Unique
Growing
Speed & Action

Annual Report 2014

For the fiscal year ended March 31, 2014

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Unique

Differentiating ourselves through our values and unique approaches

Growing

Growing together with customers and markets

Speed and Action

Building capability and moving forward

Forward-Looking Statements

This annual report contains statements that constitute forward-looking statements. These statements appear in a number of places in this annual report and include statements regarding our intent, belief or current expectations, and/or the current belief or current expectations of our officers with respect to the results of our operations and the financial condition of the Bank and its subsidiaries. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Our forward-looking statements are not a guarantee of future performance and involve risks and uncertainties. Actual results may differ from those in such forward-looking statements as a result of various factors.

Shinsei Way

In an effort to encourage each employee of Shinsei Bank to proactively take actions that are in line with management philosophy, the Bank has newly established a series of action guidelines entitled the "Shinsei Way."

While continuing to place an emphasis on diversity, a core strength of the Bank, we hope that these new action guidelines become the foundation of our corporate culture, and through them, by shifting the mindsets of each member of our team to be able to take actions that contribute to the realization of management philosophy, achieve continued, sustainable growth.

SHINSEI BANK'S BUSINESS PROFILE

As of March 31, 2014

SHINSEI BANK GROUP

Individual Business (Individual Group)

Consumer Finance Sub-Group

- Shinsei Bank Lake
  - Shinsei Bank Card Loan—Lake
- Unsecured Personal Loan, Credit Guarantee
  - SHINSEI FINANCIAL
- Unsecured Personal Loan
  - A Financial Venture シンキ株式会社
  - SHINKI Co., Ltd.
- Credit Card, Shopping Credit, Settlement
  - APLUS FINANCIAL
- Real Estate Mortgage Loan
  - SHINSEI PROPERTY FINANCE

Retail Banking Sub-Group

- Retail Deposits
- Mutual Funds
- Structured Deposits
- Insurance
- Housing Loan
- Overseas Remittance

Institutional Business (Institutional Group, Global Markets Group)

Institutional Group

- Institutional Business Public Sector Finance
- Real Estate Finance
- Specialty Finance
- VBI (Venture Banking Initiative)
- Health Care Finance
- Principal Transactions
  - SHINSEI PI GROUP
    - Private Equity
    - Credit Trading
- Trust (ABS, MBS, Real Estate Trust)
  - SHINSEI TRUST
- Leasing (Leasing, Property Management)
  - SHOWA LEASING CO.,LTD.

Markets Group

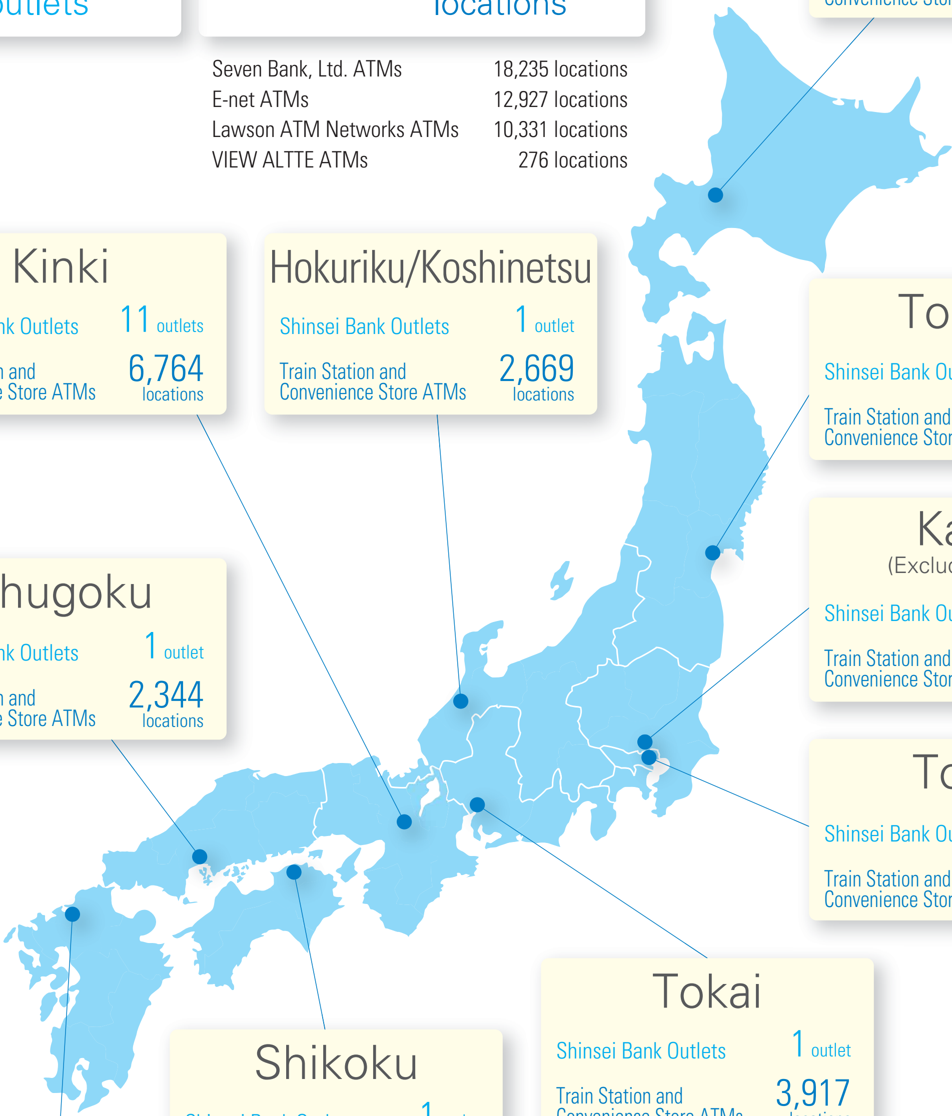
- Financial Institutions
- Markets
- Wealth Management
- Asset Management
  - SHINSEI INVESTMENT MANAGEMENT
- Securities (Securitization, Structured Debentures)
  - SHINSEI SECURITIES

NETWORK

As of June 30, 2014

Shinsei Bank Outlets	Train Station and Convenience Store ATMs
39 outlets	41,769 locations

Seven Bank, Ltd. ATMs	18,235 locations
E-net ATMs	12,927 locations
Lawson ATM Networks ATMs	10,331 locations
VIEW ALTTE ATMs	276 locations



Hokkaido

Shinsei Bank Outlets 1 outlet

Train Station and Convenience Store ATMs 1,729 locations

Kinki

Shinsei Bank Outlets 11 outlets

Train Station and Convenience Store ATMs 6,764 locations

Hokuriku/Koshinetsu

Shinsei Bank Outlets 1 outlet

Train Station and Convenience Store ATMs 2,669 locations

Tohoku

Shinsei Bank Outlets 1 outlet

Train Station and Convenience Store ATMs 2,803 locations

Chugoku

Shinsei Bank Outlets 1 outlet

Train Station and Convenience Store ATMs 2,344 locations

Kanto
(Excluding Tokyo)

Shinsei Bank Outlets 9 outlets

Train Station and Convenience Store ATMs 10,108 locations

Tokyo

Shinsei Bank Outlets 12 outlets

Train Station and Convenience Store ATMs 5,864 locations

Tokai

Shinsei Bank Outlets 1 outlet

Train Station and Convenience Store ATMs 3,917 locations

Shikoku

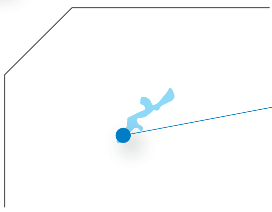
Shinsei Bank Outlets 1 outlet

Train Station and Convenience Store ATMs 991 locations

Kyushu

Shinsei Bank Outlets 1 outlet

Train Station and Convenience Store ATMs 4,162 locations



Okinawa

Shinsei Bank Outlets 0 outlets

Train Station and Convenience Store ATMs 418 locations

FINANCIAL HIGHLIGHTS

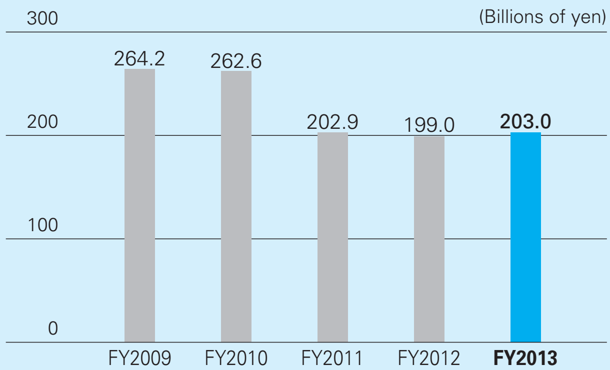
Shinsei Bank, Limited, and Consolidated Subsidiaries
For the fiscal years ended March 31, 2010, 2011, 2012, 2013 and 2014[1]

	Billions of yen				
	2010	2011	2012	2013	**2014**
For the fiscal year:					
Net interest income	¥ 207.9	¥ 156.6	¥ 116.9	¥ 111.6	**¥ 110.5**
Noninterest income	56.2	106.0	86.0	87.3	**92.5**
Net fees and commissions	25.1	26.0	25.1	19.1	**22.4**
Net trading income	9.0	11.6	13.6	20.0	**13.9**
Net other business income	22.1	68.3	47.2	48.1	**56.1**
Total revenue	264.2	262.6	202.9	199.0	**203.0**
General and administrative expenses	170.8	145.3	130.3	130.9	**135.0**
Ordinary business profit	72.5	104.2	60.6	57.2	**58.1**
Net credit costs	112.2	68.3	12.2	5.5	**0.2**
Ordinary business profit (loss) after net credit costs	(39.7)	35.8	48.3	51.7	**57.9**
Net income (loss)	(140.1)	42.6	6.4	51.0	**41.3**
Cash basis net income (loss)[2]	(53.7)	53.8	16.0	60.4	**49.8**

1 Since all yen figures have been truncated rather than rounded, the totals do not necessarily equal the sum of the individual amounts.
2 Cash basis net income is calculated by excluding impairment and amortization of goodwill and other intangible assets, net of tax benefit, from net income (loss) under Japanese Generally Accepted Accounting Principles (GAAP).

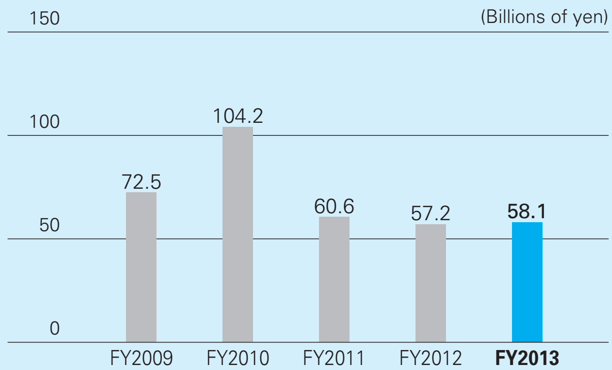
Total revenue

Total revenue—the indicator of gross profit— is composed of "Net interest income" such as interest from loans and "Noninterest income" such as fees from sales of investment products.



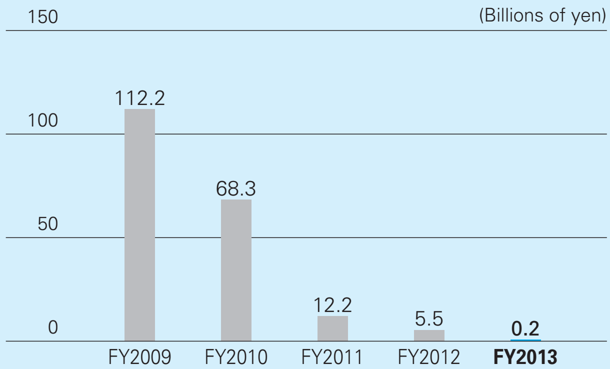
Ordinary business profit

Ordinary business profit—the indicator of profit from core business after expenses—is calculated by subtracting "expenses" from "total revenue." "Net credit costs" are excluded from this calculation.



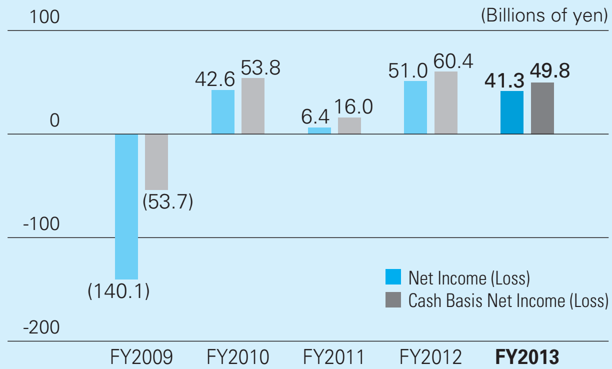
Net credit costs

Net credit costs are the sum of reserves for loan losses set aside (credit costs) according to the credit standing of borrowers, reversal (gains) of reserves for loan losses, and recoveries of written-off claims resulting from their disposal.



Consolidated net income (loss), cash basis net income (loss)

Cash basis net income is calculated by excluding impairment and amortization of goodwill resulting from acquisitions of subsidiaries and other intangible assets, net of tax benefits, from consolidated net income—and represents the bottom-line profit for the relevant fiscal year.



	Billions of yen				
	2010	2011	2012	2013	**2014**
Balances at fiscal year-end:					
Securities	¥ 3,233.3	¥ 3,286.3	¥ 1,873.4	¥ 1,842.3	**¥ 1,557.0**
Loans and bills discounted	5,163.7	4,291.4	4,136.8	4,292.4	**4,319.8**
Total assets	11,376.7	10,231.5	8,609.6	9,029.3	**9,321.1**
Deposits and negotiable certificates of deposit	6,475.3	5,610.6	5,362.4	5,457.5	**5,850.4**
Debentures	483.7	348.2	294.1	262.3	**41.7**
Total liabilities	10,741.8	9,620.3	7,982.0	8,345.6	**8,598.5**
Total equity	634.9	611.1	627.6	683.6	**722.5**
Total liabilities and equity	11,376.7	10,231.5	8,609.6	9,029.3	**9,321.1**

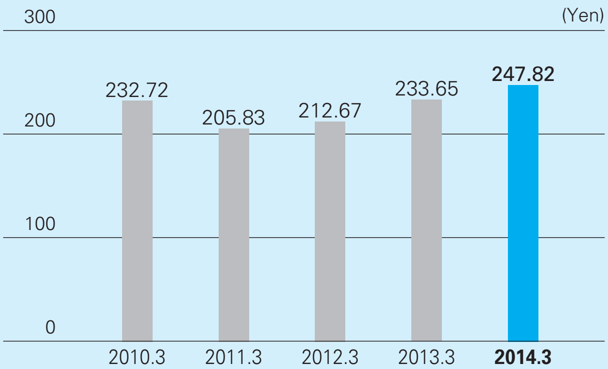
	Yen				
	2010	2011	2012	2013	**2014**
Per share data:					
Common equity	¥ 232.72	¥ 205.83	¥ 212.67	¥ 233.65	**¥ 247.82**
Fully diluted equity[3]	232.72	205.83	212.67	233.65	**247.82**
Basic net income (loss)	(71.36)	21.36	2.42	19.24	**15.59**
Diluted net income	—	21.36	2.42	19.24	**15.59**
Dividends	0.00	1.00	1.00	1.00	**1.00**
Cash basis per share data:					
Basic net income (loss)	¥ (27.37)	¥ 26.96	¥ 6.05	¥ 22.77	**¥ 18.78**
Diluted net income	—	26.96	6.05	22.77	**18.78**

	%				
	2010	2011	2012	2013	**2014**
Ratios:					
Return on assets[4]	(1.2)	0.4	0.1	0.6	**0.5**
Cash basis return on assets	(0.5)	0.5	0.2	0.7	**0.5**
Return on equity (fully diluted)[5]	(27.6)	8.5	1.2	8.6	**6.5**
Cash basis return on equity (fully diluted)[6]	(13.7)	12.4	3.2	11.1	**8.3**
Expense-to-revenue ratio	64.6	55.3	64.2	65.8	**66.5**
Total capital adequacy ratio (Basel II, Domestic Standard)	8.35	9.76	10.27	12.24	**—**
Capital ratio (Basel III, Domestic Standard)	—	—	—	—	**13.58**
Ratio of nonperforming claims classified under the Financial Revitalization Law to total claims	6.70	6.78	6.66	5.32	**3.81**

3 Fully diluted equity per share is calculated by dividing equity at the end of the periods presented by the number of common shares that would have been outstanding had all securities convertible into or exercisable for common shares been converted or exercised with an applicable conversion or exercise price within the predetermined range at the end of the period.
4 Return on assets is calculated by dividing net income (loss) by the average of total assets at the beginning and end of the period presented.
5 Return on equity (fully diluted) is calculated by dividing net income (loss) by the average of fully diluted equity at the beginning and end of the period presented.
6 Cash-basis return on equity (fully diluted) is calculated by dividing cash basis consolidated net income (loss) by the average of (total equity–goodwill–intangible assets acquired in business combinations (net of associated deferred tax liability)) at the beginning of the period and the same values at the end of period presented.

