

(Note) Total plan assets included retirement benefits trust of 52% and 51%, for the years ended March 31, 2023 and 2022, respectively, mainly consisting of 5 stocks, which were set for a corporate pension plan and a lump-sum payment plan.

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the allocation of plan assets and the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2023 and 2022, were set forth as follows:

	2023	2022
Discount rate	1.17%	0.43%
Expected rate of return on plan assets		
Plan assets (except for retirement benefits trust)	4.19%	4.08%
Plan assets (retirement benefits trust)	0.00%	0.00%
Estimated rate of salary increase	4.10%	4.10%

2. Defined benefit plan adopting the simplified method

(1) The changes in defined benefit obligation adopting the simplified method for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Balance at beginning of year	¥157	¥143	$1,175
Net periodic benefit costs	20	22	149
Benefits paid	(18)	(7)	(134)
Contribution to the plan	—	—	—
Balance at end of year	¥159	¥157	$1,190

(2) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Unfunded defined benefit obligation	¥159	¥157	$1,190
Net liability arising from the balance sheet	¥159	¥157	$1,190

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Liability for retirement benefits	¥159	¥157	$1,190
Net liability arising from the balance sheet	¥159	¥157	$1,190

(3) Net periodic benefit costs recognized in the simplified method for the years ended March 31, 2023 and 2022, were ¥20 million ($149 thousand) and ¥22 million, respectively.

3. Defined contribution plan

The Bank's required contribution to the defined contribution plan for the years ended March 31, 2023 and 2022 were ¥338 million ($2,531 thousand) and ¥334 million, respectively.

32. Income taxes

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities at March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Deferred tax assets:			
Allowance for loan losses	¥ 11,009	¥ 11,381	$ 82,445
Devaluation of stocks and other securities	4,295	4,774	32,165
Liability for retirement benefits	262	1,341	1,962
Depreciation	6,173	4,150	46,229
Accrued enterprise tax	154	273	1,153
Other	2,010	2,076	15,052
Less valuation allowance	(12,174)	(11,673)	(91,170)
Total	¥ 11,731	¥ 12,325	$ 87,852
Deferred tax liabilities:			
Reserve for advance depreciation of fixed assets	(184)	(175)	(1,377)
Net unrealized gains on available-for-sale securities	(42,384)	(60,503)	(317,411)
Defined retirement benefit plans	(3,652)	(2,914)	(27,349)
Deferred gains on derivatives under hedge accounting	(6,829)	(2,646)	(51,142)
Total	(53,052)	(66,239)	(397,303)
Net deferred tax liabilities	¥(41,320)	¥(53,914)	$(309,443)

A reconciliation of the effective income tax rate reflected in the accompanying consolidated statement of income to the statutory tax rate for the years ended March 31, 2023 and 2022, were as follows:

	2023	2022
Statutory tax rate	30.4%	30.4%
(Reconciliation)		
Permanent differences excluded from taxable income such as dividend income	(3.6)%	(1.3)%
Tax credit for experimentation and research expenses, etc.	(3.3)%	(4.6)%
Changes in valuation allowance	2.4%	0.0%
Others	0.4%	(0.2)%
Effective income tax rate	26.3%	24.3%

33. Financial instruments and related disclosures

1. Overall situation concerning financial instruments

(1) Basic policy for financial instruments

As a regional financial institution with its main business base in Shiga Prefecture, the Group provides financial services centered on banking operations.

The Group's main operations are to extend loans to customers in its business area, and make investments in securities by mainly using funds that are received as deposits from 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 customers within its business area and are subject to credit risk of incurring losses when the value of such assets declines or disappears due to deterioration in the financial condition 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, primarily comprised of bonds, corporate stocks and investment trusts, for the following purposes: to sell them to customers, for purely investment purposes, and for strategic investment. These are subject to market risk of incurring potential losses due to fluctuations of interest rates, foreign exchange rates, stock markets and others, and the credit risk of the issuers.

Foreign currency-denominated loans and bonds are subject to foreign exchange risk in addition to the risks as described above. They are managed to reduce foreign exchange risk by procuring foreign currency funds through currency swaps, repurchase transactions, or call transactions.

Financial liabilities are primarily deposits from customers and borrowed money. Borrowed money is — 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 "JICPA Practical Guidelines for Financial Instruments" 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 market risk as well as credit risk.

(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 impact, the Group has established regulations and standards pertaining to such risk. It has also developed a debtor 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 debtors, the Group manages it by setting 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 debtor resides.

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 a financial 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 organization into a market transaction sector, business management sector, and risk management sector.

For market transactions including securities, the Group takes into account overall Group risk and return, based on a financial plan 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

abovementioned 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 performed for the purposes of hedging and cover transactions to customer transactions, the Group manages them so that asset and liability risks and market risks are offset with 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 risks 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 level 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 as of March 31,2023 and 2022 stood at ¥7,386 million ($55,313 thousand) and ¥11,629 million, respectively.

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 strategic investment and purely investment purposes. The volatility risk amounts of the prices of such shares as of March 31, 2023 and 2022 stood at ¥62,108 million ($465,123 thousand) and ¥110,995 million, respectively.

Backtesting

To verify the appropriateness of the risk amounts that are measured through VaR, the Group carries out backtesting 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 and the Board of Directors on a regular basis.

2. Fair value of financial instruments

Fair value and the consolidated balance sheet amount as of March 31, 2023 and 2022, are shown below. Shares, etc. that do not have market price and investment in capital of partnership are not included in the table below (see Note 1).

Cash and due from banks, call loans and bills bought, foreign exchange (assets and liabilities), call money and bills sold, and payables under securities lending transactions are settled in a short period of time and their book value approximates fair value, therefore, notes are omitted. Financial instruments that are immaterial have been omitted.

	Millions of yen		
	2023		
	Consolidated balance sheet amount	Fair value	Difference
Investment securities	¥1,498,034	¥1,492,882	¥ (5,152)
Held-to-maturity securities	66,958	61,806	(5,152)
Available-for-sale securities (*1)	1,431,076	1,431,076	—
Loans and bills discounted	4,343,641	—	—
Allowance for loan losses (*2)	(31,842)	—	—
	4,311,798	4,286,290	(25,508)
Assets total	5,809,833	5,779,173	(30,660)
Deposits	5,714,368	5,714,494	126
Negotiable certificates of deposit	30,332	30,333	1
Borrowed money	538,456	536,341	(2,114)
Liabilities total	6,283,157	6,281,169	(1,987)
Derivative transactions (*3)			
Deferred hedge accounting is not applied	(5,773)	(5,773)	—
Deferred hedge accounting is applied (*4)	22,428	22,428	—
Derivative transactions total	¥ 16,655	¥ 16,655	¥ —

	Millions of yen		
	2022		
	Consolidated balance sheet amount	Fair value	Difference
Investment securities			
Held-to-maturity securities	¥ 59,946	¥ 57,779	¥ (2,166)
Available-for-sale securities	1,439,179	1,439,179	—
Loans and bills discounted	4,064,683	—	—
Allowance for loan losses (*2)	(32,150)	—	—
	4,032,533	4,049,164	16,631
Assets total	5,531,658	5,546,123	14,464
Deposits	5,611,084	5,611,258	174
Negotiable certificates of deposit	41,880	41,882	1
Borrowed money	936,840	936,718	(121)
Liabilities total	6,589,805	6,589,859	54
Derivative transactions (*3)			
Deferred hedge accounting is not applied	(7,501)	(7,501)	—
Deferred hedge accounting is applied (*4)	8,692	8,692	—
Derivative transactions total	¥ (1,190)	¥ (1,190)	¥ —