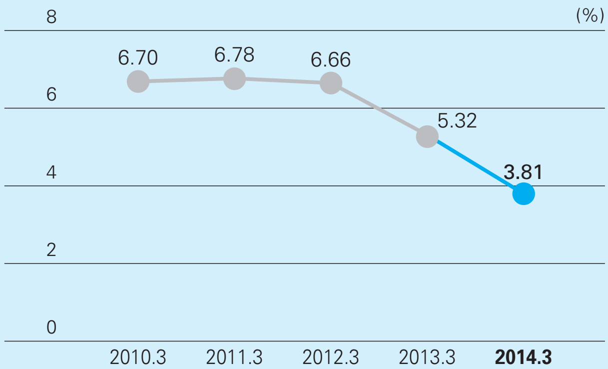
Common equity per share

Common equity per share is calculated by dividing common equity by the total number of common shares outstanding at the end of the term.



Nonperforming loan ratio under the Financial Revitalization Law

The Nonperforming loan ratio is the ratio of nonperforming claims, categorized as "Claims against bankrupt and quasi-bankrupt obligors," "Doubtful claims" and "Substandard claims," to total claims under the Financial Revitalization Law.



President and Chief Executive Officer **Shigeki Toma**

TO OUR SHAREHOLDERS, CUSTOMERS, AND EMPLOYEES

In fiscal year 2013 Shinsei Bank posted a consolidated net income of 41.3 billion yen, making it the fourth consecutive year of profitability since fiscal year 2010, when we launched the First MTMP, and we are becoming better structured to deliver stable profits. In fiscal year 2014, we aim to post a consolidated net income of 55.0 billion yen, and we plan to achieve this target by accelerating the accumulation of assets strategically important areas in both the individual and the institutional businesses.

In fiscal year 2013, the first year of our Second "Medium-Term Management Plan" ("MTMP"), we worked aggressively to enhance Shinsei Bank's individual and institutional business performance. As a result, we achieved positive results in many areas and saw signs of enhanced performance emerging. In fiscal year 2013, Shinsei Bank posted a consolidated net income of 41.3 billion yen, making it the fourth consecutive year of profitability since fiscal year 2010 when I assumed the position of President of the Bank and launched the First MTMP, and we are becoming better structured to deliver stable profits. In fiscal year 2014, we aim to post a consolidated net income of 55.0 billion yen—the same amount projected for the said year under the Second MTMP. We are continuing to work to expand our earnings, and by accelerating the accumulation of assets in strategically important areas in both the individual and the institutional businesses, we look to achieve our net income target for this year.

One of the Bank's achievements in fiscal year 2013 was the significant improvement in our portfolio quality. As a result of our efforts to dispose of non-performing loans (NPLs), the NPL ratio declined from the 5% level at the end of fiscal year 2012 to the 3% level at the end of fiscal year 2013, and we are close to achieving our 2% level target set in the Second MTMP. In addition, our capital ratios continued to improve. Thanks to the accumulation of profits and less-than-expected accumulation of risk assets, we recorded a Basel III International Standard fully loaded basis Common Equity Tier I Capital Ratio of 9.2%, above the final year target set in the Second MTMP. Regarding losses on interest repayment (grey zone) risks in the consumer finance business, we provisioned an additional 15.6 billion yen of grey zone reserves in fiscal year 2013. Moreover, Shinsei Financial received 175 billion yen from GE Japan Co., Ltd. (GE Japan) in return for the conclusion of the GE indemnity on grey zone losses, and as we have allocated the entire amount received into grey zone reserves, we believe we have more or less fully addressed our grey zone issues.

One of the goals we failed to fully achieve in fiscal year 2013 was to increase revenues. The Second MTMP aims to achieve three major goals: "establish a unique business base;" "increase revenues and further improve financial fundamentals;" and, "become a financial group appreciated by customers and valued by society and markets." Since then, we have shifted to a growth phase, looking to achieve sustainable growth. However, while there are notable signs of an increase in revenues, these have not translated sufficiently into numbers. While we stepped up our efforts in strategically important areas in both the individual and the institutional businesses in fiscal year 2013, we will continue in our efforts to improve our performance in and beyond fiscal year 2014.

Initiatives Undertaken in Fiscal Year 2013 and Plans in Fiscal Year 2014

Individual business:
Implement measures for the entire Shinsei Bank Group to work together to "create five million core customers"

In our individual business, we implemented various measures aimed at "creating five million core customers," which is one of our goals set in the Second MTMP. We are utilizing the full capabilities of the Shinsei Bank Group to expand our base of "core customers," developing new housing loan products, improving our ATM networks, and developing and offering new products and services which combine the Shinsei Bank Group's financial products and services with the point service program provided by our partner Culture Convenience Club Co., Ltd. ("CCC"). In our housing loans we are continuing our efforts to increase the housing loan balance, and in January 2014, in an effort to differentiate our products from our competition, we introduced a new product featuring child care support and housekeeping support as a housing loan that assists the working population and families with children. In regards to our partnership with CCC, the operator of the shared points service T-Points, we intend to utilize the partnership in order to approach nearly 50 million T-Point members to whom we can offer our superior financial products and services. Regarding our ATM channel, we expanded our ATM partnerships in convenience store chains in fiscal year 2013, and have succeeded in establishing a strong ATM network that makes available to our customers nearly 100,000 ATMs throughout Japan free of charge. Additionally, the balance of our unsecured personal loans also continued to increase in fiscal year 2013, and we will endeavour to maintain this trend in fiscal year 2014.

In fiscal year 2014, we will continue in our growth phase and focus our efforts on enlarging our core customer base. We will achieve this by fully utilizing the capabilities of the Shinsei Bank Group to provide multi-faceted transactions to customers through a wide range of points of contact including investments, settlements, loans, and consulting services. To that end, we will establish a new retail banking model by enhancing cooperation among our customer communication channels, including our branches, call centers, and online banking service through the effective use of the characteristics of the respective channels, provide products and services including investment trusts and structured bonds in a customer centric manner ahead of our competitors and further strengthen our consulting capabilities. We will also strive to further expand and develop our loan business by increasing our housing loan product offerings to better satisfy our customers' needs, establishing our position as a trusted lender in the unsecured card loan market and further expand the credit guarantee business offered in cooperation with regional financial institutions.

Institutional business:

Support the growth of companies and contribute to regional development through business participation and a focus on strategically important areas

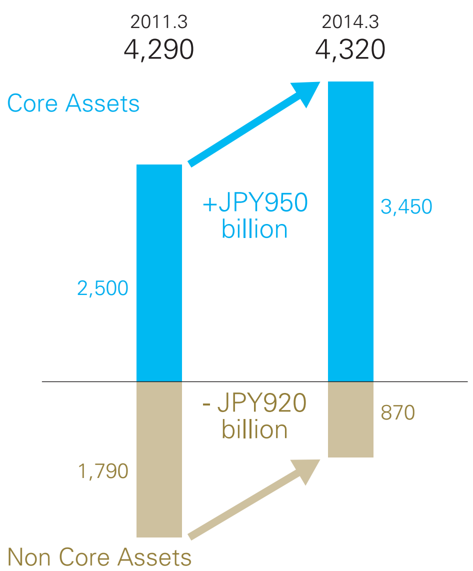
In fiscal year 2013, the institutional business worked aggressively to enhance its performance, focusing on new industries and sectors that are expected to grow significantly in the near future such as renewable energy, and medical and healthcare services. We also worked to support the growth of companies and contribute to regional development through business participation. The main characteristic of our involvement in the renewable energy business is to provide financing on a project basis to small- and medium sized companies and growing companies, and in fiscal year 2013, we provided project finance to initiatives in Ibaraki Prefecture, Hokkaido Prefecture, Shizuoka Prefecture, and Oita Prefecture, as well as initiatives in other locations. We plan to enhance our participation in projects involving other renewable energy sources such as geothermal power and wind power and become a business partner for growing companies in the field of renewable energy. In medical and healthcare services, we continued to work on the creation of a healthcare Real Estate Investment Trust (REIT). In April 2014, we jointly established an asset management company for a healthcare REIT and launched full-scale preparations for the scheduled creation and listing of a healthcare REIT on the Tokyo Stock Exchange in the second half of fiscal year 2014. The creation and listing of healthcare REITs are highly significant for society as it contributes to the resolution of the healthcare facility shortage problem by contributing to the sound development of this market, and we believe that we can make significant contributions in this area by utilizing the expertise we have developed through our healthcare facility financing business.

In fiscal year 2014, our basic strategy is to continue supporting the growth of companies, industries and regions through business participation, and to enhance as well as utilize our expertise. To further differentiate ourselves from our peers, we will provide the highest quality services in this area through the integration of our knowledge, networks, and financial functions in our strategic focus areas of medical and healthcare services, renewable energy, start-up support, and corporate rehabilitation support. We will also further step up efforts in areas where the Shinsei Bank Group has expertise. We will aggressively work on building our business in the area of structured finance, which is expected to grow in the future, by securing earnings in real estate finance and acquiring project finance opportunities both inside and outside of Japan. We will also further strengthen our credit trading and private equity businesses through the Shinsei Principal Investments Group which was established in July 2013. In response to the expiration of the SME Financial Facilitation Act, we will provide the Shinsei Bank Group's business rehabilitation expertise in cooperation with other financial institutions. We will also look to improve and expand our market solution capabilities.

Shift to Strategic Focus Areas

(Consolidated; JPY Billion)

Loan Balance Transition



Loan Growth Trend by Group

	2011.3	2012.3	2013.3	2014.3
Institutional Group	1,010.0	1,200.0	1,450.0	1,620.0
Global Markets Group	70.0	150.0	180.0	220.0
Individual Group	1,430.0	1,350.0	1,500.0	1,610.0

Main Loan Types Reduced (March 31, 2011→March 31, 2014)

Nonperforming loans:	Approx. JPY -170.0 billion
Need caution loans:	Approx. JPY -320.0 billion
Other noncore assets:	Approx. JPY -100.0 billion

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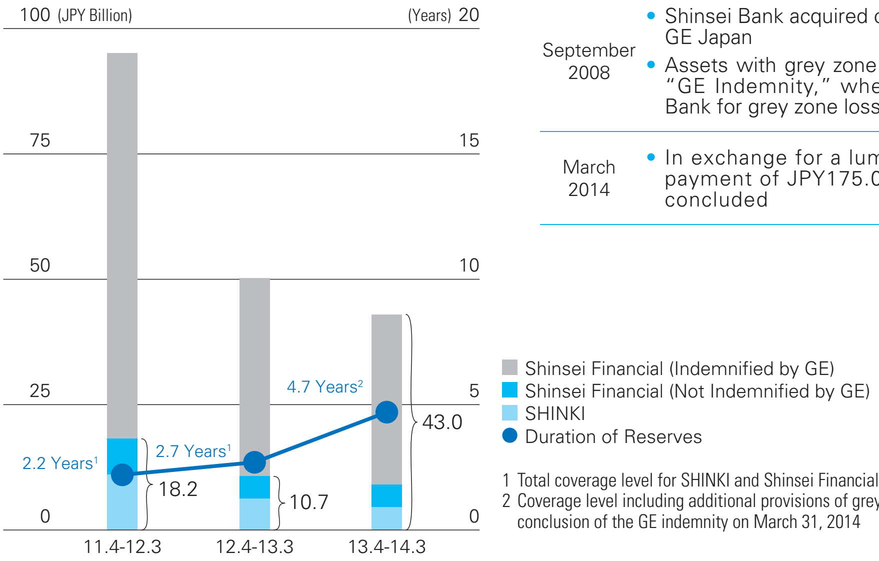
Interest Repayment Losses (Grey Zone)

Actual Interest Repayments, Coverage Level



1 Total coverage level for SHINKI and Shinsei Financial (not indemnified by GE)
2 Coverage level including additional provisions of grey zone reserves made following the conclusion of the GE indemnity on March 31, 2014

Summary of GE Indemnity for Shinsei Financial

September 2008	• Shinsei Bank acquired consumer finance business from GE Japan • Assets with grey zone risk were largely covered by the "GE Indemnity," where GE Japan compensated the Bank for grey zone losses incurred
March 2014	• In exchange for a lump sum, one-time cash payment of JPY175.0 billion, the GE indemnity was concluded

Additional Provisioning of Reserves Brings End of Grey Zone Issues into Sight

Shinsei Bank, at the end of December 2013, recalculated the amount required to cover future grey zone repayments based upon the recent repayment trends at SHINKI and Shinsei Financial and as a result, an additional 13.6 billion yen of grey zone reserves were provisioned.

Furthermore, Shinsei Bank reached an agreement with GE Japan to conclude the indemnity for Shinsei Financial's grey zone losses in exchange for a lump sum, cash payment of 175.0 billion yen which was received on March 31, 2014. Due to the conclusion of the indemnity, Shinsei Financial received 175.0 billion yen in cash from GE Japan and allocated the entire amount to grey zone reserves in the fourth quarter of fiscal year 2013.

Shinsei Bank acquired Shinsei Financial and its subsidiaries in September 2008 by concluding a share transfer agreement with GE Japan (then GE Japan Holding Corporation). Under the agreement, GE Japan was to indemnify losses arising from grey zone risks for a substantial portion of Shinsei Financial's assets. The agreement granted GE Japan the right to agree to pay a lump payment to Shinsei Financial of an amount estimated by Shinsei Bank to be necessary to cover future grey zone losses in order to be released from its indemnity obligation for grey zone risks as of March 31, 2014. GE Japan chose to exercise this option, and the indemnity was concluded.

Given that interest repayments by Shinsei Financial have been steadily declining, we consider that the recent additional posting to the grey zone loss reserve has secured the necessary level of funds to cover any grey zone losses expected to arise in the future.

Capital Policy and Shareholders Returns Policy

A new capital ratio regulation (Basel III) became effective at the end of the term ended March 31, 2014. Although Shinsei Bank is a domestic standard bank from a regulatory perspective, we operate our business with an awareness of the international standards, and had set a Common Equity Tier I Capital Ratio (fully loaded basis) target of approximately 7.5% at the end of March 2016, the last year of the Second MTMP. While we intend to improve and reinforce our capital mainly by accumulating retained earnings, we have also steadily reduced capital deductions through the disposal of nonperforming loans. These factors, combined with less-than-expected risk asset growth in fiscal year 2013, resulted in our consolidated core capital adequacy ratio reaching 13.58% as of March 31, 2014 (Basel III, Domestic Standard). This represents a figure higher than 4% required from a regulatory perspective. In addition, our Common Equity Tier I Capital Ratio (International Standard, fully loaded basis) was 9.2%, exceeding our target of around 7.5% at March 31, 2016.

The focal point of the ongoing Second MTMP is to place Shinsei Bank on a sustainable growth track by expanding its customer base and enhancing its customer-related assets. With respect to the reinvestment capacity required to achieve this goal, the Bank's capital ratio as of March 31, 2014 stood at a satisfactory level.

On the other hand, with regard to shareholder returns, dividend payouts remained at a minimum level and were far from satisfactory. Going forward, we will consider profit allocation in a shareholders' interest-focused manner in order to better satisfy our shareholders, while achieving our objectives, such as stabalizing profits and enhancing our capital position which are required in our Revitalization Plan as a Bank which has received public funds.