	Thousands of U.S. dollars		
	2023		
	Consolidated balance sheet amount	Fair value	Difference
Investment securities	$11,218,707	$11,180,124	$ (38,583)
Held-to-maturity securities	501,445	462,862	(38,583)
Available-for-sale securities (*1)	10,717,262	10,717,262	—
Loans and bills discounted	32,529,326	—	—
Allowance for loan losses (*2)	(238,463)	—	—
	32,290,855	32,099,827	(191,028)
Assets total	43,509,570	43,279,959	(229,611)
Deposits	42,794,637	42,795,581	943
Negotiable certificates of deposit	227,154	227,162	7
Borrowed money	4,032,472	4,016,632	(15,831)
Liabilities total	47,054,272	47,039,384	(14,880)
Derivative transactions (*3)			
Deferred hedge accounting is not applied	(43,233)	(43,233)	—
Deferred hedge accounting is applied (*4)	167,962	167,962	—
Derivative transactions total	$ 124,728	$ 124,728	$ —

(*1) Available-for-sale securities include investment trusts to which the treatment of recognizing the base price at market value has been applied, as set forth in Paragraphs 24-3 and 24-9 of the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31 issued on June 17, 2021).

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

(*3) 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.

(*4) Interest rate swaps designated as hedging instruments to offset market fluctuations in foreign securities, which are hedged items, are accounted for as deferred hedges. "Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR" (ASBJ Revised Practical Solution No.40 issued on March 17, 2022) is applied to these hedging relationships.

(Note 1) Shares, etc. that do not have market price and investment in capital of partnership

The consolidated balance sheet amounts of shares, etc. that do not have market price and investment in capital of partnership are as follows. These are not included in "available-for-sale securities" under "investment securities" in the tables above.

	Consolidated balance sheet amount		
	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Unlisted stocks (*1) (*2)	¥ 3,416	¥3,878	$ 25,582
Investment in capital of partnership and others (*3)	14,126	8,860	105,788

(*1) Unlisted stocks are excluded from fair value disclosure in accordance with Paragraph 5 of the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 issued on March 31, 2020).

(*2) Impairment losses for unlisted stocks amounted to ¥37 million ($277 thousand) and ¥1 million for the years ended March 31, 2023 and 2022, respectively.

(*3) Investment in capital of partnership and others are excluded from fair value disclosure in accordance with Paragraph 24-16 of "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31 issued on June 17, 2021).

(Note 2) Maturity analysis for financial assets and securities with contractual maturities

	Millions of yen					
	2023					
	1 year or less	1 to 3 years	3 to 5 years	5 to 7 years	7 to 10 years	Over 10 years
Due from banks	¥1,162,006	¥ —	¥ —	¥ —	¥ —	¥ —
Investment securities	63,219	138,422	163,388	114,681	103,854	642,048
Held-to-maturity securities	—	—	—	—	—	67,000
Japanese government bonds	—	—	—	—	—	67,000
Available-for-sale securities	63,219	138,422	163,388	114,681	103,854	575,048
Japanese government bonds	3,000	12,000	—	—	20,000	227,000
Japanese local government bonds	13,128	36,031	42,756	70,799	54,343	13,045
Japanese corporate bonds	19,498	38,540	59,944	15,838	800	178,828
Others	27,592	51,850	60,687	28,043	28,710	156,174
Loans and bills discounted (*)	952,444	826,450	653,775	410,949	471,956	954,086
Total	¥2,177,670	¥964,872	¥817,164	¥525,631	¥575,810	¥1,596,135

	Millions of yen					
	2022					
	1 year or less	1 to 3 years	3 to 5 years	5 to 7 years	7 to 10 years	Over 10 years
Due from banks	¥1,713,259	¥ —	¥ —	¥ —	¥ —	¥ —
Investment securities	72,907	129,781	107,436	84,225	204,617	580,828
Held-to-maturity securities	—	—	—	—	—	60,000
Japanese government bonds	—	—	—	—	—	60,000
Available-for-sale securities	72,907	129,781	107,436	84,225	204,617	520,828
Japanese government bonds	—	16,000	—	—	40,000	220,000
Japanese local government bonds	20,779	24,302	24,262	42,813	72,056	14,141
Japanese corporate bonds	25,815	30,462	40,868	9,827	14,300	186,299
Others	26,313	59,016	42,305	31,584	78,261	100,387
Loans and bills discounted (*)	913,119	796,205	597,772	378,223	442,337	866,749
Total	¥2,699,286	¥925,986	¥705,208	¥462,449	¥646,954	¥1,447,577

	Thousands of U.S. dollars					
	2023					
	1 year or less	1 to 3 years	3 to 5 years	5 to 7 years	7 to 10 years	Over 10 years
Due from banks	$ 8,702,209	$ —	$ —	$ —	$ —	$ —
Investment securities	473,444	1,036,635	1,223,605	858,840	777,757	4,808,267
Held-to-maturity securities	—	—	—	—	—	501,759
Japanese government bonds	—	—	—	—	—	501,759
Available-for-sale securities	473,444	1,036,635	1,223,605	858,840	777,757	4,306,507
Japanese government bonds	22,466	89,867	—	—	149,779	1,699,992
Japanese local government bonds	98,314	269,834	320,197	530,210	406,972	97,693
Japanese corporate bonds	146,019	288,624	448,917	118,610	5,991	1,339,234
Others	206,635	388,302	454,482	210,012	215,007	1,169,579
Loans and bills discounted (*)	7,132,809	6,189,245	4,896,090	3,077,578	3,534,456	7,145,105
Total	$16,308,470	$7,225,881	$6,119,703	$3,936,426	$4,312,214	$11,953,381

(*) Loans in legal bankruptcy, virtual bankruptcy, and potential bankruptcy amounting to ¥50,816 million ($380,558 thousand) and ¥46,596 million, and, loans and bills discounted without contractual maturities amounting to ¥23,161 million ($173,451 thousand) and ¥23,679 million are excluded from the table above as of March 31, 2023 and 2022.

(Note 3) Maturity analysis for bonds, borrowed money, and other interest-bearing liabilities

	Millions of yen					
	2023					
	1 year or less	1 to 3 years	3 to 5 years	5 to 7 years	7 to 10 years	Over 10 years
Deposits (*)	¥5,406,329	¥290,410	¥ 17,627	¥ —	¥ —	¥—
Negotiable certificates of deposit	30,332	—	—	—	—	—
Call money and bills sold	237,906	—	—	—	—	—
Payables under securities lending transactions	205,572	—	—	—	—	—
Borrowed money	197,505	71,387	265,414	114	4,035	—
Total	¥6,077,646	¥361,798	¥283,042	¥114	¥4,035	¥—

	Millions of yen					
	2022					
	1 year or less	1 to 3 years	3 to 5 years	5 to 7 years	7 to 10 years	Over 10 years
Deposits (*)	¥5,283,539	¥312,087	¥15,456	¥ —	¥ —	¥—
Negotiable certificates of deposit	41,880	—	—	—	—	—
Call money and bills sold	145,809	—	—	—	—	—
Payables under securities lending transactions	185,680	—	—	—	—	—
Borrowed money	826,148	66,687	40,148	104	3,750	—
Total	¥6,483,059	¥378,775	¥55,605	¥104	¥3,750	¥—

	Thousands of U.S. dollars					
	2023					
	1 year or less	1 to 3 years	3 to 5 years	5 to 7 years	7 to 10 years	Over 10 years
Deposits (*)	$40,487,748	$2,174,867	$ 132,007	$ —	$ —	$—
Negotiable certificates of deposit	227,154	—	—	—	—	—
Call money and bills sold	1,781,667	—	—	—	—	—
Payables under securities lending transactions	1,539,519	—	—	—	—	—
Borrowed money	1,479,105	534,613	1,987,673	853	30,217	—
Total	$45,515,210	$2,709,488	$2,119,688	$853	$30,217	$—

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

3. Fair value information by level within the fair value hierarchy

The fair value of financial instruments is classified into the following three levels according to the observability and materiality of inputs used to measure fair value.

Level 1 fair value: Fair value measured using observable inputs, i.e. quoted prices in active markets for assets or liabilities that are the subject of the measurement.

Level 2 fair value: Fair value measured using observable inputs other than Level 1 inputs.

Level 3 fair value: Fair value measured using unobservable inputs.

If multiple inputs are used that are significant to the fair value measurement, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement.

Notes regarding securities by purpose of holding are described in 4. Securities.

(1) Financial instruments carried at fair value in the consolidated balance sheet

	Millions of yen			
	2023			
	Fair value			
Category	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Japanese government bonds, local government bonds, etc.	¥240,840	¥244,617	¥ —	¥ 485,457
Japanese corporate bonds	—	155,167	11,459	166,627
Residential mortgage-backed security	—	143,447	—	143,447
Stocks	278,050	2,895	—	280,945
Other	100,292	188,829	53,634	342,755
Derivative transactions				
Interest rate related	—	24,073	—	24,073
Currency related	—	6,062	—	6,062
Total assets	619,182	765,091	65,094	1,449,368
Derivative transactions				
Interest rate related	—	1,591	—	1,591
Currency related	—	11,888	—	11,888
Total liabilities	¥ —	¥ 13,479	¥ —	¥ 13,479

	Millions of yen			
	2022			
	Fair value			
Category	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Japanese government bonds, local government bonds, etc.	¥257,773	¥215,173	¥ —	¥ 472,946
Japanese corporate bonds	—	153,508	17,858	171,366
Residential mortgage-backed security	—	136,484	—	136,484
Stocks	309,354	2,031	—	311,385
Other	149,423	131,934	17,467	298,825
Derivative transactions				
Interest rate related	—	9,642	—	9,642
Currency related	—	3,187	—	3,187
Total assets	716,551	651,960	35,326	1,403,838
Derivative transactions				
Interest rate related	—	894	—	894
Currency related	—	10,744	—	10,744
Total liabilities	¥ —	¥ 11,638	¥ —	¥ 11,638

(*) Fair value of investment trusts are not included in the above. The consolidated balance sheet amount of investment trusts is ¥48,170 million.

	Thousands of U.S. dollars			
	2023			
	Fair value			
Category	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Japanese government bonds, local government bonds, etc.	$1,803,639	$1,831,925	$ —	$ 3,635,565
Japanese corporate bonds	—	1,162,038	85,815	1,247,861
Residential mortgage-backed security	—	1,074,267	—	1,074,267
Stocks	2,082,303	21,680	—	2,103,984
Other	751,082	1,414,131	401,662	2,566,876
Derivative transactions				
Interest rate related	—	180,281	—	180,281
Currency related	—	45,398	—	45,398
Total assets	4,637,025	5,729,731	487,485	10,854,249
Derivative transactions				
Interest rate related	—	11,914	—	11,914
Currency related	—	89,028	—	89,028
Total liabilities	$ —	$ 100,943	$ —	$ 100,943

(*)Investment securities do not include investment trusts to which the treatment of recognizing the base price at market value has been applied, as set forth in Paragraphs 24-3 and 24-9 of the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31 issued on June 17, 2021). The consolidated balance sheet amount of investment trusts to which the treatment under Paragraph 24-3 has been applied is ¥1,707 million ($12,783 thousand) and the consolidated balance sheet amount of investment trusts to which the treatment under Paragraph 24-9 has been applied is ¥3,698 million ($27,694 thousand).

(a) Adjustment table from the beginning balance to the year-end balance of investment trusts applying the treatment of Paragraphs 24-3 and 24-9

	Millions of yen	Thousands of U.S. dollars
	2023	
Beginning balance	¥ 808	$ 6,051
Profit or loss or other comprehensive income for the period		
Recorded in profit or loss	—	—
Recorded in other comprehensive income (*)	44	329
Purchases, sales and redemption (net)	4,553	34,097
Amount for which the base price of the investment trusts is considered to be the fair value	—	—
Amount for which the base price of the investment trusts is not considered to be the fair value	—	—
Ending balance	¥5,405	$40,477
Gains or losses on valuation of investment trusts held at the end of the reporting period included in profit or loss for the period	¥ —	$ —

(*)Included in "net unrealized gains (losses) on available-for-sale securities" under "other comprehensive income" in the consolidated statement of comprehensive income.

(b) Breakdown by restriction on cancellation or repurchase requests on consolidated accounting dates

	Millions of yen	Thousands of U.S. dollars
	2023	
Main contents on restriction on cancellation or repurchase requests	Amount on the consolidated balance sheet	
Cancellation or repurchase request is not possible, and the consent of the asset management company is required for transfer	¥1,302	$9,750
Taking several months from cancellation application to refund	404	3,025

(2) Financial instruments other than those carried at fair value in the consolidated balance sheet

	Millions of yen			
	2023			
	Fair value			
Category	Level 1	Level 2	Level 3	Total
Investment securities				
Held-to-maturity securities				
Japanese government bonds, local government bonds, etc.	¥61,806	¥ —	¥ —	¥ 61,806
Loans and bills discounted	—	—	4,286,290	4,286,290
Total assets	61,806	—	4,286,290	4,348,097
Deposits	—	5,714,494	—	5,714,494
Negotiable certificates of deposit	—	30,333	—	30,333
Borrowed money	—	536,341	—	536,341
Total liabilities	¥ —	¥6,281,169	¥ —	¥6,281,169

	Millions of yen			
	2022			
	Fair value			
Category	Level 1	Level 2	Level 3	Total
Investment securities				
Held-to-maturity securities				
Japanese government bonds, local government bonds, etc.	¥57,779	¥ —	¥ —	¥ 57,779
Loans and bills discounted	—	—	4,049,164	4,049,164
Total assets	57,779	—	4,049,164	4,106,944
Deposits	—	5,611,258	—	5,611,258
Negotiable certificates of deposit	—	41,882	—	41,882
Borrowed money	—	936,718	—	936,718
Total liabilities	¥ —	¥6,589,859	¥ —	¥6,589,859

	Thousands of U.S. dollars			
	2023			
	Fair value			
Category	Level 1	Level 2	Level 3	Total
Investment securities				
Held-to-maturity securities				
Japanese government bonds, local government bonds, etc.	$462,862	$ —	$ —	$ 462,862
Loans and bills discounted	—	—	32,099,827	32,099,827
Total assets	462,862	—	32,099,827	32,562,697
Deposits	—	42,795,581	—	42,795,581
Negotiable certificates of deposit	—	227,162	—	227,162
Borrowed money	—	4,016,632	—	4,016,632
Total liabilities	$ —	$47,039,384	$ —	$47,039,384

(Note 1) A description of the valuation techniques and inputs used in the fair value measurements

Assets

Securities

Securities for which unadjusted quoted prices in active markets are available are classified as Level 1 fair value. This mainly includes listed stocks and Japanese government bonds. Securities for which published quoted prices are available but the market is not active are classified as Level 2 fair value. This mainly includes Japanese local government bonds and Japanese corporate bonds. In addition, regarding investment trusts that do not have a trading price in the market, if there is no restriction that is significant enough for the market participants to demand compensation for the risk relating to cancellation or repurchase claims, the base value is the fair value and they are classified as Level 2 fair value.