Repayment of Public Funds

As of March 31, 2014, approximately 216.9 billion yen in public funds were outstanding (on a principal basis). These funds are comprised of funds that were received by the former Long-Term Credit Bank of Japan, Ltd. (LTCB) and funds that were received when starting as Shinsei Bank in 2000. Regarding these public funds, the Japanese Government—through the Deposit Insurance Corporation of Japan and the Resolution and Collection Corporation—is, in effect, our second largest shareholder, owning 17.67% of the issued and outstanding Shinsei Bank common shares, and the repayment of public funds is only possible through the sale of the government-owned shares on the market. In order to make this a reality, Shinsei Bank will work to increase our corporate value by improving our earning capabilities and increasing retained earnings, as well as focus its energies into various initiatives taken under the Second MTMP. After achieving these goals, in consultation with the government, we will examine methods to repay public funds as early as possible, while monitoring trends in the Bank's share price.

Shinsei Bank aims to become a financial group that is valued by customers and needed by society and markets. To that end, the entire Shinsei Bank Group will work together to achieve the goals set out in the Second MTMP.

I would like to express our sincere gratitude for the understanding and support shown to us by our stakeholders, and we ask for your continued guidance and support.

July 2014

Shigeki Toma
President and Chief Executive Officer

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OVERVIEW OF THE SECOND MEDIUM-TERM MANAGEMENT PLAN (MTMP)

(FY2013 - FY2015)

Management Principles

- To be a banking Group that is sought out by customers, with stable profitability, and contributing to be the development of the industrial economies in Japan and overseas
- To be a banking Group that values diverse talents and cultures and that is continually able to take on new challenges in a changing environment while taking into consideration experience and history
- To be a banking Group that has highly transparent management as well as be trusted by all stakeholders including customers, investors and employees

Basic strategy

In the Second MTMP, we will aim to integrate the management of both the individual business and the institutional business by combining and utilizing the customer base, networks, and financial functions held by the entire Shinsei Bank Group.

In the individual business, we will implement a new retail banking model to create 5 million "core customers" that are able to freely use the Shinsei Bank Group's products and services that fit their needs. In the institutional business, we will be implementing our "VBI" model as part of our plan, where we will support the growth of businesses, industries and regions, as well as support our customers in strengthening and applying business expertise.

Individual Business: To implement a new retail banking model to grow our core customer base to 5 million

Institutional Business: To strengthen and utilize expertise to support the growth of companies, industries and regions by working together with customers

Implement a new retail banking model

- Provide products and services with a high level of customer satisfaction
- Strengthen consulting capabilities
- Promote cross selling

Pursue differentiation in key industries/fields

- Medical and healthcare
- Renewable energy
- New business/corporate rehabilitation support

Individual Business

Institutional Business

Expand/develop the loan business

- Expand housing loan products
- Establish a position in the unsecured card loan market as a trusted lender
- Expand unsecured card loan guarantee business

Further promote areas of expertise

- Rebuild the real estate portfolio
- Expand corporate revitalization business
- Utilize the regional financial institutions network
- Strengthen competency of capital market solutions, including sourcing function

Targets

We have established the three targets: "establishing a unique business base," "increasing revenues and further improving financial fundamentals," and "becoming a financial group appreciated by customers and valued by society and markets." Our financial targets are aimed at pursuing not only earnings in absolute amounts, but also high profitability and improving our financial soundness at the same time.

FY2015 Financial Targets

Growth	Net Income	70.0 BY
	Cash Basis[1] Net Income	76.0 BY
Profitability	RORA[2]	about 1.0%
	Expense-to-Revenue Ratio	50% level
	ROE	about 10%
Financial Stability	Common Equity Tier I Ratio[3]	about 7.5%
	NPL Ratio[4]	2% level

- We are targeting consolidated reported basis net income of 70.0 billion yen and consolidated cash basis[1] net income of 76.0 billion yen in FY2015
- Our aim is not only the absolute amount of net income, but also to achieve a high level of profitability while enhancing the financial stability of our operations

1 Cash-basis figures are calculated by excluding amortization of goodwill and other intangible assets, net of tax benefit
2 Return on risk assets is calculated as net income divided by fiscal year end risk assets
3 Basel III fully loaded basis
4 Non-consolidated basis non-performing loan ratio

PROGRESS OF THE SECOND MTMP

Progress of the Second Medium-Term Management Plan (Consolidated, Billions of yen)

	FY2012 Results	FY2013 Targets	FY2013 Results	FY2014 Forecast	FY2015 2nd MTMP Targets
Growth					
Net Income	51.0	48.0	41.3	55.0	70.0
Cash Basis Net Income	60.4	56.0	49.8	62.0	76.0
Profitability					
RORA[1]	—	—	0.69%	—	about 1.0%
Expense-to-Revenue Ratio	64.6%	63%	65.4%	60%	50% level
ROE	8.6%	—	6.5%	—	about 10%
Financial Stability					
Common Equity Tier I Ratio (International Standard)[2]	—	—	9.2%	—	about 7.5%
NPL Ratio	5.32%	—	3.81%	—	2% level

1 Return on risk assets is calculated as net income divided by fiscal year end risk assets 2 Basel III fully loaded basis

Growth

In fiscal year 2013, the first year of the Second MTMP, the Bank recorded a net income of 41.3 billion yen and a cash basis net income of 49.8 billion yen, regrettably below the original target of 48.0 billion yen net income (56.0 billion yen cash basis net income) set in the Second MTMP. This was due to the unexpected additional provisioning of 15.6 billion yen for grey zone reserves during the same period.

Profitability

In regards to profitability, the expansion of revenue in fiscal year 2013 fell behind schedule, with a ROE of 6.5% and an Expense to Revenue Ratio of 65.4%, and compared to fiscal year 2012 (ROE: 8.6%; Expense to Revenue Ratio: 64.6%), ROE has declined, and the Expense to Revenue Ratio has increased. Additionally, RORA in fiscal year 2013 has remained at 0.69%, and in order to achieve the profitability targets set for the final year of the Second MTMP (2015), the Bank recognizes that it must make further efforts in order to achieve the Second MTMP targets.

Financial Stability

The disclosed nonperforming loan ratio as of March 31, 2014 was 3.81%, a significant improvement compared to March 31, 2013 (5.32%), and the achievement of the 2% level target set for the final year of the Second MTMP is now within sight.

Regarding the capital ratio target, while the Bank has set its March 31, 2016 Common Equity Tier 1 (CET1) Ratio (Basel III, International Standard, fully loaded basis) target as approximately 7.5%, as of March 31, 2014, the CET1 Ratio stood at 9.2%, far above the target. This was a due to the steady accumulation of retained earnings, as well as the growth of assets being slower than originally expected in the Second MTMP, resulting in the capital ratio rising more than originally anticipated.

Fiscal Year 2014 Forecast

The forecast for fiscal year 2014, in line with the figures originally released in the Second MTMP, is a net income of 55.0 billion yen (cash basis net income of 62.0 billion yen).

In fiscal year 2014, due to an improvement in funding costs as high interest rate campaign time deposits made in the past reached maturity, as well as the accumulation of high quality assets in the strategic focus areas of both the individual and institutional businesses as management resources are proactively invested in these areas, we expect to achieve the established targets through a significant increase in revenue.

Shigeki Toma
President & CEO, Shinsei Bank

Moderator:
Toyoki Sameshima
Senior Analyst,
Equity Research,
Global Equities & Commodity Derivatives,
BNP Paribas Securities (Japan) Limited

Institutional Investor:
Hideichiro Nishimura
Senior Analyst,
Equity Research Department,
Nomura Asset Management Co., Ltd.

Institutional Investor:
Hiroyuki Hanaoka
Managing Director,
JPMorgan Asset Management (Japan) Ltd.

PRESIDENT'S CONVERSATION WITH INVESTORS

We invited Mr. Hideichiro Nishimura from Nomura Asset Management Co., Ltd. and Mr. Hiroyuki Hanaoka from JPMorgan Asset Management (Japan) Ltd. to discuss with Mr. Shigeki Toma, President & CEO of Shinsei Bank, the Shinsei Bank Group's growth strategy, development of products and services unique to Shinsei Bank, and the capital and shareholder return policies. Mr. Toyoki Sameshima of BNP Paribas Securities (Japan) Limited, a banking sector analyst, participated in the discussion as the moderator.

Growth Strategy

Sameshima Exactly four years have passed since you took the helm of Shinsei Bank in 2010 President Toma, and you have completed the First Medium-Term Management Plan ("MTMP") and the first year of the Second MTMP. What progress have you made so far?

Toma When I joined Shinsei Bank, the first thing I had to do was to "put out the fire." In other words, I had to dispose of the legacy assets which the bank had invested in in the past and to bring the Bank back to the way it should have been in the first place, and I think we achieved this at the end of the previous term (which ended March 2014). For example, we disposed of nonperforming loans so that they would not place downward pressure on our profits, and we set aside additional reserves for grey-zone losses in our consumer finance business.

We have thus cleaned up our legacy issues. However, now what we really have to do is develop the raison d'etre of Shinsei Bank. There are so many banks in Japan. We are not a megabank or regional financial institution, and as such, we need to figure out how we can demonstrate our value proposition.

Hanaoka Having resolved the legacy issues, your growth strategy is very important in order to create new value in the future, and differentiation is an aspect of your strategy. However, unless you are constantly differentiating yourself from your competitors, larger companies will often emulate what you have started and penetrate into the market. What is your view on the creation and promotion of a structure for maintaining differentiation efforts within the Bank?

Toma Instead of fighting megabanks on an equal footing, we began by changing our target markets and our approach to them. For example, we became a trailblazer in the area of Internet banking services in our retail banking business. We had a new concept, not charging fees and offering services 24 hours a day, seven days a week. Our online banking services were derived from an outsider's idea and was not an idea coming from the traditional banking business. In the traditional banking business, many banks close their branches at 3 p.m. and are not open on Saturdays or Sundays, and of course charge fees for their services. We changed all of this, and as a result, we enjoyed much support from our customers. It was a huge success as the number of retail accounts increased dramatically in the beginning. We intend to differentiate ourselves from our competitors by constantly implementing these kinds of initiatives.

In terms of the internal structure, we are bringing together staff members who have contact with customers at branches and ask them what customers want and what difficulties the staff members have in their duties and discuss these issues in depth.

Hanaoka In order to accumulate growth assets, you need to take some risks at some stage, but you have had the experience of taking on too much risk in the past. Do you have a framework to keep you from taking on too much risk?

Toma We of course take risks. But we take risks based on careful assessment. To do this, we try to get to the bottom of the risks we are taking to find out what they actually are. However, while new technologies and cutting edge approaches will keep developing in the future, we may not have professional expertise in these areas. To accurately judge their real growth potential, we have created networks with technological experts, entrepreneur groups and universities, and we often utilize their inputs in our decision making. We take risks taking into account information from these networks. One thing that is completely different from the way we did things in the past is that we have a credit limit for each transaction. We establish credit limits depending upon internal ratings. For instance, entrepreneur-type companies which just started their business tend to have the highest level of risk, so the maximum we will lend to such borrowers would be 100 million yen. The primary job of a bank is to take risks, and we have therefore begun brushing up our risk assessment abilities in order to identify the risks we can take, the risks we should not take, and the risks we should take.

Nishimura Shinsei Bank's strategy under the Second MTMP is to proactively increase expenses in order to expand the customer base. If this doesn't work as planned and your revenues don't increase, what will your next actions be?

Toma We are going to increase personnel related expenses including expenses for professional development and IT system expenses. For our bank to grow significantly in the future, we have to shift our "typical Japanese style" bankers into attack mode. Practical training is essential for this and we will actively promote it. Outsiders have said that our top-line revenue target in fiscal year 2014 plan is too aggressive. However, what underlies our bank's long-term value is our differentiation strategy. We are confident that an impact from this will emerge in the form of support from our customers, and I believe that our top-line revenue will increase as a result. This is why we have a plan with strong top-line revenue and conservative cost targets.

Hanaoka As an investor, given the quality of your bank's earnings, we are now just waiting for your efforts to yield fruits. While it may take a little more time for top-line revenue to start increasing, are there any indicators we should look at to be reassured of the coming success of your differentiation strategy?

Toma We have set qualitative targets as Key Performance Indicators (KPI). For instance, in the individual business, this includes the number of customers, deposit balance, and so on. If you look at these indicators, you will understand that volumes are expanding. With respect to the number of customers, we aim to increase the current 2.5 million to 5 million. At the moment, the number of young customers is increasing. However, because young people don't have many assets, they open accounts in order to benefit from convenient account features such as free remittance fees. This means we incur a loss per account. However, if we fail to capture these customers, there is no future growth for us. These accounts do not lead to short term earnings, but will lead to future growth.

For the institutional business, for instance, the balance of loans to small- and medium-sized companies and the number of companies that have transactions with us should be the key indicators.

Developing Products and Services Unique to Shinsei Bank

Sameshima With respect to the development of products and services that are unique to Shinsei Bank, can you please talk about products and services for individual customers?

Toma In housing loans, fierce interest rate competition is underway involving megabanks and regional banks. If Shinsei Bank, whose fund-raising costs are higher than megabanks and regional banks, competes head on against them, what will result is clear. As a result, we decided to focus on the creation of new segments. First, we launched a housing loan that supports working women and families with children. This is a housing loan that features sick child care service and housekeeping service coupons, and through this feature we have differentiated this housing loan from the housing loans of other banks. Rather than competing on interest rates, we have changed our approach to compete with other banks by creating products with high value added.

In the discussions with branch staff members I mentioned earlier, a topic that was often raised was smart phones. While the trend of online banking transactions using PCs is generally unchanged, transactions using smart phones have noticeably increased. Therefore, we plan to improve our smart phone banking services so that our customers can do everything from their smart phones.

With regard to the T-Point service offered in partnership with Culture Convenience Club Co., Ltd. ("CCC"), while there are other banks who are offering the same service, no other bank is promoting it as aggressively as Shinsei Bank. At this stage, the types of transactions for which we are award T-Points are limited, such as opening accounts at our bank. However, we are considering the financial services we can offer together with CCC to the approximately 48 million T-Point members.

In our services at branches, the Futakotamagawa Branch has an innovative approach. To match the customer profiles of the area where there are many high net worth housewives, the Branch has deployed only female staff members to make it easier for female customers to have consultations.

Sameshima What about products and services for institutional customers?

Toma Because our relationships with institutional customers were severed once when the former Long-Term Credit Bank of Japan failed and the margin on interest income became thin after the Bubble period, we have not aggressively pursued transactions with institutional customers since the launch of Shinsei Bank. However, what we are going to do from now on is to provide cash flow finance to corporate customers. We will grant loans to entrepreneur companies or companies in new business areas. In addition to collateral and transaction history, we also ask questions about the characteristics of their business, their strengths, their backgrounds, and if they are confident of making their business work. We then assess their business and look to support the growth of our customers. We take pride in the idea that our approach in creating relationships with customers is different from the banks in the past. You may call it a "niche" business, but I believe that we will be able to cultivate new areas through this approach.

Nishimura What are the prospective industries that are likely to contribute to an increase in revenues?

Toma Renewable energy, healthcare and Private Finance Initiatives* (PFI)

are likely to grow. We are also looking into specific technologies such as smartphone glass, thin films and liquid crystal for smart phones. In some of these areas, Japan has over 90% market share in the world, has patents and some of the technologies have become de facto industry standards.

* Use of private funds and technologies for the construction, maintenance and management of public facilities.

Capital Policy/ Shareholder Return Policy

Sameshima Shinsei Bank's Common Equity Tier 1 Capital Ratio is currently significantly above the 7.5% target set in the Second MTMP. What is your assessment on this? Also, as an analyst, I think share buy-backs could be one of the options for your capital policy. What are your views on this, and what is the possibility of share buy-backs in the future?

Toma Our Common Equity Tier 1 Capital Ratio currently stood at 9.2%. This is attributable to the accumulation of retained earnings through the generation of profits combined with the decrease in risk assets due to generally sluggish asset growth and progress in the disposal of nonperforming loans. However, going forward, we are committed to growth, and in order to grow we need capital and we need to enhance our business promotion. Our price-to-book value ratio (PBR) is currently below 1. While share buy-backs are an option, we cannot use up our capital only to buy back our shares. In particular, because we have received public funds, we must not repeat being in a situation where we have a capital shortage. However, I would like to carefully think about how we will provide shareholder returns in the future. In addition, I consider return on equity (ROE) important. Although it is hard to balance ROE and capital position required under Basel III, I don't think our current ROE is acceptable at all.