When quoted prices are not available, fair value is determined using valuation techniques such as the present value of future cash flows. In making valuations, the Bank uses observable inputs to the greatest extent possible. Such inputs include TIBOR, government bond yields, prepayment rates, credit spreads, probability of bankruptcy, and loss rates in the event of bankruptcy. When significant unobservable inputs are used in the valuation, the fair value is classified as Level 3 fair value.

Loans and bills discounted

For loans and bills discounted, the fair value is calculated by discounting the total amount of principal and interest by a discount rate that reflects the market interest rate and credit risk, etc., for each category based on the type of loan, internal rating and term. Those with floating interest rates reflect the market rate in the short term. Consequently, in cases where 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 claims against legally bankrupt debtors, virtually bankrupt debtors and debtors who are likely to go bankrupt (potentially bankrupt debtors), fair value is calculated using the estimated future cash flows and the estimated amounts that the Group would be able to collect from collateral and guarantees. For loans that are subject to special accounting treatment for interest rate swaps or designated hedge accounting for forward exchange contracts, etc., the fair value of the interest rate swaps or forward exchange contracts, etc. is reflected. If the effect of unobservable inputs on fair value is significant, the fair value is classified as Level 3 fair value; otherwise, the fair value is classified as Level 2 fair value.

Liabilities

Deposits and Negotiable certificates of deposit

For demand deposits that are payable immediately on demand on the consolidated balance sheet date, the amount of the demand deposit is used as the fair value. For time deposits and negotiable certificates of deposit, the fair value is calculated based on the discounted present value of the future cash flows, classified by a certain period of time. The discount rate is based on market interest rates. The fair value of those with short deposit terms (i.e., less than one year) approximates the book value, and the Group deems the book value to be the fair value. Such fair value is classified as Level 2 fair value.

Borrowed money

The present value of borrowed money is calculated by discounting the total principal and interest of the relevant borrowed money, classified by a certain period of time, at an interest rate that takes into account the remaining period of the borrowed money and credit risk. The book value of floating rate borrowings 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 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. The fair value of those with short contractual terms (i.e., less than one year) approximates the book value, and the Group deems the book value to be the fair value. Such fair value is classified as Level 2 fair value.

Derivative transactions

Derivative transactions for which unadjusted quoted prices in active markets are available are classified as Level 1 fair value, which primarily include bond and interest rate futures transactions.

However, since most derivative transactions are over-the-counter transactions and there are no published quoted prices, fair values are calculated using valuation techniques such as the present value technique and the Black-Scholes model, depending on the type of transaction and the period to maturity. The main inputs used in those valuation techniques include interest rates, exchange rates, and volatility. Price adjustments are made based on the credit risk of the counterparty and the Bank's own credit risk. When unobservable inputs are not used or their effect is not material, they are classified as Level 2 fair value and include plain vanilla interest rate swap transactions, forward exchange contracts, etc. If significant unobservable inputs are used, they are classified as Level 3 fair value and include bond over-the-counter option transactions, etc.

(Note 2) Information about Level 3 fair value of financial instruments carried at fair value in the consolidated balance sheet

(1) Quantitative information on significant unobservable inputs

Category	2023 Valuation techniques	Significant unobservable inputs	Scope of inputs	Weighted average of inputs
Securities				
Available-for-sale securities				
Japanese corporate bonds				
Private placement bonds	Present value technique	Discount rate	0.3% to 1.9%	0.4%

Category	2022 Valuation techniques	Significant unobservable inputs	Scope of inputs	Weighted average of inputs
Securities				
Available-for-sale securities				
Japanese corporate bonds				
Private placement bonds	Present value technique	Discount rate	0.2% to 8.1%	0.4%

(2) A reconciliation from the beginning balances to the ending balances and gains or losses on valuation of financial assets and financial liabilities held at the end of the reporting period included in profit or loss for the period

	Millions of yen	
	2023	
	Securities	
	Available-for-sale securities	
	Japanese corporate bonds	Foreign bonds
Beginning balance	¥17,858	¥17,467
Profit or loss or other comprehensive income for the period		
Recorded in profit or loss (*1)	5	4
Recorded in other comprehensive income (*2)	(29)	(749)
Purchases, sales, issuances, and settlements (net)	(6,374)	34,676
Transfer into Level 3 (*3)	—	2,235
Transfer out of Level 3	—	—
Ending balance	¥11,459	¥53,634
Gains or losses on valuation of financial assets and financial liabilities held at the end of the reporting period included in profit or loss for the period (*1)	¥ —	¥ —

	Millions of yen	
	2022	
	Securities	
	Available-for-sale securities	
	Japanese corporate bonds	Foreign bonds
Beginning balance	¥27,163	¥23,971
Profit or loss or other comprehensive income for the period		
Recorded in profit or loss (*1)	4	4
Recorded in other comprehensive income (*2)	(17)	(58)
Purchases, sales, issuances, and settlements (net)	(9,291)	(2,164)
Transfer into Level 3	—	—
Transfer out of Level 3 (*4)	—	(4,287)
Ending balance	¥17,858	¥17,467
Gains or losses on valuation of financial assets and financial liabilities held at the end of the reporting period included in profit or loss for the period (*1)	¥ —	¥ —

	Thousands of U.S. dollars	
	2023	
	Securities	
	Available-for-sale securities	
	Japanese corporate bonds	Foreign bonds
Beginning balance	$133,737	$130,809
Profit or loss or other comprehensive income for the period		
Recorded in profit or loss (*1)	37	29
Recorded in other comprehensive income (*2)	(217)	(5,609)
Purchases, sales, issuances, and settlements (net)	(47,734)	259,686
Transfer into Level 3 (*3)	—	16,737
Transfer out of Level 3	—	—
Ending balance	$ 85,815	$401,662
Gains or losses on valuation of financial assets and financial liabilities held at the end of the reporting period included in profit or loss for the period (*1)	$ —	$ —

(*1) Included in "other operating income" and "other operating expenses" in the consolidated statement of income.

(*2) Included in "net unrealized gains (losses) on available-for-sale securities" under "other comprehensive income" in the consolidated statement of comprehensive income.

(*3) Transferred out of Level 2 fair value into Level 3 fair value because of changes in observability of inputs used for the calculation of fair value. The transfer was made at the end of the current fiscal year.

(*4) Transferred out of Level 3 fair value into Level 2 fair value because observable market data became available mainly for foreign bonds. The transfer was made at the end of the current fiscal year.

(3) A description of valuation processes used for fair value measurements

The risk management sector of the Group establishes policies and procedures for fair value measurement, and the business management sector formulates a fair value valuation model in accordance with such policies and procedures. The risk management sector verifies appropriateness as to whether the model, the inputs used, and the fair value as a result of the calculation are in accordance with the policies and procedures. Based on the results of the verification, the risk management sector makes decisions regarding the classification of fair value levels. When quoted prices obtained from third parties are used as fair value, the Bank verifies appropriateness of the prices through appropriate methods, including confirmation of the valuation techniques and inputs used and comparison with the fair value of similar financial instruments.

(4) A description of sensitivity of the fair value measurement to changes in significant unobservable inputs

The discount rate is an adjustment to the base market interest rate, such as the risk-free rate or swap rate, and consists of a risk premium, which is the amount of compensation required by market participants for the uncertainty of the cash flows of financial instruments arising primarily from credit risk. Generally, a significant increase (decrease) in the discount rate will result in a significant decrease (increase) in fair value.

34. 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, 2023 and 2022.

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

	Millions of yen			
	2023			
	Contractual value	Contractual value due after one year	Fair value	Net unrealized gains (losses)
Over-the-counter:				
Interest rate swap				
Receivable fixed rate/pay floating rate	¥11,077	¥5,683	¥(66)	¥(66)
Receivable floating rate /pay fixed rate	12,545	7,285	119	119
Total	¥ —	¥ —	¥ 53	¥ 53

	Millions of yen			
	2022			
	Contractual value	Contractual value due after one year	Fair value	Net unrealized gains (losses)
Over-the-counter:				
Interest rate swap				
Receivable fixed rate/pay floating rate	¥12,042	¥12,042	¥31	¥31
Receivable floating rate /pay fixed rate	13,021	11,920	24	24
Total	¥ —	¥ —	¥55	¥55

	Thousands of U.S. dollars			
	2023			
	Contractual value	Contractual value due after one year	Fair value	Net unrealized gains (losses)
Over-the-counter:				
Interest rate swap				
Receivable fixed rate/pay floating rate	$82,955	$42,559	$(494)	$(494)
Receivable floating rate /pay fixed rate	93,948	54,557	891	891
Total	$ —	$ —	$ 396	$ 396

Note: 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 income.

(2) Currency-related transactions

	Millions of yen			
	2023			
	Contractual value	Contractual value due after one year	Fair value	Net unrealized gains (losses)
Over-the-counter:				
Currency swap	¥ 40,542	¥33,509	¥(5,190)	¥(5,190)
Forward exchange contracts:				
Sold	70,892	—	(830)	(830)
Bought	21,998	—	343	343
Currency options:				
Sold	113,883	87,761	(5,524)	(2,269)
Bought	113,883	87,761	5,375	2,858
Total	¥ —	¥ —	¥(5,826)	¥(5,087)

	Millions of yen			
	2022			
	Contractual value	Contractual value due after one year	Fair value	Net unrealized gains (losses)
Over-the-counter:				
Currency swap	¥45,767	¥32,402	¥(2,850)	¥(2,850)
Forward exchange contracts:				
Sold	93,485	—	(4,997)	(4,997)
Bought	5,000	—	282	282
Currency options:				
Sold	50,924	29,372	(2,810)	(1,158)
Bought	50,924	29,372	2,818	1,424
Total	¥ —	¥ —	¥(7,557)	¥(7,299)

	Thousands of U.S. dollars			
	2023			
	Contractual value	Contractual value due after one year	Fair value	Net unrealized gains (losses)
Over-the-counter:				
Currency swap	$303,617	$250,947	$(38,867)	$(38,867)
Forward exchange contracts:				
Sold	530,906	—	(6,215)	(6,215)
Bought	164,742	—	2,568	2,568
Currency options:				
Sold	852,864	657,238	(41,368)	(16,992)
Bought	852,864	657,238	40,253	21,403
Total	$ —	$ —	$(43,630)	$(38,096)

Note: 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 income.

(3) Stock-related transactions are not applicable.

(4) Bond-related transactions are not applicable.

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

(6) Credit derivative transactions are not applicable.

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, 2023 and 2022.

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

(1) Interest-rate-related transactions

	Millions of yen			
	2023			
	Hedged items	Contractual value	Contractual value due after one year	Fair value
Principle treatment Interest rate swap: Receivable floating rate/ pay fixed rate	Available-for-sale securities (bonds)	¥312,847	¥312,847	¥22,428

	Millions of yen			
	2022			
	Hedged items	Contractual value	Contractual value due after one year	Fair value
Principle treatment Interest rate swap: Receivable floating rate/ pay fixed rate	Available-for-sale securities (bonds)	¥269,344	¥269,344	¥8,692

	Thousands of U.S. dollars			
	2023			
	Hedged items	Contractual value	Contractual value due after one year	Fair value
Principle treatment Interest rate swap: Receivable floating rate/ pay fixed rate	Available-for-sale securities (bonds)	$2,342,896	$2,342,896	$167,962

Note: Deferred hedge accounting is mainly applied.

(2) Currency-related transactions are not applicable.

(3) Stock-related transactions are not applicable.

(4) Bond-related transactions are not applicable.

35. Comprehensive income (loss)

The components of other comprehensive loss for the years ended March 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Net unrealized losses on available-for-sale securities:			
The amount arising during the period	¥(64,872)	¥(58,221)	$(485,823)
Reclassification adjustments to profit or loss	5,583	(8,318)	41,810
Before adjustments to tax effect	(59,289)	(66,539)	(444,012)
The amount of tax effect	18,118	20,320	135,684
Total	¥(41,170)	¥(46,218)	$(308,320)
Deferred gains on derivatives under hedge accounting:			
The amount arising during the period	¥ 23,746	¥ 7,530	$177,832
Reclassification adjustments to profit or loss	(10,009)	(1,188)	(74,956)
Before adjustments to tax effect	13,736	6,342	102,868
The amount of tax effect	(4,182)	(1,931)	(31,318)
Total	¥ 9,553	¥ 4,410	$ 71,541
Defined retirement benefit plans:			
The amount arising during the period	¥ 4,159	¥ (1,886)	$ 31,146
Reclassification adjustments to profit or loss	(1,733)	(1,852)	(12,978)
Before adjustments to tax effect	2,425	(3,739)	18,160
The amount of tax effect	(738)	1,138	(5,526)
Total	¥ 1,687	¥ (2,600)	$ 12,633
Total other comprehensive loss	¥(29,930)	¥(44,408)	$(224,144)

36. Net income per share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2023 and 2022, is as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
For the year ended March 31, 2023				
Basic EPS:				
Net income attributable to common shareholders	¥14,858	47,841	¥310.57	$2.325
Effect of dilutive securities:				
Warrants		11		
Diluted EPS:				
Net income for computation	¥14,858	47,852	¥310.49	$2.325
For the year ended March 31, 2022				
Basic EPS:				
Net income attributable to common shareholders	¥17,715	49,278	¥359.50	
Effect of dilutive securities:				
Warrants		41		
Diluted EPS:				
Net income for computation	¥17,715	49,319	¥359.20	

37. Subsequent event

Appropriation of retained earnings

The following appropriation of retained earnings was authorized at the ordinary general shareholders' meeting held on June 27, 2023:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥40 ($0.300) per share	¥1,899	$14,221
Total	¥1,899	$14,221

38. Segment information

For the years ended March 31, 2023 and 2022

As the Group has only one segment (i.e. banking), the description is not presented.

Related Information

(1) Information about services

	Millions of yen				
	2023				
	Lending services	Securities investment	Fees and commissions	Other	Total
Operating income from external customers	¥38,669	¥38,275	¥17,651	¥20,693	¥115,289
	Millions of yen				
	2022				
	Lending services	Securities investment	Fees and commissions	Other	Total
Operating income from external customers	¥33,911	¥32,180	¥17,366	¥14,848	¥98,306
	Thousands of U.S. dollars				
	2023				
	Lending services	Securities investment	Fees and commissions	Other	Total
Operating income from external customers	$289,590	$286,639	$132,187	$154,968	$863,393

(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 years ended March 31, 2023 and 2022; 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, 2023 and 2022; 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 years ended March 31, 2023 and 2022; therefore, major customer information is not presented.