Hanaoka Because there is the Second MTMP, we tend to use the numbers and time frame of the Second MTMP as our reference points. But, in fact, what do you think should be the timeline for your capital policy and growth strategy? Will you wrap them up when the MTMP ends?

Toma Regarding the capital policy, as a bank that has received public funds, we must make sure that we will not suffer from the lack of capital in the future. In addition, we should repay public funds. This is to be discussed as part of the Revitalization Plan.

Nishimura What kind of a bank will Shinsei Bank be in five to ten years time?

Toma Rather than expanding in size, I would like to improve our quality, especially our intelligence. In addition, I would like to develop overseas business in the near future. Our target market will likely be Asia and Oceania including Japan. I also would like to offer investment consulting service to individual customers. The baby-boomers are around 60 years old now and will retire soon. The asset management needs of people in this generation are certain to increase, and we are preparing ourselves to deal with such needs.

Sameshima Are you looking into M&A as an option for your growth strategy?

Toma If we have a good opportunity, we will. But we don't intend to get together and do something with a company whose ideas and principles are different from ours.

Sameshima You may have a long way to go before you can repay public funds. What is the timeline you are thinking of?

Toma I cannot make any promises. But I am optimistic by nature, and I think our performance will improve significantly if the business model I have explained works well. Share price normally is a leading indicator, so our share price might improve much earlier. I cannot say when we can do it, but I think it won't be that far ahead. I hope to set out a specific scenario within five years or with the next MTMP. We will do everything we can in order to do this. We have dealt with most of our nonperforming loans, so there are not many of them left. Our nonperforming loan ratio as of March 31, 2014 was 3.81%, and I think we can bring it down to the 2% level by the end of fiscal year 2014. At the very least, in the four years since I joined the Bank, we haven't become burdened with any new, significant nonperforming loans. Even if we have nonperforming loans in the future, they won't affect us in a serious way. Therefore, if we can successfully switch to an offensive approach in our business promotion activities with sufficient commitment, I am optimistic that the path to success will open up before us.

Sanjeev Gupta Head of Individual Group
Masashi Yamashita Head of Consumer Finance Sub-Group
Tetsuro Shimizu Head of Retail Banking Sub-Group
Yasuhiro Aoki President SHINKI Co., Ltd.
Riku Sugie President and CEO Shinsei Financial Co., Ltd.
Satoshi Noguchi President APLUS Co., Ltd.

INDIVIDUAL GROUP ROUNDTABLE DISCUSSION

The Head of the Individual Group, the Heads of its Sub-Groups and Presidents of Group companies at Shinsei Bank convened for a roundtable discussion on initiatives undertaken in FY2013 and future initiatives aimed at attaining 5 Million "Core Customers," the cornerstone of the Individual Group's strategy under the Second Medium-Term Management Plan.

Efforts During FY2013

Gupta At the beginning of 2013, we formulated our three-year Second Medium-Term Management Plan ("MTMP"). While the highest-priority goal of the Individual Group under the Plan is to attain 5 million core customers, this does not mean that we are looking to expand the number of retail banking customers from the current 2.5 million to 5 million. Rather, our goal is to attain a total of 5 million customers that are able to, depending upon their needs, freely utilize not only the products and services of retail banking, but those of the member companies of the Shinsei Bank Group, including APLUS FINANCIAL, Shinsei Financial, Shinsei Bank Card Loan—Lake ("Lake"), SHINKI, and Shinsei Property Finance, as well.

In order to achieve this goal, in March 2013, we first established a steering committee that brought together key members of the Individual Group, including member companies of the Shinsei Bank Group. We used this committee as a forum for engaging in frank discussions and determining specific initiatives that should be undertaken in order to attain 5 million core customers. This was followed by the formation of working teams that would then work on the actual execution of these initiatives.

One of the first initiatives we implemented was making customers with Shinsei APLUS credit cards and customers utilizing Lake's loan services eligible for the "Gold" stage of Shinsei's step-up program. We also implemented various other measures such as enclosing flyers for Lake in new account starter kits and sending retail banking customers direct mailings of Lake pamphlets.

Additionally, we entered into a partnership with Culture Convenience Club Co., Ltd., the company that operates the TSUTAYA chain of rental media shops, and a business partner of APLUS, an operating subsidiary of APLUS FINANCIAL, in order to offer a T-Point program through Shinsei Bank. We are now proactively leveraging this partnership, offering T-Points in promotional campaigns such as rewarding existing customers with T-Points when they utilized ATMs operated by E-net Co., Ltd. ("E-net"), one of our ATM partners.

Challenges Faced and Positives Created through Inter-Group Cooperation

Noguchi For the Shinsei APLUS credit card, we conducted a promotional campaign that combined the card with Shinsei Bank's Japanese yen time deposits, which proved to be extremely effective. However, business laws prevented Shinsei Bank employees from directly soliciting customers in campaigns for APLUS, the credit card issuer, at Shinsei Bank branches. We at APLUS therefore arranged for our employees to go to Shinsei Bank branches to provide explanations of our credit card. While there may indeed have been other, better methods for implementing the campaign, our campaign was still highly effective. Close to 90% of customers acquired through this campaign applied for a Gold card, and usage rates of these Shinsei APLUS credit cards are exceptionally high. I feel that not only was the campaign effective, it was also successful in terms of our collaboration together with Shinsei Bank. Additionally, during FY2013, the most significant event from APLUS' perspective was that Shinsei Bank joined the T-Point program. Due to our newfound ability to collaborate in developing initiatives that utilize T-Points, I believe in the future we can collaborate in developing programs aimed at attaining 5 million core customers.

Shimizu In the Retail Banking Sub-Group, the number of new accounts opened during FY2013 has not changed from to the previous year. Additionally, regarding our retail banking initiatives for Shinsei APLUS credit card and Lake customers, we must not rest on our laurels. During FY2013, we focused on creating our foundation. Without fundamentally changing the behavior and working style of our employees' at retail banking branches, there were limits to the extent to which credit cards and other products could be newly activated at those branches. First, we focused our efforts on revising these frameworks. Up until this point, branch functions tended to be split between consulting and large-account sales and various smaller-account product sales by our front office teams. In order to provide consulting services of a more customer-centric nature, we have established our branch sales framework to integrate those functions together into a single set of cohesive sales functions. I believe that FY2014 is going to be the year where we will be asked to add various products and services to that framework and be challenged to make them grow.

Additionally, as we aim to attain 5 million core customers, we must significantly expand the number of our customers in retail banking as well. In order to accomplish this, the degree to which we can facilitate the activation of accounts opened by customers as well as control the costs associated with the newly opened accounts as they increase in number will take on increasing importance. Our expanded partnership with convenience store ATM operators has been significant in this regard. Up until now, our only convenience store ATM partnership was with Seven Bank. Our most recent efforts to expand these ATM partnerships will prepare the Bank for when the total number of customer accounts reaches 4 million or 5 million in the future. With regards to facilitating the activation of accounts that have been opened, the activation rate (account utilization rate) of customers who opened their accounts through the T-Point program is the highest, and is in fact roughly double the activation rate of customers who opened their accounts through other routes. In FY2014 a major challenge will be to understand how to increase that rate going forward.

Efforts Undertaken at Shinsei Financial and SHINKI

Sugie I regard FY2013 as the year that we were able to recognize that we will deal with customers that are different from those under the former Lake brand, and that those customers expect services that differ from those offered under the former Lake brand. In September 2011, in addition to the transfer of the Lake brand into Shinsei Bank, Shinsei Financial provided the Bank with a credit guarantee as well as undertook certain "backyard" operations. However, credit models, customer pathways created on websites and other routes formerly used in the old Lake brand had to be reformulated from scratch, making 2013 a year where we had many learnings. In the future, we will need to develop an understanding of how to draw customers, who do not necessarily view Lake positively, closer into that brand. At the same time, we have to consider how we should provide services to customers that are loyal to the APLUS brand. As an extension of those preparations, we also have to put together completely different services for customers of the regional financial institutions that we partner up with for credit guarantee operations. I think FY2014 will be a year where our ability to customize solutions in such a manner will be tested. The services our customers require will differ according to their entry products in initial transactions, whether they are retail banking, Shinsei APLUS credit cards or Lake products. The effective customization of products and

Sanjeev Gupta
Head of Individual Group

services to suit individual customers through a shared, modularized framework that this will require will be challenging. However, I believe that the skills and expertise required to provide such services will become one of our core strengths in the future. We at Shinsei Financial seek to become the kind of company that is able to flexibly accommodate its customers' needs in addition to providing basic services.

Aoki At SHINKI, we offer unsecured personal card loans under the "NO LOAN" brand, and we have worked exhaustively to acquire customers for the products and services that we provide. We have engaged in our business with the hope that being part of the "Shinsei" approach will enable us contribute to the achievement of the Group's goal of attaining 5 million core customers. Our customers are, of course, different from the customers of Lake, and we have spent a year intently following up on customers who want to use services offered by personal loan companies rather than unsecured card loans offered by banks. Many customers who use unsecured personal card loans prefer to keep their use of these services a secret from others, which I feel creates a certain level of difficulty for us in collaborating with Shinsei Bank in providing a variety of products. Still, I am optimistic that there are opportunities for us to collaborate with Shinsei Bank, such as having it to introduce some of the customers who applied for Lake to SHINKI.

Differentiation of the NO LOAN and Lake Brands

Aoki Regarding the differentiation of these two brands, we have not gone so far as to draw lines delineating the two. By having SHINKI promote the NO LOAN brand and Shinsei Bank promote the Lake brand to the best of their respective abilities, I believe that in the end, customers will choose the institution that is the best match for them. SHINKI could be categorized as having a large number of customers using petty loans, and I believe that by actively engaging these kinds of customers, SHINKI is able to follow up on customers that Shinsei Bank is unable to obtain.

Sugie The NO LOAN and Lake brands are completely different, including the way they are sold. Lake's business model is to conduct massive amounts of investment across all channels, be they TV commercials, physical branches or the Internet, in order to gradually build brand awareness. Conversely, the strategy surrounding NO LOAN is to generate brand recognition and demonstrate the brand's appeal to customers strictly through the Internet. While this does not necessarily mean that the target customers under each company are different, my impression is that the expectation values of customers under each brand are different. Where NO LOAN is concerned, I believe that examining how we will continue our approach using the relatively-nascent channel that the Web represents and working in tandem with Lake will result in the gradual growth of the NO LOAN brand.

Initiatives in the Credit Card Business

Noguchi In APLUS's T-Point program, by rewarding users with points whether they shop on credit, pay their rent or settle their bills, we are seeking to create a system that retains customers who are fond of T-Points. The T-Card Plus (issued by APLUS), a T-Card equipped with a credit card function that we have been offering since March 2013, has revolving credit as the default setting, and a year later, the revolving credit payment ratio of those cards is greater than 70%. I believe that by giving customers the option of revolving credit payments, we are effectively providing them with a feature that enables a greater degree of freedom in terms of lifestyle and consumption compared to simple deferred payments. Going forward, in addition to the effective application of T points, we seek to address on a group-wide basis, measures for making the use of these cards easier and further develop partnership card programs.

Attaining 5 Million Core Customers

Yamashita I was directly involved in the formulation of the Second MTMP in the capacity of the Head of the Corporate Staff Group. Throughout the process, our idea was to draw up and incorporate a growth and differentiation strategy for Shinsei Bank. Looking at the resources available to the Shinsei Bank Group and the competitive landscape, we came to the conclusion that the point of focus was, as expected, the Individual Group in its entirety, including member companies of the Shinsei Bank Group. With that in mind, we proceeded to formulate the Plan based largely on the concept of directly approaching customers as a group as a differentiation strategy that simultaneously worked to leverage the strengths of the Shinsei Bank Group. This process would in effect firmly establish the identity of the Shinsei Bank Group as defined by having 5 million core customers.

Compared to other bank groups, while the banking component of the Shinsei Bank Group may be small in scale, it possesses the greatest level of functionality out of any bank group in Japan, as well as the greatest level of intimacy with retail customers. As such, a major idea behind the formulation of the Second MTMP was "how can we best leverage those strengths?" A simple calculation of the total number of customers amongst Shinsei Bank, APLUS FINANCIAL, Shinsei Financial, SHINKI, and Shinsei Property Finance comes to about 10 million customers in the entire Shinsei Bank Group. Yet, we are unable to conduct cross-selling in units other than 1 million customers. Taking that into consideration, our idea was that if we can integrate the diverse functions of the Shinsei Bank Group in order to tie together our customers, the Group will be able to increase its base of loyal customers.

Masashi Yamashita
Head of Consumer Finance Sub-Group

I believe this approach was the correct one for us. In terms of having to begin with realizations regarding mutual awareness within the Group, such as what each component of that Group is capable of doing relative to the others, what it is incapable of doing, and what the respective differences are between those components, in my eyes, we were able to take our first step in 2013. The steering committee is fulfilling its intended functions, albeit one step at a time, and the sense of urgency involved in its processes is becoming gradually faster. Every month, top management members from Group companies come together to propose on the spot how their own companies can help and what should be done to resolve certain problems. Their conclusions are then incorporated into actions within the following month or so. In my opinion, this is an excellent way of promoting initiatives. Shinsei Bank and its Group companies have cleared the first step of aligning ourselves on the same vector. Now that we have come together, we have also become capable of approaching other divisions, and I believe that the Shinsei Bank Group has truly begun to move forward as a group. A crucial point for us in FY2014 will be properly establishing products and services with the "Shinsei" brand attached to them that meet a reasonable standard of quality and elicit satisfaction from our customers. During FY2014, I hope to put together a framework in preparation for the third year of the Second MTMP after we have addressed that point.

Shimizu During FY2014, I hope to incorporate discussions by the steering committee on a slightly more practical business level. If we can make that happen, I anticipate that customers will take the view that the products, services and quality offered by the Shinsei Bank Group are uniformly excellent.

Sugie The law that Shinsei Financial has been particularly mindful of so far is the conduct regulation known as the Money Lending Business Law. We, too, have endeavored to enhance our awareness of the Banking Law to coincide with the new handling of Lake products by Shinsei Bank, and believe that we now have a strong understanding in place. Our employees' new approach focuses a great deal on whether or not we should do something, rather than whether or not we were told not to do something. Going forward, we intend to provide services that are representative of the "Shinsei Bank" brand.

Tetsuro Shimizu
Head of Retail Banking Sub-Group

Riku Sugie
President and CEO, Shinsei Financial Co., Ltd.

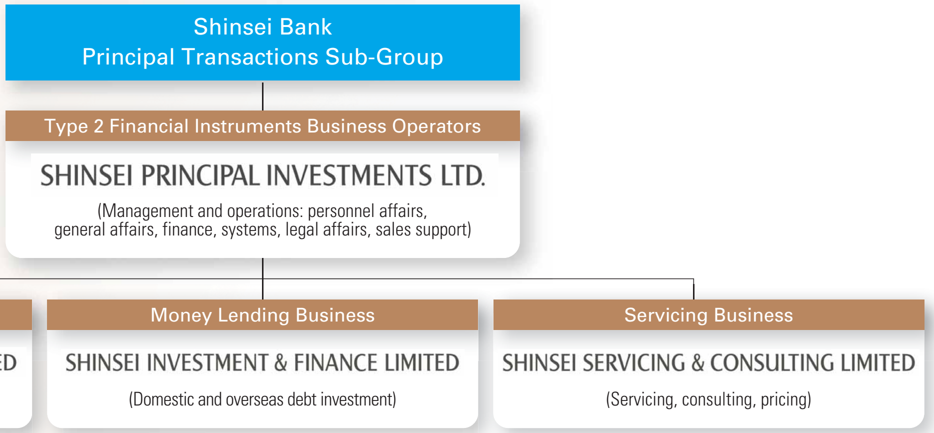
Gupta As the initial year of our three-year Second MTMP, FY2013 is when we sowed the seeds of that plan. Call it the building-blocks phase, if you will. Over the next two years, those seeds are sure to bear fruit that will be ripe for the picking. In the Individual Group, our direction has become increasingly clear, and our members are working with a forward-looking perspective. I therefore hope to further elevate the speed with which we execute initiatives as we move forward.

OVERVIEW OF THE SHINSEI PI GROUP

Principal Transactions Sub-Group

In July 2013, Shinsei Bank reorganized the Principal Transactions Sub-Group and its consolidated subsidiaries into the "Shinsei Principal Investments (PI) Group" which engages in the credit trading and private equity businesses.
With the phrase "A financial institution can accomplish more" as its corporate mantra, the Shinsei PI Group offers one-stop solutions for the financial needs of corporate customers, which range from debt to equity, depending on the companies' life cycle stages.

ORGANIZATION

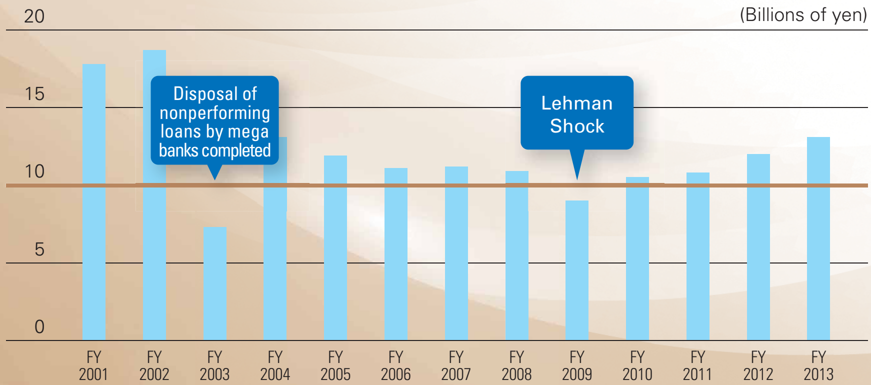


The Shinsei PI Group opened its office in Otemachi, Tokyo in order to pursue high profitability and productivity and to expand partnerships with external partners as one of the growth drivers for the Institutional Group under the Second Medium-Term Management Plan. We are a new type of corporate group with a unique human resources system that implements a flat personnel structure with only three job positions, and our office environment is one which encourages flexible thinking and action.

The Principal Transactions Sub-Group began engaging in the credit trading business in 2001 and in the private equity business in 2002. Within Shinsei Bank, the credit trading business has stably posted approximately 10 billion yen in revenues per annum for more than 10 years. In the current environment where the investment market for monetary claims and other types of receivables has been shrinking, we have made investments focusing on company cash flows instead of collateral, utilizing our expertise that we have cultivated over a long period of time. We invest in monetary claims such as loans held by financial institutions, including banks and non-bank companies, as well as account receivables held by business corporations.

Utilizing the expertise developed within the entire Shinsei Bank Group, we have expanded our areas of business to offer solutions that address the real needs of our customers without being constrained by precedents. For instance, we provide solutions for the business succession needs of companies that have no successor, develop business with financial institutions in order to expand our debt servicing business related to the SME Financing Facilitation Act and offer solutions for servicing receivables from business corporations.

PRINCIPAL TRANSACTIONS SUB-GROUP INCOME TREND



Shinsei Corporate Investment

Shinsei Corporate Investment is the private equity investment arm of the Shinsei PI Group. We are a unique investment company that aggressively utilizes its expertise and proactively leverages its networks outside of the Shinsei Bank Group. Our core team members have over 10 years of investment experience and one-stop venture and buyout investments.

In venture investments, we make pre-IPO investments in private companies preparing for an IPO. We have a strong track record due to our disciplined investment decisions as evidenced by the fact that over 30% of our investees have successfully conducted IPOs. We are also actively looking to engage in the operation of joint investment funds with partners that are able to identify good investments. An example of this is our involvement in the operation of the Femto Growth Capital Fund, which we jointly established together with Mr. Tetsuya Isozaki, a leading figure in venture finance. The purpose of the Femto Growth Capital Fund is to invest in early-stage companies in the Internet sector. We are also involved in the operation of gumi ventures—a fund investing in smart phone content companies in Japan and overseas—jointly established by gumi Inc., which is a smart phone game developer. Furthermore, we have co-established Cell Innovation Partners together with ReproCELL Inc., a listed iPS cell biotech company, to prepare for the creation of a fund to invest in iPS cell and regenerative medicine venture companies both inside and outside of Japan. We also actively undertake buyout investments, offering hands-on support for management buyouts (MBO) of the non-core business areas of companies that have business succession needs due to the absence of a successor and mezzanine investments using preferred shares.

Shinsei Investment & Finance

As a new service for corporate customers, Shinsei Investment & Finance started a business proposing solutions for removing long-term receivables from their balance sheets in October of 2013. Specifically, we provide off-balance sheet solutions for our corporate customers' assets which include account receivables and uncollected balances for completed work (where repayment has been prolonged and is falling behind), rights to claim the return of security deposits for vacated shop premises and so forth (which are to be returned over an extended term in installments) and loans to and equity investments in group member companies whose performance is weak or are subject to restructuring.

Our solution is to purchase these long-term claims at an appropriate price, and to service them whilst paying attention to past transaction relationships. This new business became possible thanks to our track record in responding to the off-balance sheet treatment needs of financial institutions through the purchase of their receivables and the trust we have built with our clients over a period of more than 10 years. Another factor is the sense of security we can provide as an institution that is both a Japanese investor as well as a Bank.

Once fixed receivables are removed from their balance sheets, customers can re-focus their organization and their staff members, who have been focused on managing and collecting such receivables, on their original duties, allowing them to redirect their energy to improving their organizations. In addition, these services will enable them to improve their financial fundamentals. Shinsei Investment & Finance will provide custom-made solutions to meet the diverse needs of each of our customers.

Shinsei Servicing & Consulting

Shinsei Servicing & Consulting is a unique servicer which combines expertise as an investor in receivables together with the trust afforded us as a debt servicing company affiliated with a Bank. Leveraging our experience in addressing the needs of over 6,000 corporate customers for more than 10 years in the investment business of receivables, we work to analyze and develop an understanding of our customers' specific needs concerning their liabilities, and work with them to develop solutions together. Our role is to offer unique financial services to customers who have difficulty finding receiving support from other banks, and we look to enlarge our customer base as a company that can offer both risk investment and consulting services. In our consulting services, we don't simply offer financial support such as grace periods for debt repayments or partial debt forgiveness, but we also offer support to improve repayment resources by working together with our customers in improving the value of their businesses and collateral real estate.

While many companies have received financial support, including grace periods for repayments under the SME Financing Facilitation Act, they will eventually require fundamental solutions. Accordingly, we believe that the roles and responsibilities expected of us will grow in the future. As a debt servicing company affiliated with a bank, we are in a position to abide by the spirit of the SME Financing Facilitation Act. This makes us an investor with whom the sellers of receivables are comfortable doing business, and places us in an advantageous position compared to our competitors. We will support some of the roles of a financial institution by acting as a debt servicing expert.

UNDERTAKINGS OF THE VENTURE BANKING INITIATIVE

The Venture Banking Initiative (VBI) is a new initiative Shinsei Bank has initiated in the First Medium-Term Management Plan and continues to engage in the Second Medium-Term Management Plan. The VBI represents the values of the Bank in its pursuit of what it believes is its fundamental role and its identity as a bank.
As representative examples of the VBI, the following are interviews with our two customers:

Utilization of Cash Flow Financing

Renova

(left)
Yosuke Kiminami
President & CEO
Renova, Inc.

(right)
Yuichiro Kawabe
The Project Finance Department and the Business Incubation Department, VBI Promotion Division, Shinsei Bank, Limited

Kiminami Renova's three main businesses are mega-solar (a large solar power plant), plastic recycling, and environmental consulting. Going forward, we are planning on entering other renewable energy sectors. Our relationship (with the Bank) started when Shinsei invested in us and became our shareholder while we were investing-ing in our first large recycling business.

Kawabe When I met Mr. Kiminami, Shinsei Bank had already conducted its own independent risk analysis and market evaluation for the business at an early stage from the perspective of a financial institution, and we began discussions with Renova, exploring opportunities for doing business together. Three months later, in April 2012, the Business Incubation Department was established within the VBI Promotion Division, and I was assigned to the renewable energy sector.

Kiminami The solar business requires long-term financing so we thought project financing would be the optimal method to raise funds. We are grateful for Shinsei to have started discussions with us at an early stage. The total project cost of the Shizuoka Kikugawa Mega Solar Project which was closed in November 2013 is approximately 5.4 billion yen. The sponsors include Renova and its co-investors, and Shinsei Bank granted financing for the project. We had originally planned this project because we were already operating a recycling factory in Kikugawa City. However, the sites were very difficult to bring together for the project because they were over 100 owners for the land we were looking to acquire.

Kawabe Honestly, I thought that the project could not be closed. However, Renova successfully closed the project. Renova expanded the possibility of mega-solar projects with complicated issues regarding the right to use land and gaining approval.

Kiminami We decided to ask Shinsei to become the arranger for the project because it continued discussions with us, rather than declining the project in the initial phase. The most helpful characteristic of Shinsei is that we can have direct discussions with staff members who fully understand the project. Based on the general recognition of risks, Shinsei made reasonable decisions on minor matters about which we did not care much.

Kawabe Our project finance team is small. The team members are responsible for all processes ranging from sourcing to loan disbursement. This is our advantage in independently controlling transactions, making adjustments between relevant parties, and closing transactions in a designated period as the arranger.

Kiminami We would appreciate it if you could continue to study financing methods suitable for Renova, which is in a growth stage.

VBI Terminology

Cash Flow Financing

A form of financing backed by cash flows from a specific business.

Management Solutions

Solutions that support the growth of our customers, buy providing our customers with various solutions to their management issues, including the development of business strategies, provision of support for the execution of the strategies, financial control support, development of financial strategies, and the provision of human resources.

Provision of Management Solutions

Green Earth Institute

(left)
Tomohito Ihara
Chief Executive Officer
Green Earth Institute, Co., Ltd.

(right)
Hiroshi Kawashima
Business Incubation Department, VBI Promotion Division,
Shinsei Bank, Limited
(Currently seconded to Green Earth Institute, Co., Ltd.)

Ihara Green Earth Institute has the technology to convert inedible biomass[1], such as stems and leaves from agricultural products and plants, into biofuels and chemical products by using the Corynebacterium glutamicum[2] bacterium. We have been engaged in the commercialization of this technology and currently, in addition to financing our commercialization, Shinsei Bank has seconded one of its employees, Mr. Kawashima, to our organization. At Green Earth Institute, Mr. Kawashima provides support related to promoting our commercialization. His efforts in this regard include devising business strategies, formulating business plans, and negotiating with business partner candidates for our company. I had never heard of a bank dispatching an employee to a venture business it had invested in, and I feel Mr. Kawashima's support has contributed immensely in producing a more convincing proposal, especially in the financial and business plan areas.

Kawashima Dispatching an employee to the investee is a very unique arrangement from the position of a financer. At the time I was told by the Bank about being seconded to Green Earth Institute, out of the sites of investment that I had been overseeing, that company struck me as appealing due to its possession of latent technological prowess that could be implemented on a global basis. Consequently, I was confident that there was so much I could gain from having the opportunity to actually enter the company and work there. Amid constantly-changing factors, such as the relationship between business partner candidates and financers, venture enterprises need to seize opportunities within these situations. I believe that the changes business plans undergo from their initial state are matter of fate. When issuing explanations to banks, investors, and other stakeholders, venture enterprises need to imbue their business plans with a sense of reality to ensure they are not labeled as being haphazard. I believe that supporting Green Earth Institute in that regard is a natural part of my duties there.

Ihara As we proceed with the commercialization within the time-based and financial constraints that will follow, we at Green Earth Institute seek to bring products created using our technology to the world with a sense of urgency. We are scheduled to release our products in January 2015. To ensure that becomes a reality, the moving of our business forward is our top-priority mission. Our expectation of Shinsei Bank is that they will allow us to consult with them on a variety of matters pertaining to mechanisms for financing as we move from our long-running research phase and enter our commercialization phase. Additionally, as our organization grows, my hope is that Shinsei Bank will keep pace with us to assist in the greater need for financing that Green Earth Institute will be faced with. My hope is that our management philosophy at Green Earth Institute, namely "to create new energy in the form of biofuels and green chemicals from things that were formerly thrown away," becomes a reality through our technology. If our initial efforts overseas to implement our technology eventually translate into that technology taking root in Japan, I will be most impressed.

1 Biomass is a concept which represents a mass of biological resources. They are organic resources born from animals or plants that can be renewed to energy or another material (excluding fossil resources such as oil and coal). Specifically, they refer to agricultural and marine products, rice straw, rice husks, food, domestic animal waste, and woodchips.

2 Corynebacterium glutamicum is a coryneform bacteria independently designed by Research Institute of Innovative Technology (RITE), using metabolic pathways, in order to allow for producing targeted substances efficiently. Corynebacterium glutamicum can produce ethanol, amino acids, and chemical substances by genetic modification.

For the full interview, please go to Shinsei Bank website. http://www.shinseibank.com/institutional/info/about_vbi/

CONTRIBUTING TO REGIONAL ECONOMIES THROUGH COLLABORATION WITH REGIONAL FINANCIAL INSTITUTIONS

Eiji Shibazaki
Head of Financial Institutions Sub-Group

The Financial Institutions Sub-Group, as a part of the Second MTMP, is engaging in business operations that look to "contribute to regional economies through collaboration with regional financial institutions, and the establishment of the Bank's raison d'etre," leveraging the functions and strengths of Shinsei Bank as well as its Group companies.

Up until this point, while we have engaged in a wide range of transactions with our financial institutions customers, and in particular, asset management and fund raising with regional financial institutions. We have also engaged in a broad range of business activities, such as the provision of products and services developed by the Shinsei Bank Group, in order to meet the business promotion needs of our customers.

On the other hand, in recent years, regional financial institutions are increasingly focusing their efforts on actively undertaking initiatives in growing sectors and support activities in SME business rehabilitation and business improvement in an effort to contribute to the resolution of the challenge of revitalizing regional economies faced by Japan. Additionally, they are working to develop mid to long term management strategies with 5 to 10 year time horizons in this environment where the aging of the population and low birth rate is expected to bring about large market shifts.

Against such a backdrop, Shinsei Bank has, in an effort to give support to the wide range of initiatives being undertaken by regional financial institutions, proactively provided the various functions available to Shinsei Bank and its Group companies in order to contribute to regional economies through regional financial institutions. In order to be able to support our customers, we are engaged in a wide range of initiations in order to contribute to regional development and economic revitalization in all regions through collaboration with regional financial institutions to satisfy the funding needs of regional corporations and individuals, to provide growth support and to provide business revitalization support.

Responding to Regional Funding Needs —Working Together in New Business Areas—

In regards to the funding needs of regional institutional customers, Shinsei Bank has long been engaged in and has expertise in collaborating with regional financial institutions in the brokering and buying/selling of loans to corporates and local governments. Additionally, Shinsei Bank has engaged in cash flow finance, which is often utilized in real estate nonrecourse loans and project finance, from early on. In fiscal year 2012, in order to contribute to recovery efforts following the Great East Japan Earthquake, Shinsei Bank contributed to the earthquake reconstruction efforts in Miyagi Prefecture, disbursing a nonrecourse loan that utilized the expertise accumulated within the Bank, in cooperation with a regional financial institution, for the construction of mid-to-long term residential accommodations.

Furthermore, in fiscal year 2013, we have proactively engaged in satisfying the funding needs in new business areas in an effort to meet the diverse needs of our corporate customers. We have started providing project financing for renewable energy and regional development businesses, focus areas of the Venture Banking Initiative (VBI) of the Institutional Group, together with regional financial institutions and have been involved in mega solar initiatives in Kagoshima and Ibaraki Prefectures so far. Additionally, we have also been involved in a syndicated loan to a wood biomass generation business in Kochi Prefecture in cooperation with a regional financial institution.

These preceding initiatives are all funding schemes that limit the repayment of funds to cash flows of the underlying project. By providing full support to our partners in the areas of risk analysis and management system expertise, we are able to actively promote the expansion of finance that is not overly reliant on the creditworthiness of borrowers.