39. Related party transactions

Transactions of the Bank with related parties for the year ended March 31, 2023, were as follows:

			Transaction amount			Year-end balance	
Related party	Category	Description of transactions	Millions of yen	Thousands of U.S. dollars	Accounts name	Millions of yen	Thousands of U.S. dollars
Takagi Building Co., Ltd.	Company in which director or relative has the majority of the voting rights	Lending operation loan, net of collection	¥ (3)	$ (22)	Loans	¥ 82	$614
		Interest receipts	0	0	Other liabilities	0	0
		Commission receipts, etc.	0	0			

Transactions of the Bank with related parties for the year ended March 31, 2022, were as follows:

			Transaction amount		Year-end balance
Related party	Category	Description of transactions	Millions of yen	Accounts name	Millions of yen
Takagi Building Co., Ltd.	Company in which director or relative has the majority of the voting rights	Lending operation loan, net of collection	¥ (3)	Loans	¥ 85
		Interest receipts	0	Other liabilities	0
		Commission receipts, etc.	0		

Composition of Capital Disclosure (Capital ratio of the fiscal year ended March 31, 2023, Basel III)

The Bank has applied the amendment public notice related to the finalization of Basel III in advance, as notified to the Financial Services Agency, effective from March 31, 2023.

Capital ratio (consolidated)
(Appended Form 2 of Supplementary Provision of the Notification of Japanese Financial Services Agency No. 7, 2014)

Millions of yen, %

CC1: Composition of regulatory capital (consolidated)				
		a	b	c
Basel III Template No..	Items	Year ended March 31, 2023	Year ended March 31, 2022	Reference to Template CC2
Common Equity Tier 1 capital: instruments and reserves				
1a+2-1c-26	Directly issued qualifying common share capital plus related capital surplus and retained earnings	299,282	291,047	
1a	of which: capital and capital surplus	57,617	57,613	(6)+(7)
2	of which: retained earnings	258,053	248,089	(8)
1c	of which: treasury stock (-)	14,488	11,619	(9)
26	of which: national specific regulatory adjustments (earnings to be distributed) (-)	1,899	3,036	
	of which: other than above	—	—	
1b	Total of share award rights and subscription rights to common shares	—	103	(14)
3	Accumulated other comprehensive income and other disclosed reserves	140,040	170,027	(10)+(11)+(12)+(13)
5	Common share capital issued by subsidiaries and held by non-controlling interests (amount allowed in group Common Equity Tier 1)	—	—	
6	Common Equity Tier 1 capital: instruments and reserves (A)	439,323	461,177	
Common Equity Tier 1 capital: regulatory adjustments				
8+9	Total intangible fixed assets (excluding those relating to mortgage servicing rights)	1,511	1,134	
8	of which: goodwill (including those equivalent)	—	—	
9	of which: other intangibles other than goodwill and mortgage servicing rights	1,511	1,134	(1)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences	—	—	(3)
11	Deferred gains or losses on derivatives under hedge accounting	—	—	(11)
12	Shortfall of eligible provisions to expected losses	12,242	18,402	
13	Securitization gain on sale	—	—	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	—	—	
15	Asset for retirement benefits	13,666	9,266	(2)
16	Investments in own shares (excluding those reported in the Net assets section)	0	0	
17	Reciprocal cross-holdings in common equity	—	—	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	—	—	
19+20+21	Amount exceeding the 10% threshold on specified items	—	—	
19	of which: significant investments in the common stock of financials	—	—	
20	of which: intangible fixed assets relating to mortgage servicing rights	—	—	
21	of which: deferred tax assets arising from temporary differences	—	—	
22	Amount exceeding the 15% threshold on specified items	—	—	
23	of which: significant investments in the common stock of financials	—	—	
24	of which: intangible fixed assets relating to mortgage servicing rights	—	—	
25	of which: deferred tax assets arising from temporary differences	—	—	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	—	—	
28	Common Equity Tier 1 capital: regulatory adjustments (B)	27,420	28,804	
Common Equity Tier 1 capital (CET1)				
29	Common Equity Tier 1 capital (CET1) ((A)-(B)) (C)	411,902	432,373	
Additional Tier 1 capital: instruments				
30	Directly issued qualifying Additional Tier 1 instruments plus related capital surplus of which:			
31a	classified as equity under applicable accounting standards	—	—	
31b	Total of share award rights and subscription rights to Additional Tier 1 instruments	—	—	
30	Directly issued qualifying Additional Tier 1 instruments plus related capital surplus of which:			
32	classified as liabilities under applicable accounting standards	—	—	
	Qualifying Additional Tier 1 instruments plus related capital surplus issued by special purpose vehicles and other equivalent entities	—	—	
34	Additional Tier 1 instruments issued by subsidiaries and held by non-controlling interests (amount allowed in group Additional Tier 1)	—	—	
36	Additional Tier 1 capital: instruments (D)	—	—	
Additional Tier 1 capital: regulatory adjustments				
37	Investments in own Additional Tier 1 instrument	—	—	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	—	—	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	—	—	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	—	—	

Millions of yen, %

CC1: Composition of regulatory capital (consolidated)

Basel III Template No..	Items	a Year ended March 31, 2023	b Year ended March 31, 2022	c Reference to Template CC2
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deduction	—	—	
43	Additional Tier 1 capital: regulatory adjustments (E)	—	—	
Additional Tier 1 capital				
44	Additional Tier 1 capital ((D) – (E)) (F)	—	—	
Tier 1 capital (T1 = CET1 + AT1)				
45	Tier 1 capital (T1 = CET1 + AT1) ((C)+(F)) (G)	411,902	432,373	
Tier 2 capital: instruments and provisions				
46	Directly issued qualifying Tier 2 instruments plus related capital surplus of which: classified as equity under applicable accounting standards	—	—	
	Total of share award rights and 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	—	—	(5)
	Qualifying Tier 2 instruments plus related capital surplus issued by special purpose vehicles and other equivalent entities	—	—	
50	Total of general allowance for credit losses and eligible provisions included in Tier 2	68	218	
50a	of which: provision for general allowance for credit losses	68	218	
50b	of which: eligible provisions	—	—	
51	Tier 2 capital: instruments and provisions (H)	68	218	
Tier 2 capital: regulatory adjustments				
52	Investments in own Tier 2 instruments	—	—	
53	Reciprocal cross-holdings in Tier 2 instruments	—	—	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	—	—	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation	—	—	
57	Tier 2 capital: regulatory adjustments (I)	—	—	
Tier 2 capital (T2)				
58	Tier 2 capital (T2) ((H)-(I)) (J)	68	218	
Total capital (TC = T1 + T2)				
59	Total capital (TC = T1 + T2) ((G)+(J)) (K)	411,970	432,591	
Risk weighted assets				
60	Risk weighted assets (L)	2,607,077	2,856,737	
Capital ratio (consolidated)				
61	Common Equity Tier 1 capital ratio (consolidated) ((C)/(L))	15.79	15.13	
62	Tier 1 capital ratio (consolidated) ((G)/(L))	15.79	15.13	
63	Total capital ratio (consolidated) ((K)/(L))	15.80	15.14	
64	CET1 specific buffer requirement	2.50	2.50	
65	of which: capital conservation buffer requirement	2.50	2.50	
66	of which: countercyclical buffer requirement	0.00	0.00	
67	of which: G-SIB/D-SIB additional requirement			
68	CET1 available after meeting the minimum capital requirements	7.80	7.14	
Regulatory adjustments				
72	Non-significant investments in the capital of other financials that are below the thresholds for deduction (before risk weighting)	28,570	38,151	
73	Significant investments in the common stock of other financials that are below the thresholds for deduction (before risk weighting)	379	471	
74	Intangible fixed assets relating to mortgage servicing rights that are below the thresholds for deduction (before risk weighting)	—	—	
75	Deferred tax assets arising from temporary differences that are below the thresholds for deduction (before risk weighting)	—	—	
Provisions included in Tier 2 capital: instruments and provisions				
76	Provisions (general allowance for credit losses)	68	218	
77	Cap on inclusion of provisions (general allowance for credit losses)	851	431	
78	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")	—	—	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	14,437	16,120	