On the other hand, in regards to enhancing capability to meet the borrowing needs of individual customers, we have provided the personal loan guarantees of Shinsei Financial and APLUS and the personal loan management and servicing services of Alpha Servicing of the APLUS Group. By promoting collaboration with regional financial institutions primarily through the provision of the Group's unique functions, we are able to proactively meet the funding needs of individual customers in all regions.

Among these, for Shinsei Financial, we are not just providing the guarantee services of Shinsei Financial for unsecured personal loans, but are also providing the marketing expertise accumulated through our experience with "Shinsei Bank Card Loan Lake," providing regional financial institutions with insights on making these products more attractive to their customers.

While Shinsei Financial has been involved in the guarantee business since 2010, the business needs of regional financial institutions for personal unsecured loans is significant, and our business alliances in this area are increasing. In fiscal year 2014, we expect to begin additional business partnership with other regional financial institutions.

Revitalizing Regional Businesses —Company and Business Revitalization—

Shinsei Bank has established the area of business and company revitalization support as one of its strategic focus areas, and as such, is strengthening efforts in the area. By utilizing our expertise, we are able to provide funding, equity financing, profit and loss improvement services, financial revitalization, management support and advisory services to SMEs in need of management improvement. By providing our expertise to regional institutional customers in all regions through cooperation with regional financial institution, we look to contribute to the revitalization of regional economies.

In fiscal year 2013, we have engaged in business revitalization in cooperation with regional financial institutions. An example is a SME logistics company which, while it had been running its core business well, faced a financial crisis with its debts exceeding assets due to bad assets from failed investments made in the past. The company decided to rehabilitate its business with the support by the SME Business Rehabilitation Support Cooperative through the second company scheme. Shinsei Bank supported this company through the advice on debt-equity swap and the development of rehabilitation plan as well as providing a new loan to the new company together with regional financial institutions.

Additionally, as part of a new initiative, we entered into a "Business Cooperation Agreement on Business Succession Support" with Shinkin Central Bank in March 2014. In this, if the Bank is introduced to a company with business succession needs from any of the Shinkin Banks across the country, we will work to provide equity financing using preferred shares subscribed by group companies that accounts for the possibility of repurchase by the successor, relatives or employees of the company receiving funding. This agreement is an opportunity for Shinkin Banks to utilize the knowledge and expertise of Shinsei Bank and its Group companies, and as such we will proactively engage in initiatives in the area.

Raising the Future

As part of its corporate social responsibilities (CSR), Shinsei Bank provides, in collaboration with the NPO "Sodateagenet," a financial literacy program called "MoneyConnection®," aimed at stopping young people from becoming NEETs (Not in Education, Employment or Training). In fiscal year 2006, the program was co-developed and delivered by Shinsei Financial and Sodateagenet. As of fiscal year 2012 the activity was taken over by the Bank, and we have been enlarging the scope of the activity to reach more young people in cooperation with regional financial institutions. Following the tie up in this activity with The Fukui Bank, Ltd. in fiscal year 2012, we entered tie ups with The Kiyo Bank, Ltd. and The Bank of Iwate, Ltd. in fiscal year 2013, expanding the activity into other regions. In fiscal year 2014, we look to promote partnerships with other regional financial institutions, and by offering the program to a larger number of young people in local regions, hope to contribute to the future of those regions.

Shinsei Bank looks to continue providing customer centric solutions that capture changes in financial market and meet the needs of both individual and institutional customers, making full use of the functions and expertise of the Shinsei Bank Group, both directly and together with regional financial institutions, in a timely manner. By increasing our capabilities in all business areas, we hope to make progress toward becoming a "financial group that is appreciated by customers, and needed by society and the market."

SUMMARY OF MAJOR EVENTS

2000	March	Launched as an innovative Japanese bank under new management and new ownership
	June	Changed name from The Long-Term Credit Bank of Japan, Limited (LTCB), to Shinsei Bank, Limited
2001	May	Commenced operations of Shinsei Securities Co., Ltd.
2003	April	Commenced operations of Shinsei Investment Management Co., Ltd.
2004	February	Listed the Bank's common shares on the First Section of the Tokyo Stock Exchange
	April	Converted the Bank's long-term credit bank charter to an ordinary bank charter
	May	Achieved one million retail accounts
	September	Acquired a controlling interest in APLUS Co., Ltd.
2005	March	Acquired a controlling interest in Showa Leasing Co., Ltd.
	May	Commenced operations of Shinsei International Limited
2006	July	Commenced resolution of public funds
2007	April	Achieved two million retail accounts
	December	Acquired a controlling interest in SHINKI Co., Ltd.
2008	January	Reached a mutual agreement with Seven Bank, Ltd. to share sales channels and develop products and services together
	February	Completed a tender offer bid for the Bank's common shares and a third-party allotment of new common shares of the Bank to the investor group led by J.C. Flowers & Co. LLC and affiliates
	September	Acquired GE Consumer Finance Co., Ltd. (Changed company name to Shinsei Financial Co., Ltd. on April 1, 2009)
2009	January	Launched *Shinsei Step Up Program*
	March	Concluded tender offer for the shares of common stock of SHINKI Co., Ltd.
	June	Opened first Shinsei Consulting Spots
		Launched *Two Weeks Maturity Deposit*
2010	June	Moved to a "Company with Board of Statutory Auditors" board model
	November	Announced business alliance with YES BANK LIMITED in Japan-India cross-border M&A business
2011	January	Commenced operations at new head office (Nihonbashi Muromachi)
	March	Issued new shares through international common share offering
	September	Assisted The Daito Bank, Ltd. in arranging its first syndicated loan
	October	Commenced unsecured personal card loan service under the Lake brand
2012	March	Established VBI Promotion Division in the Institutional Group
	April	Added "Shinsei APLUS Gold Card" and "Shinsei APLUS Card" to credit card line-up
	July	Established venture fund targeting mobile entertainment companies with gumi Inc.
	September	Balance of *PowerSmart* Home Mortgages exceeded one trillion yen
	October	Invested in "Fukushima Growth Industry Development Fund"
		Issued Fourth Series of Unsecured Callable Subordinated Bonds
	November	Provided non-recourse loan for construction of lodgings for post-earthquake reconstruction workers in Miyagi Prefecture
2013	January	Participated in establishment of "Tokutei Mokuteki Gaisha Healthcare Infra Fund Kobe," which is privately placed real estate fund for individual investors where healthcare facilities constitute the underlying investment assets
	March	Started *Go Remit Overseas Remittance Service*
		Syndicated project finance for mega solar project in the Eastern area of Hokkaido
	April	Stopped issuing long-term credit debentures (public sales issues) and long-term credit debentures for workers' property accumulation (*Zaikei issue*)
		Established "Femto Growth Capital Investment Business Limited Liability Partnership" to invest in and provide support to early-stage companies in Japan's Internet sector
		Provided non-recourse loan for special purpose company set up by Singapore-based Healthway Medical Development to purchase healthcare facilities in Japan
	May	Arranged project finance for the construction of large-scale solar power plants in Mito city and Shirosato town in Ibaraki prefecture
		Issued unsecured callable subordinated bonds to retail investors in Japan
	June	Changed Shinsei Step Up Program to further improve convenience for the Shinsei Bank Group's unsecured card loan and credit card customers
		Formed a business alliance with Culture Convenience Club Co., Ltd. to award T Points to users of Shinsei Bank's financial services
	July	Formed Shinsei Principal Investments Group
		Initiated a pilot project aimed at discovering and nurturing "Innovators" in collaboration with Nomura Research Institute, Inc.
	August	Relocated the Osaka Branch in order to enhance business functions
		Arranged project financing for a mega solar project in Koshimizu, Shari District, Hokkaido Prefecture
	September	Participated in a syndicated loan to a wood biomass power generation and wood pellet manufacturing business
	October	Invested in Private Finance Initiative Promotion of Japan (public-private infrastructure fund)
		Entered ATM partnerships with "VIEW ALTTE" ATM, operated by East Japan Railway Company, and major convenience store chains such as LAWSON and FamilyMart
	November	Arranged project finance for mega solar business in Kikugawa City, Shizuoka Prefecture
	December	Issued Sixth Series of Unsecured Callable Subordinated Bonds to Retail Investors
2014	January	Launched "*PowerSmart* Home Mortgage Anshin Pack W"
	February	Arranged project finance for mega solar business in Kokonoe-machi, Kusu-gun, Oita Prefecture
		Commenced smartphone banking services through Shinsei *PowerDirect*
		Reached agreement to conclude the indemnity for losses on interest repayment with GE Japan Corporation
	March	Participated in business revitalization support project using a debt-equity swap by Japan Finance Corporation
		Entered business partnership agreement on business succession support with Shinkin Central Bank
		Launched account opening application for smartphones
		Concluded a business alliance agreement concerning business development support for small- and medium-sized enterprises entering into countries belonging to the Association of Southeast Asian Nations (ASEAN) with Forval Corporation
		Entered into business alliance with Military Commercial Joint-Stock Bank, a major private commercial bank in Vietnam
	April	Terminated new loan transactions that utilize the long-term prime rate as the base rate
		Extended new line of credit to wind power plant operation project in Sakata, Yamagata Prefecture
		Arranged project finance for mega solar projects in seven locations in Japan utilizing trust schemes
		Established Japan Senior Living Partners Co., Ltd, a REIT asset management company aimed at founding a healthcare REIT
	May	Launched NISA Plus, an investment trust application program

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AT A GLANCE
Segment Data

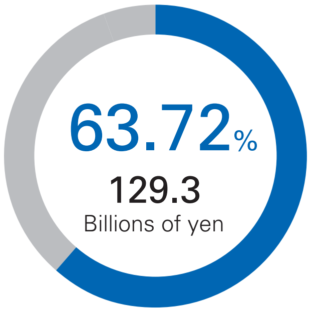
INDIVIDUAL GROUP

Major Business

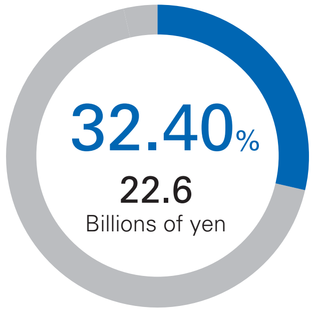
- Retail Banking
  - Deposit related products (saving deposits, time deposits, structured deposits, foreign currency deposits)
  - Asset management (consultation, mutual funds, annuity products)
  - Housing loans
- Consumer Finance
  - Unsecured personal loans (Shinsei Bank, Shinsei Financial, SHINKI)
  - Installment sales credit, settlement, credit cards (APLUS FINANCIAL)
  - Credit Guarantees (Shinsei Financial, APLUS FINANCIAL)

Contribution[1]

Total Revenue



Ordinary Business Profit after Net Credit Costs



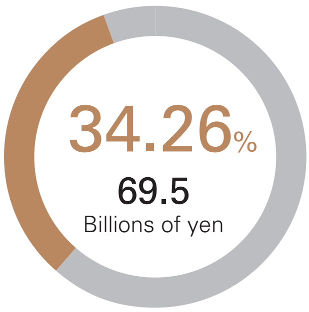
INSTITUTIONAL GROUP

Major Business

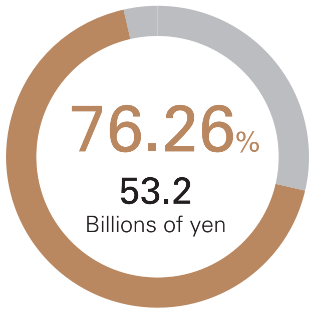
- Corporate & Public Sector Finance
- Healthcare Finance
- Real Estate Finance
- Specialty Finance
- Corporate Restructuring
- Credit Trading
- Private Equity
- Advisory Services
- Leasing (Showa Leasing)
- Trust operations (Shinsei Trust & Banking)

Contribution[1]

Total Revenue



Ordinary Business Profit after Net Credit Costs



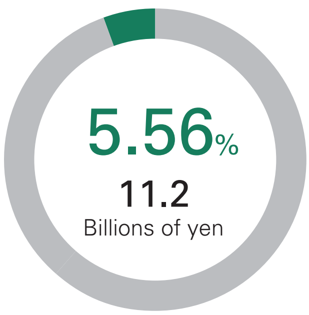
GLOBAL MARKETS GROUP

Major Business

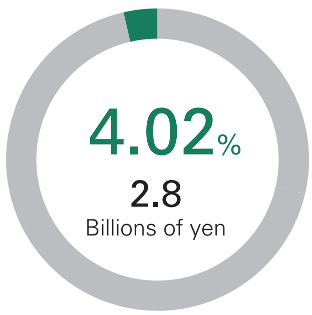
- Financial Institutions Business
- Markets
- Asset Management
- Wealth Management
- Securitization (Shinsei Securities)

Contribution[1]

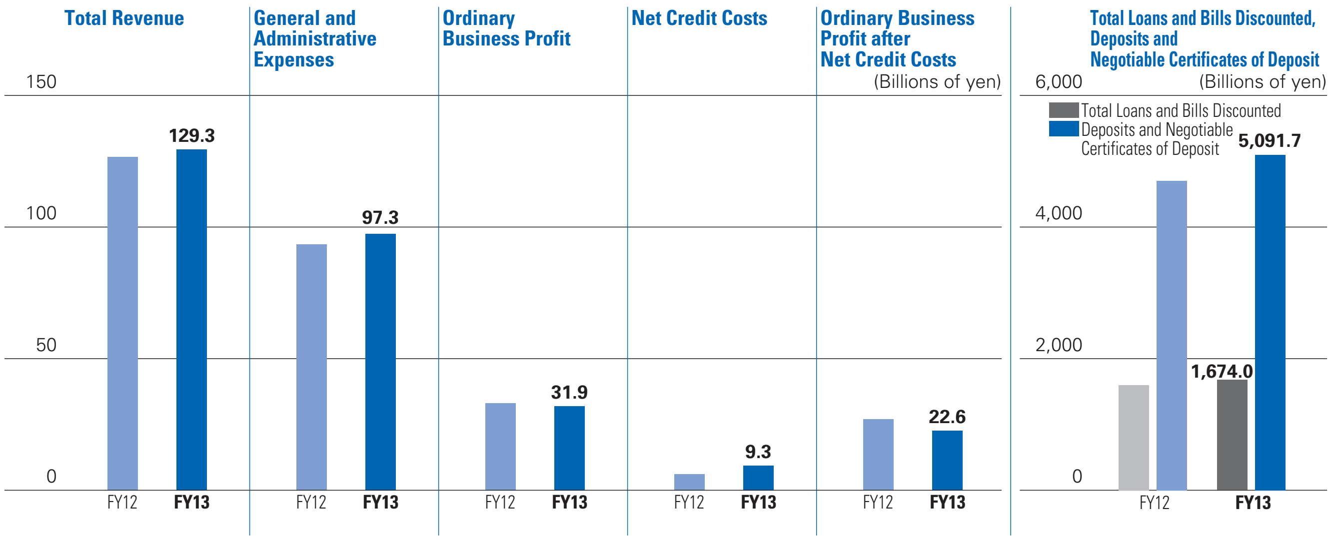
Total Revenue



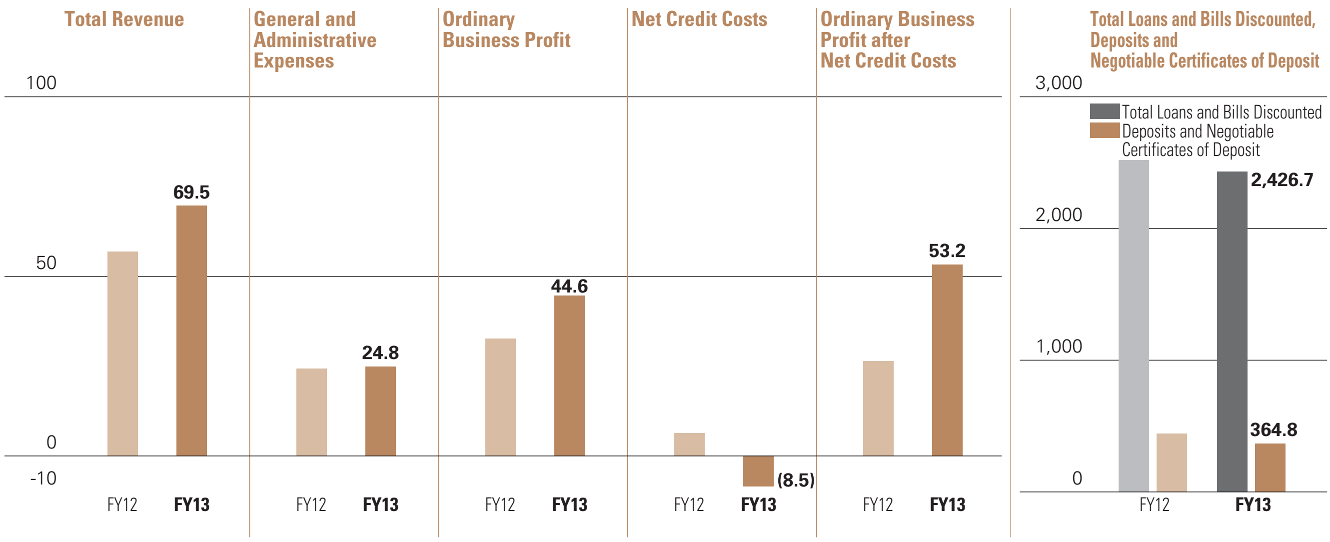
Ordinary Business Profit after Net Credit Costs



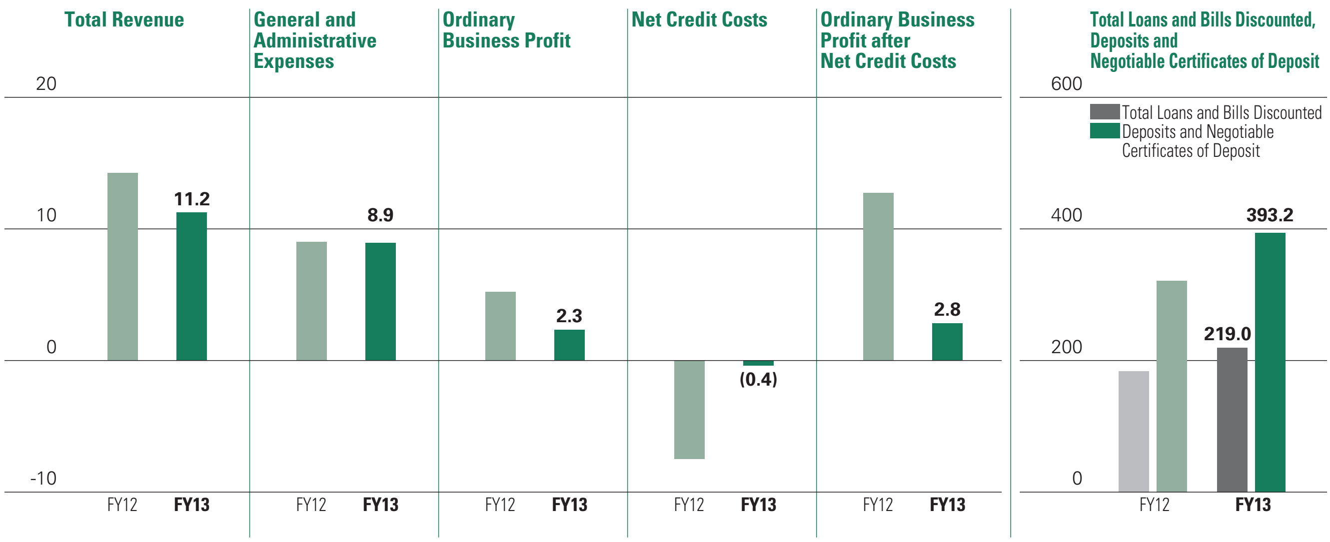
1 The percentage figures do not add up to 100% because Corporate/Other was negative.



Total Revenue
General and Administrative Expenses
Ordinary Business Profit
Net Credit Costs
Ordinary Business Profit after Net Credit Costs
(Billions of yen)
150
100
50
0
129.3
97.3
31.9
9.3
22.6
FY12 FY13
Total Loans and Bills Discounted, Deposits and Negotiable Certificates of Deposit
(Billions of yen)
6,000
4,000
2,000
0
Total Loans and Bills Discounted
Deposits and Negotiable Certificates of Deposit
5,091.7
1,674.0
FY12 FY13



Total Revenue
General and Administrative Expenses
Ordinary Business Profit
Net Credit Costs
Ordinary Business Profit after Net Credit Costs
100
50
0
-10
69.5
24.8
44.6
(8.5)
53.2
FY12 FY13
Total Loans and Bills Discounted, Deposits and Negotiable Certificates of Deposit
3,000
2,000
1,000
0
Total Loans and Bills Discounted
Deposits and Negotiable Certificates of Deposit
2,426.7
364.8
FY12 FY13



Total Revenue
General and Administrative Expenses
Ordinary Business Profit
Net Credit Costs
Ordinary Business Profit after Net Credit Costs
20
10
0
-10
11.2
8.9
2.3
(0.4)
2.8
FY12 FY13
Total Loans and Bills Discounted, Deposits and Negotiable Certificates of Deposit
600
400
200
0
Total Loans and Bills Discounted
Deposits and Negotiable Certificates of Deposit
393.2
219.0
FY12 FY13

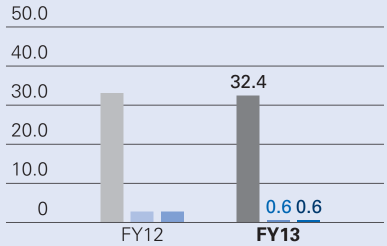
Explanations of Major Businesses

INDIVIDUAL GROUP

(Billions of yen)
- Revenue
- Ordinary Business Profit
- OBP after Net Credit Costs

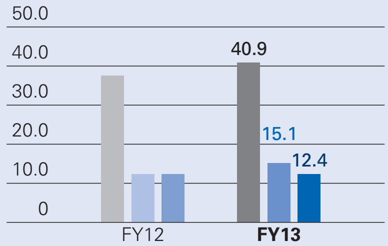
Retail Banking

Financial products and services for individual customers, such as yen/foreign currency deposits, structured deposits, mutual funds, brokerage service through an alliance partner, life/casualty insurance through alliance partners, and housing loans



Shinsei Financial and *Shinsei Bank Card Loan—Lake*

Unsecured personal loan business and credit guarantee services (Shinsei Financial and *Shinsei Bank Card Loan—Lake*)

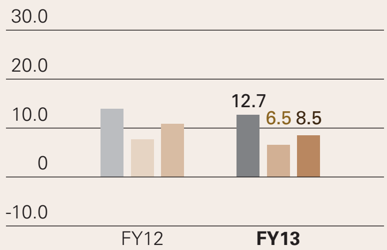


INSTITUTIONAL GROUP

(Billions of yen)
- Revenue
- Ordinary Business Profit
- OBP after Net Credit Costs

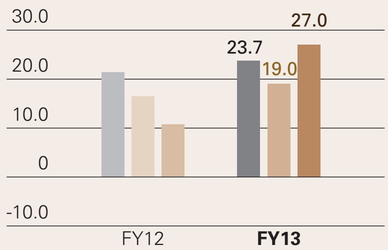
Institutional Business

Financial products and services for corporate and public sector customers (including healthcare finance and advisory services)



Structured Finance

Specialty finance business including real estate finance, M&A related finance and project finance, as well as corporate restructuring and trust business

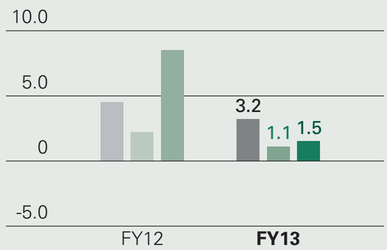


GLOBAL MARKETS GROUP

(Billions of yen)
- Revenue
- Ordinary Business Profit
- OBP after Net Credit Costs

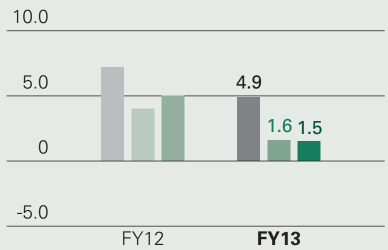
Financial Institutions Business

Provides financial solutions, such as investment management and managerial reinforcement, to financial institutional customers including regional financial institutions



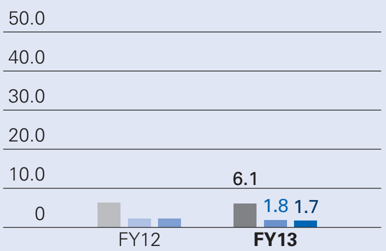
Markets

Foreign currency exchange, derivatives, equity, alternative investments, and other capital markets business



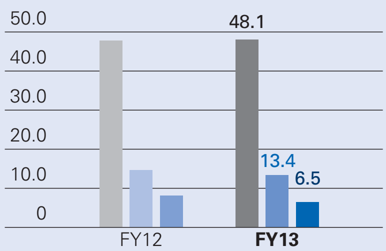
SHINKI

Unsecured personal loan business—brand name "NO LOAN"



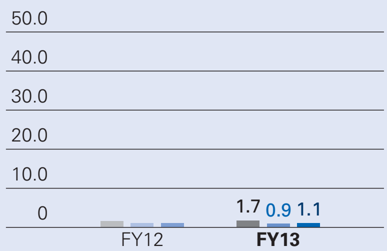
APLUS FINANCIAL

Installment sales credit, credit cards, credit guarantee services, loans, and settlement services



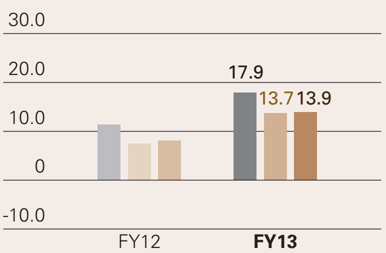
Other Businesses

Consumer Finance Sub-Group and Shinsei Property Finance which is engaged in real estate collateral finance



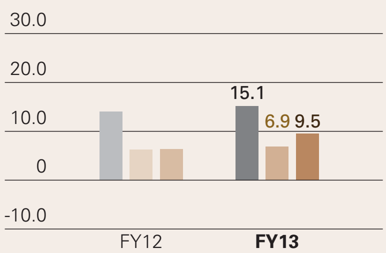
Principal Transactions

Credit trading—the business of trading various monetary claims—and private equity



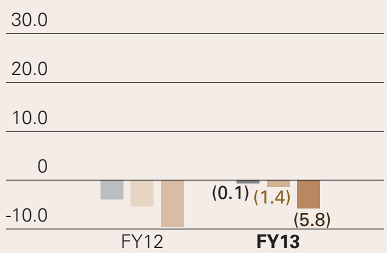
Showa Leasing

Leasing services for information equipment, industrial machinery, and machine tools as well as finance services such as installment sales credit



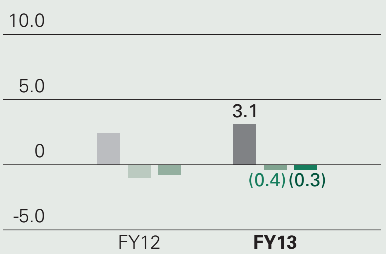
Other Businesses

Asset-backed investment and other products and services for corporate customers



Other Businesses

Shinsei Securities, asset management, and wealth management business



INDIVIDUAL GROUP

Tetsuro Shimizu
Head of Retail Banking Sub-Group

Sanjeev Gupta
Senior Managing Executive Officer,
Head of Individual Group

Masashi Yamashita
Managing Executive Officer,
Deputy Head of Individual Group,
Head of Consumer Finance Sub-Group

The Individual Group is comprised of: 1) the retail banking business handling deposits, investment trusts, insurance and housing loans, 2) Shinsei Bank Card Loan–Lake offering unsecured personal loan (UPL) services, 3) Shinsei Financial Co., Ltd. handling UPL and the credit guarantee operations, 4) SHINKI Co., Ltd. specializing in UPL, 5) APLUS FINANCIAL Co., Ltd. whose core business is the instalment sales credit business, and 6) Shinsei Property Finance Co., Ltd. that handles loans secured by real estate.

Achievements and Challenges in Fiscal Year 2013

The Individual Group's most important goal under the Second Medium-Term Management Plan (MTMP) is to increase the number of "core customers"—customers who can freely use the products and services offered by the Shinsei Bank Group companies according to their individual needs—to five million. We positioned fiscal year 2013, which was the first year of the Second MTMP, as the year in which we would "rebuild and develop businesses, operational frameworks and infrastructure through the integration of the Shinsei Bank Group." To achieve these, we worked on "integration measures," "service enhancement," and "organizational improvement."

Regarding specific "integration measures," in June 2013, we formed an alliance with Culture Convenience Club Co., Ltd. ("CCC"), with which APLUS Co., Ltd.—a subsidiary of APLUS FINANCIAL—already had a broad partnership in the T Point Program. Through the alliance, we were to offer "T Points" to users of financial services provided by the Bank, and we began awarding "T Points" from September 2013 to members of the "T Point Program" when they opened accounts at Shinsei Bank or used financial products or services designated by the Bank.

Regarding "service enhancement," we have expanded our convenience store ATM partnerships. As a result, our customers are now able to use Seven Bank ATMs in Seven-Eleven stores as well as ATMs installed in Lawson and FamilyMart stores. This has greatly improved customer convenience increasing the number of ATMs that accept transactions using Shinsei Bank cash cards free of charge to approximately 97,000 (as of May 2014).

Regarding "organizational improvement," we have recalculated the necessary amount to cover future grey-zone interest repayments based upon recent repayment trends, and made an additional provision of 15.6 billion yen of grey-zone reserves for our three consumer finance subsidiaries. In addition, when Shinsei Bank acquired Shinsei Financial from GE Japan in September 2008 we reached an agreement that GE would indemnify a substantial portion of Shinsei Financial's assets acquired by Shinsei Bank against grey-zone claims. This indemnity agreement was terminated as of March 31, 2014 in exchange for a lump-sum, cash payment of 175 billion yen by GE Japan—the amount expected to be required to cover future grey zone losses that will be incurred to the Bank. We consider that these measures sufficiently cover grey-zone claims that may be made against the Shinsei Bank Group in future.

Strategy

Fiscal year 2014—the second year in the Second MTMP—is positioned as the year for "continuing operational framework improvement and shifting to expanding the customer base."

We aim to achieve the target number of "core customers" and grow cross selling opportunities by enhancing collaboration between Group companies to improve customer convenience.

In product and service enhancement, we will continue to strengthen cooperation with housing developers and retailers to expand sales channels for our customers in order to respond to the increased competition in the housing loan market and the decline in demand for refinancing loans, and continue enhancing our products to satisfy diverse needs.

In our unsecured personal loan operations, we will further develop new products and enhance our marketing capability, while further strengthening our credit guarantee business in collaboration with regional financial institutions. We will also grow the transaction volumes of settlement products such as credit cards and rent payment, leveraging the T Point Program alliance formed in the last fiscal year. Furthermore, we are looking into satisfying the financial needs of Japanese retail customers in the Asian market.

Going forward, in order to respond to the diverse financial product needs of individual customers, we will further grow our product line-up to increase transactions with our existing customers within the Shinsei Bank Group while engaging in various initiatives in order to expand the customer base of the entire Shinsei Bank Group.

Business Development in Fiscal Year 2013

In our retail banking business, while we saw an increase in revenue due to the loan balance increase as a result of our continued steady performance in housing loans, total revenue decreased due to a reduction in net interest income from deposits resulting from lower market interest rates. Total revenue in the consumer finance business rose as a result of an increase in net interest income due to the larger total balance of unsecured personal loans at Shinsei Financial and *Shinsei Bank Card Loan—Lake* and greater non-interest income attributable to an increase in the shopping credit and settlement transaction volumes of APLUS FINANCIAL. As a result, total revenue of the Individual Group increased from 126.4 billion yen in fiscal year 2012 to 129.3 billion yen in fiscal year 2013. Business expenses rose from 93.3 billion yen in fiscal year 2012 to 97.3 billion yen in fiscal year 2013 due to the active implementation of measures to smoothly carry out the Second MTMP, although continued efforts were made to improve efficiency and to rationalize operations from a variety of approaches including a review of the advertising expense unit price. Net credit costs increased from 6.2 billion yen in fiscal year 2012 to 9.3 billion yen in fiscal year 2013 due to an increase in credit costs at Shinsei Financial, *Shinsei Bank Card Loan—Lake*, and APLUS FINANCIAL.