Matters concerning the disclosure of leverage ratio

1. Matters concerning the composition of consolidated leverage ratio

(Fiscal year ended March 31, 2023)

Corresponding Line # on International Template (LR1)	Item	Millions of yen FY2022	FY2021
1	Total assets reported in the consolidated balance sheet	7,305,698	
2	Amount of assets of subsidiaries that are not included in the scope of the consolidated leverage ratio or Basel III leverage ratio (-)	—	
3	Adjustments for securitization exposures that do not satisfy requirements for recognizing risk transfer	—	
4	Adjustments due to exclusion pertaining to deposits in the central bank (-)	1,161,366	
5	Amount of customer assets included in the consolidated balance sheet (-)		
6	Regulatory adjustments in cases of accounting for securities trading based on the trade date basis	—	
7	Regulatory adjustments for fund transfers based on cash pooling agreements	—	
8	Adjustments associated with derivative transactions, etc.	(10,710)	
8a	Amount associated with derivative transactions, etc.	19,424	
8b	Assets associated with derivative transactions, etc. (-)	30,135	
9	Adjustments related to repo transactions, etc.	1,360	
9a	Amount related to repo transactions, etc.	1,360	
9b	Amount related to repo transactions, etc. (-)	—	
10	Amount related to off-balance sheet transactions	105,862	
11	Amount of adjustment items pertaining to Tier 1 capital (allowance for loan losses) (-)	12,242	
12	Additional regulatory adjustments	(47,174)	
12a	Amount of adjustment items pertaining to Tier 1 capital (other than allowance for loan losses) (-)	15,177	
12b	Amount of customers' liabilities for acceptances and guarantees (-)	28,226	
12c	Amount of receivables arising from providing collateral in relation to derivative transactions, etc. (limited to the portion corresponding to offset amounts)	—	
12d	Amount of receivables arising from providing cash variation margin in relation to derivative transactions, etc. (-)	3,770	
12e	Amount of assets of subsidiaries that are included in the scope of the consolidated leverage ratio or Basel III leverage ratio (except those included in the total assets reported in the consolidated balance sheet)	—	
13	Total exposures	6,181,427	

(Note 1) "Corresponding Line # on International Template (LR1)" refers to that in Table LR1 in the rule text of "Consolidated framework. DIS80 Leverage ratio" published by the Basel Committee on Banking Supervision on December 15, 2019.
(Note 2) Due to regulatory changes resulting in a format alteration, the disclosure for the previous fiscal year is presented using the old format.

Corresponding Line # on International Template (LR2)	Item	Millions of yen FY2022	FY2021
On-balance sheet exposures			
1	On-balance sheet exposures before deducting adjustment items	6,085,970	
2	Amount of receivables arising from providing collateral in relation to derivative transactions, etc. (limited to the portion corresponding to offset amounts)	—	
3	Amount of receivables arising from providing cash variation margin in relation to derivative transactions, etc. (-)	3,770	
4	Recorded amount of securities received through repo transactions, etc. (-)	—	
5	Amount of adjustment items pertaining to Tier 1 capital (allowance for loan losses) (-)	12,242	
6	Amount of adjustment items pertaining to Tier 1 capital (other than allowance for loan losses) (-)	15,177	
7	Total on-balance sheet exposures (A)	6,054,779	
Derivative transaction exposures			
8	Replacement cost associated with derivatives transactions, etc. (with the 1.4 alpha factor applied)	6,950	
9	Add-on amount for potential future exposure associated with derivatives transactions, etc. (with the 1.4 alpha factor applied)	12,473	
10	Amount of exposures to central counterparties zeroed when the debt performance of qualified central counterparties is not guaranteed for indirect settlement participants (-)	—	
11	Amount of adjusted effective notional amount of written credit derivatives, etc.	—	
12	Amount of deductions from effective notional amount of written credit derivatives, etc. (-)	—	
13	Total exposures related to derivative transactions (B)	19,424	
Repo transaction exposures			
14	Amount of assets related to repo transactions, etc.	—	
15	Amount of deductions from repo transactions, etc. (-)	—	
16	Amount of counterparty risk exposure for repo transactions, etc.	1,360	
17	Amount of agent transaction exposures		
18	Total exposures related to repo transactions, etc. (C)	1,360	
Other off-balance sheet exposures			
19	Notional amount of off-balance sheet transactions	386,989	
20	Amount of adjustments for conversation to in relation to off-balance sheet transactions (-)	281,126	
22	Total exposures related to off-balance sheet transactions (D)	105,862	

Corresponding Line # on International Template (LR2)	Item	Millions of yen FY2022	FY2021
Consolidated leverage ratio or Basel III leverage ratio			
23	The amount of capital (Tier 1 capital) (E)	411,902	
24	Total exposures ((A) + (B) + (C) + (D)) (F)	6,181,427	
25	Consolidated leverage ratio or Basel III leverage ratio ((E) / (F))	6.66%	
26	Applicable required consolidated leverage ratio or Basel III leverage ratio	3.00%	
27	Applicable required consolidated leverage buffer ratio or Basel III leverage buffer ratio	0.00%	
Consolidated leverage ratio or Basel III leverage ratio including deposits in Bank of Japan			
	Total exposures (F)	6,181,427	
	Amount of deposits in Bank of Japan	1,161,366	
	Total exposures including deposits in Bank of Japan (F')	7,342,794	
	Consolidated leverage ratio or Basel III leverage ratio including deposits in Bank of Japan ((E) / (F'))	5.60%	
Disclosure of average values			
28	Average value of assets related to repo transactions, etc. (after deductions) ((G) + (H))	—	
	Average value of assets related to repo transactions, etc. (G)	—	
	Average value of deductions from repo transactions, etc. (-) (H)	—	
29	Quarter-end value of assets related to repo transactions, etc. (after deductions) ((I) + (J))	—	
14	Quarter-end value of assets related to repo transactions, etc. (I)	—	
15	Quarter-end value of deductions from repo transactions, etc. (-) (J)	—	
30	Total exposures (using average value of assets related to repo transactions, etc. (after deductions) and excluding deposits in Bank of Japan) (K)	6,181,427	
30a	Total exposures (using average value of assets related to repo transactions, etc. (after deductions) and including deposits in Bank of Japan) (L)	7,342,794	
31	Consolidated leverage ratio or Basel III leverage ratio (using average value of assets related to repo transactions, etc. (after deductions) and excluding deposits in Bank of Japan) ((E) / (K))	6.66%	
31a	Consolidated leverage ratio or Basel III leverage ratio (using average value of assets related to repo transactions, etc. (after deductions) and including deposits in Bank of Japan) ((E) / (L))	5.60%	

(Note 1) "Corresponding Line # on International Template (LR2)" refers to that in Table LR2 in the rule text of "Consolidated framework. DIS80 Leverage ratio" published by the Basel Committee on Banking Supervision on December 15, 2019.
(Note 2) Due to regulatory changes resulting in a format alteration, the disclosure for the previous fiscal year is presented using the old format.

(Fiscal year ended March 31, 2022) (Disclosure in the old format)

Corresponding Line # on International Template (Table 2)	Corresponding Line # on International Template (Table 1)	Item	Millions of yen FY2022	Millions of yen FY2021
On-balance sheet exposures				
1		On-balance sheet exposures before deducting adjustment items		5,771,595
1a	1	Total assets reported in the consolidated balance sheet		5,825,559
1b	2	Amount of assets of subsidiaries that are not included in the scope of the leverage ratio on a consolidated basis (-)		—
1c	7	Amount of assets of subsidiaries that are included in the scope of the leverage ratio on a consolidated basis (except those included in the total assets reported in the consolidated balance sheet)		—
1d	3	Amount of assets that are deducted from the total assets reported in the consolidated balance sheet (-)		53,963
2	7	Amount of adjustment items pertaining to Tier 1 capital (-)		28,804
3		Total on-balance sheet exposures (A)		5,742,791
Derivative transaction exposures				
4		Replacement cost associated with derivatives transactions, etc. (with the 1.4 alpha factor applied)		—
		Replacement cost associated with derivative transactions, etc.		12,805
5		Add-on amount for potential future exposure associated with derivatives transactions, etc. (with the 1.4 alpha factor applied)		—
		Add-on amount associated with derivative transactions, etc.		9,072
		Amount of receivables arising from providing cash margin in relation to derivative transactions, etc.		8,794
6		The amount of receivables arising from providing collateral, provided where deducted from the consolidated balance sheet pursuant to the operative accounting framework		—
		Amount of receivables arising from providing cash margin, provided where deducted from the consolidated balance sheet pursuant to the operative accounting framework		—
7		Amount of deductions of receivables (out of those arising from providing cash variation margin) (-)		—
8		Amount of client-cleared trade exposures for which a bank or bank holding company acting as clearing member is not obliged to make any indemnification (-)		
9		Amount of adjusted effective notional amount of written credit derivatives		—
10		Amount of deductions from effective notional amount of written credit derivatives (-)		—
11	4	Total exposures related to derivative transactions (B)		30,672
Repo transaction exposures				
12		Amount of assets related to repo transactions, etc.		—
13		Amount of deductions from repo transactions, etc. (-)		—
14		Amount of counterparty risk exposure for repo transactions, etc.		1,669
15		Amount of agent transaction exposures		
16	5	Total exposures related to repo transactions, etc. (C)		1,669
Other off-balance sheet exposures				
17		Notional amount of off-balance sheet transactions		1,053,663
18		Amount of adjustments for conversation to in relation to off-balance sheet transactions		881,680
19	6	Total exposures related to off-balance sheet transactions (D)		171,982
Consolidated leverage ratio				
20		The amount of capital (Tier 1 capital) (E)		432,373
21	8	Total exposures ((A) + (B) + (C) + (D)) (F)		5,947,116
22		Consolidated leverage ratio ((E) / (F))		7.27%
Consolidated leverage ratio including deposits in Bank of Japan				
		Total exposures (F)		5,947,116
		Amount of deposits in Bank of Japan		1,712,397
		Total exposures including deposits in Bank of Japan (F')		7,659,513
		Consolidated leverage ratio or Basel III leverage ratio including deposits in Bank of Japan ((E) / (F'))		5.64%

Corresponding Line # on International Template, Table 1 refers to that in Table 1 and Table 2 in the rule text of "Basel III leverage ratio framework and disclosure requirements" published by the Basel Committee on Banking Supervision on January 12, 2014.

2. Reasons for any significant disparities in consolidated leverage ratio compared to the previous fiscal year (if any)

The consolidated leverage ratio decreased by 0.61% year-on-year.

This was primarily due to a decrease in the amount of capital of ¥20.4 billion resulting from a decrease in net unrealized gains on available-for-sale securities.

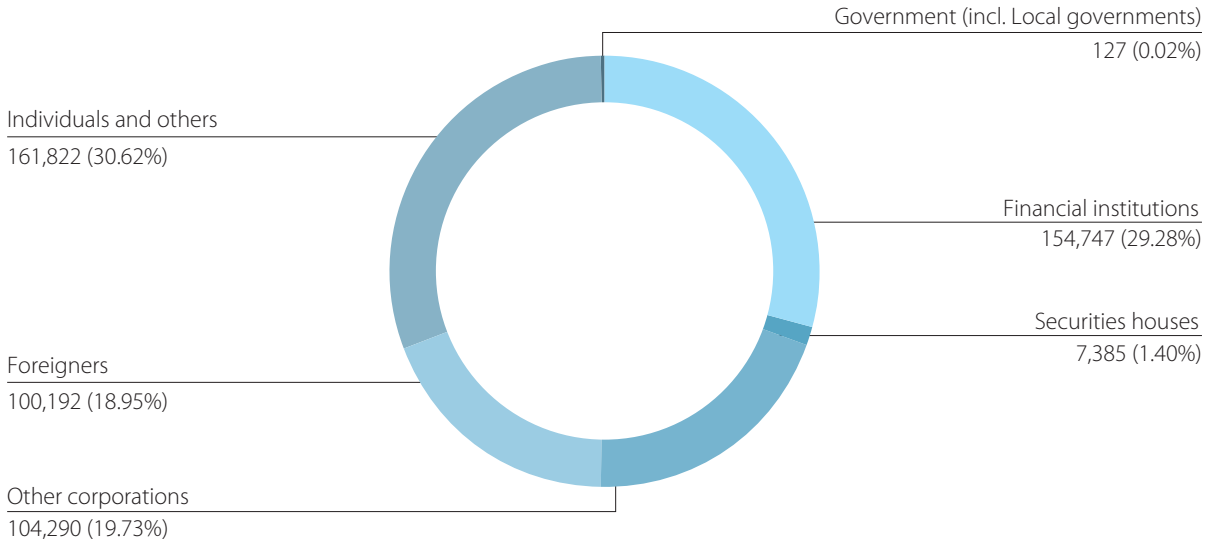
Stock Information

As of March 31, 2023

Major shareholders

	Number of shares held (Thousand shares)	As a percentage of total number of issued shares (excluding treasury stock) (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	4,394	9.25
Custody Bank of Japan, Ltd. (Trust account)	2,144	4.51
Nippon Life Insurance Company	1,610	3.39
Meiji Yasuda Life Insurance Company	1,599	3.36
Employee Stock Ownership of Shiga Bank	1,213	2.55
Sompo Japan Insurance Inc.	1,180	2.48
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC) (Managing agent: MUFG Bank, Ltd.)	773	1.62
THE KYOTO CHUO SHINKIN BANK	730	1.53
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST (Managing agent: The Hongkong and Shanghai Banking Corporation Limited Tokyo Branch)	696	1.46
JP MORGAN CHASE BANK 3 8 5 7 8 1 (Managing agent: Settlement & Clearing Services Department of Mizuho Bank, Ltd.)	577	1.21
Total	14,920	31.42

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.

SHIGA BANK | SUSTAINABLE DEVELOPMENT GOALS

We support the Sustainable Development Goals (SDGs).

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