As a result of the preceding, ordinary business profit after net credit costs at the Individual Group shrank from 26.9 billion yen in fiscal year 2012 to 22.6 billion yen in fiscal year 2013.

In our retail banking business, we offered a wide range of financial products including yen deposits, housing loans, foreign currency deposits, structured deposits, investment trusts and insurance products.

In *Shinsei PowerDirect*—the internet banking service for Shinsei *PowerFlex* accounts holders—, we launched smart phone banking services in February 2014. Furthermore, we introduced an application for opening accounts in March 2014 in order to accept account opening requests online. The application simplifies the account opening process allowing customers to complete account opening procedures by submitting information via their smart phone, using the camera function of their smart phone to capture the images of customer identification documents and registered seal or signature, and transmitting them to the Bank.

In our housing loan business, we launched the "*Shinsei Bank PowerSmart Home Mortgage Anshin Pack W*" in January 2014. The product adds to our existing home mortgage product coupons which are given according to contracted loan amount. Customers can use these coupons to receive sick child care services and housekeeping services by service providers designated by Shinsei Bank. This product proved to be popular, due in part to the increased desire for employment amongst women in recent years. Our housing loan balance steadily increased from 1,091.6 billion yen as of March 31, 2013 to 1,184.0 billion yen as of March 31, 2014.

In our consumer finance business, the loan balance of *Shinsei Bank Card Loan—Lake* continued to increase steadily and had reached 118.8 billion yen as of March 31, 2014 with approximately 300,000 customers.

APLUS FINANCIAL has been focusing on installment sales credit, credit cards, and settlement services as its core business areas. Through its partnership with T Point Japan Co., Ltd., it has been expanding and developing businesses by leveraging the T Point service.

INSTITUTIONAL GROUP

Hitomi Sato
Senior Managing Executive Officer,
Head of Institutional Group

The Institutional Group is composed of: (1) the Institutional Business Sub-Group that provides private and public sector corporate customers with lending and other banking services, structured finance for real estate and other finance projects, as well as additional financial products and solutions, (2) the Principal Transactions Sub-Group that operates the credit trading and private equity businesses including pre-IPO investments, (3) the VBI Promotion Division, (4) the Corporate Advisory Division, (5) the Asset Backed Investments Division, and (6) the Shinsei Bank Group companies, including Showa Leasing and Shinsei Trust & Banking, that offer financial services to corporate customers.

Achievements and Challenges in Fiscal Year 2013

The Institutional Group's overall performance improved steadily from fiscal year 2012 as our efforts to strengthen the customer base and to enhance profit-generating abilities in our priority areas and new business areas, which were promoted until fiscal year 2012 under the First "Medium-Term Management Plan" (MTMP), produced steady, positive results. In fiscal year 2013, we also aimed to transform our loan portfolio by shifting from legacy assets to assets in strategically important areas. This was done by capturing the upturn of the market environment brought about by "Abenomics" and the BOJ's monetary easing policy that was "quantitatively and qualitatively of a different dimension" and by aggressively disposing of nonperforming loans.

In our institutional business, we consolidated the Institutional Business Sub-Group and Structured Finance Sub-Group in April 2013 to enhance synergy effects of traditional balance-sheet finance and cash flow finance including project finance. Furthermore, we established the West Japan Business Department in the Osaka Branch to enhance business promotion activities in our branches located in western Japan. We also relocated the Osaka Branch to a new, larger office in an attempt to create a flexible business promotion structure. These initiatives are gradually starting to have positive impacts, such as a large increase in the number of new customer acquisitions from the previous fiscal year.

In new business areas we established as our goal the creation and development of the project finance market in Japan. To achieve this, we increased our support to growing companies, primarily in the form of medium-sized project finance arrangement for renewable energy projects. As a result, we made a solid foundation for the development of the market.

In July 2013, we reorganized the Principal Transactions Sub-Group and its subsidiaries and established the "Shinsei Principal Investments Group (Shinsei PI Group)" in order to develop our business more flexibly. To maximize the impact of this reorganization, the Shinsei PI Group relocated to a new office which is designed to encourage proactive communication with an emphasis on face-to-face conversations. Through these changes, we will expand our credit trading and private equity businesses more aggressively with a greater competitive edge.

In fiscal year 2013, we strategically engaged in the disposal of nonperforming loans and large loans to borrowers with low credit ratings. This led to significant progress in improving our loan asset portfolio, which in turn contributed to a considerable reduction in our nonperforming loan ratio. We are thus now close to achieving the goals set in the Second MTMP that started in fiscal year 2013. Going forward, we will continue to pursue sustainable growth by further expansion of our customer base including small- and medium-sized enterprises (SMEs), more aggressive implementation of our strategies by working together with customers and increase high-quality assets in growth areas.

Strategy

In fiscal year 2014, the second year of the Second MTMP, we will accelerate our business expansion centered on the areas of focus such as renewable energy, medical/healthcare services, start-up support, corporate rehabilitation support, and support for new, growing businesses.

We will enhance our customer base with further increase of high-quality assets by the deliberate customer segmentation and the well-organized sales promotion system through clear business plans, and by the development of the speedy risk assessment system through the enhancement of the risk management framework.

In new business areas, we will aim to revitalize regional financial markets together with regional financial institutions by utilizing the relationships between the Global Markets Group and regional financial institutions and by applying the expertise we have developed in mega solar projects in the Japanese market to other renewable energy sectors such as geothermal and biomass. In the area of medical/healthcare services, we reached an agreement in April 2014 with five companies including Kenedix Inc. on the creation of a healthcare Real Estate Investment Trust (REIT), and jointly established an asset management company for this REIT. We are aggressively developing this business with the aim to create and list a healthcare REIT in the second half of 2014 and to promptly increase its asset size to approximately 100 billion yen as early as possible after listing.

The Principal Transactions Sub-Group will enhance its consulting functions, its capabilities in providing solutions for long-term fixed claims of large corporate customers and increasing the investment value of investees who are planning to conduct an IPO through the strengthening of growth support in light of the expiration of the SME Financing Facilitation Act, the ageing of the population, and other changes in the business environment.

In our overseas businesses, we are further reinforcing our overseas business promotion support structure for middle-market companies and SMEs through initiatives such as 1) the expansion of the scope of the business partnership with Yes Bank in India, 2) the business partnership with Forval Corporation which provides consulting services to support overseas business development of middle-market companies and SMEs, and 3) the business partnership agreement with Military Commercial Joint-Stock Bank, a large private commercial bank in Vietnam. Additionally, we are also actively seeking business opportunities for project financing in the Asia/Oceania region and Private Finance Initiatives (PFI) in Europe. To further enhance our overseas businesses, we will organize an overseas business development structure including the establishment of the Overseas Banking Division in July 2014.

Showa Leasing Co., Ltd. aims to enlarge its core customer base of middle-market companies and SMEs in the areas of its strengths. In addition to asset finance for semiconductors, construction machinery, medical services, and airplanes, the company will continue enhancing its fee income from businesses such as the buy-sell business where the company buys and sells second-hand machinery. Shinsei Trust & Banking Co., Ltd. will continue providing its customers with financing schemes utilizing its trust function as a member of the Shinsei Bank Group. For instance, it played a core function in the arrangement of project finance for mega solar businesses using the trust scheme.

Business Development in Fiscal Year 2013

Revenue at the Institutional Group grew from 56.8 billion yen in fiscal year 2012 to 69.5 billion yen in fiscal year 2013. This was due to a significant increase in noninterest income thanks to fee income obtained upon loan originations in REIT and other real estate-related projects and mega solar projects, strong performance of the domestic credit trading business, and gains on the sale of private equities. Net interest income, on the other hand, decreased due to the smaller margin resulting from the aggressive disposal of large loans to borrowers with low credit ratings.

Expenses rose from 24.2 billion yen to 24.8 billion yen on a year-on-year basis as a result of the use of management resources in focus areas to bolster profit-generating capability. Such measures included increasing personnel and enhancing business infrastructure. Net credit costs improved considerably from a cost of 6.3 billion yen to a recovery of 8.5 billion yen due to reversals of reserve on a year-on-year basis. This was attributable to the reduction of potential risks during the First MTMP period through measures such as the reduction of noncore business assets, implementation of various measures to improve risk management which resulted in the absence of any reserves for large loans, reversals reserves for loan losses following sales of nonperforming loans, and improvements to the credit quality of some borrowers.

As a result of the preceding, ordinary business profit after net credit costs at the Institutional Group grew significantly from 26.3 billion yen in fiscal year 2012 to 53.2 billion yen in fiscal year 2013.

In fiscal year 2013, we started seeing the results of our efforts to become involved in a diverse range of renewable energy projects: in September 2013, we participated in a syndicated loan as a co-arranger to a wood biomass power generation and wood pellet manufacturing business in Sukumo, Kochi Prefecture; and in April 2014, we arranged project financing for a wind power generation business in Sakata, Yamagata Prefecture. In mega solar projects, we are utilizing the full capabilities of the Shinsei Bank Group. For instance, in April 2014, Shinsei Trust & Banking became the trustee and the main project entity in project finance we arranged for a newly emerging company. This transaction structure improved the stability of the project.

In the area of business succession support, we entered a business partnership agreement in March 2014 with Shinkin Central Bank and Shinkin Capital Co., Ltd. to provide business succession support to the customers of Shinkin banks. Based on this agreement, Shinsei Bank and its subsidiary, Shinsei Corporate Support Finance Co., Ltd., began offering business succession finance from May 2014 to the customers referred to us by Shinkin banks all over Japan.

Additionally, Shinsei Corporate Investment Limited, a member company of the Shinsei Bank Group, announced in January 2014 that it would, jointly with ReproCELL Inc., establish Cell Innovative Partners, a fund that invests in iPS cell and regenerative medicine bio tech ventures in Japan and overseas. Through the provision of risk money and other initiatives, we will contribute to the creation of new industry areas.

GLOBAL MARKETS GROUP

Hironobu Satou
Managing Executive Officer,
Head of Global Markets Group

The Global Markets Group is composed of: 1) the Financial Institutions Sub-Group that offers financial products and services to financial institution customers, 2) the Markets Sub-Group that engages in foreign exchange, derivatives, and other capital markets operations, 3) the Asset Management Sub-Group that engages in the asset and wealth management business, and 4) Shinsei Securities.

Achievements and Challenges in Fiscal Year 2013

The Global Markets Group aims to strengthen its networks with regional financial institutions and enhance its market solution capabilities and product and service provision including sourcing abilities under the Second Medium-Term Management Plan.

With respect to cooperation with regional financial institutions, our transaction base for the sale/purchase and brokering of loans has grown and we have cooperated in project finance to renewable energy initiatives. In addition, we developed various frameworks for cooperating with regional financial institutions. For instance, we entered a business partnership agreement on business succession support with Shinkin Central Bank to address the business succession needs of customers of Shinkin bank throughout Japan. Furthermore, Showa Leasing formed an alliance with Shinkin Central Bank to help Shinkin banks provide asset-backed loans (ABLs). Going forward, we will work to further strengthen our cooperative relationships, promote more transactions, and enhance our profit-generating abilities.

In respect to improving our market solution capabilities, we made progress in increasing our customer transaction base. Specifically, we grew our derivatives transactions by responding to the needs of corporate customers' for hedging to deal with market volatilities, while steadily building up a good track record in structured bond sales to individual customers by combining the product development abilities of Shinsei Securities with the securities brokering function of the Individual Group in their retail banking operations. To offset smaller transaction profit margins caused by lower market interest rates and tighter credit spreads, we will review and improve our business promotion structure as well as product and service supply structure with the aim of developing the ability to generate stable yet firm results. We will continue to work to provide timely and finely-tuned solutions that meet the diverse needs of our customers.

Strategy

Financial Institutions Sub-Group

The Financial Institutions Sub-Group will continue working to strengthen cooperation with regional financial institution customers by utilizing the functions and strengths of the entire Shinsei Bank Group to help them actively supply funds to their local communities and support the revitalization of regional economies. In addition, we are reorganizing and reinforcing our loan syndication section to form closer partnerships in the loan business including cash flow finance and overseas transactions. Furthermore, we have established a special business promotion section which is dedicated to speedily developing and delivering products in response to our customers' needs for more advanced asset management methods. We are also promoting our "white label" business model where partner financial institutions sell structured deposits and other products developed by Shinsei Bank under their own brand as well as addressing our financial institution customers' needs to enhance their fundraising abilities. Moreover, we are cooperating with regional financial institutions in the area of regional contributions through initiatives such as financial education programs targeting younger generations.

Markets Sub-Group

The Markets Sub-Group will work to strengthen its solutions proposal business to capture the needs of corporate and financial institution customers and to improve the product line-up for individual customers based on market trends. Through these efforts, we will expand our operations and promote the growth of our transactions with new customers. In addition, we will raise our visibility as a bank that has strengths in foreign exchange operations by, for instance, actively providing information on foreign exchange markets through seminars for customers and our website in order to enhance our profit-generating abilities.

In the trading business, we will endeavor to enlarge the scope of our business and enhance our product line-up, flexibly create positions based on the comprehensive understanding of market trends, and rigorously manage risks in order to ensure stable revenues.

Asset Management Sub-Group

The Asset Management Sub-Group will contribute to increasing the balance of assets under management by Shinsei Bank through enhancing the Bank's line-up of progressive investment trust products, taking into account the market environment and customers' needs. In our transactions with individual customers, we will expand our offerings of products that are suitable for Nippon Individual Savings Accounts (NISA), and aim to increase the customer base and build up the balance of assets under management. We will also work on expanding our product line-up by, for instance, creating privately placed investment trusts to flexibly cater to the investment needs of financial institutions and high-net-worth individual customers.

Shinsei Securities

Shinsei Securities will work on promoting sales of structured bonds to individual customers by creating a diverse product line-up, including the development of low risk products for new customers, based on the market outlook and different levels of risk tolerance of customers. We will also work to supply products to regional financial institutions. For corporate customers, Shinsei Securities arranges and sells housing loans and lease/installment claim securitized products. It also engages in securitization projects overseas and in new business areas. To provide optimal solutions to customers, Shinsei Securities will expand its structured finance business utilizing the technologies and the expertise it has developed in the securitization business.

Business Development in Fiscal Year 2013

In fiscal year 2013, the Global Markets Group's revenue decreased from 14.2 billion yen in fiscal year 2012 to 11.2 billion yen. This was due to the lower profitability caused by lower market interest rates, tighter credit spreads as well as the weak performance in market-related transactions, despite our best efforts to enlarge the customer base and to develop and deliver products that meet our customers' needs. Expenses declined from 9 billion yen in fiscal year 2012 to 8.9 billion yen in fiscal year 2013. We invested our resources in priority areas to strengthen these areas in order to re-build the customer base, while working on improving efficiency in each business line. As a result, expenses shrank slightly from the previous business year. In net credit costs, a reversal of 0.4 billion yen was recorded in fiscal year 2013 as a result of changes in the reserve rates and other factors, compared to a reversal of 7.5 billion yen posted in fiscal year 2012 due to reversals of general reserves for loan losses and recoveries of written-off loans.

As a result of the preceding, the Global Markets Group's ordinary business profit after net credit costs shrank from 12.7 billion yen in fiscal year 2012 to 2.8 billion yen in fiscal year 2013.

Although the Global Markets Group's revenue was weaker than expected, derivatives transactions for risk hedging of institutional customers grew steadily thanks to the enhanced solution business promotion structure. As a result, we saw progress in the expansion of our customer base.

In our transactions with financial institution customers, the sale/purchase and brokering of transactions of loans to local governments developed steadily. In addition, we formed partnerships with several financial institution customers as part of the promotion of the tie-up credit guarantee business of Shinsei Financial for card loans handled by regional financial institutions. We will continue responding to the needs of financial institution customers to strengthen and develop their businesses.

In the provision of asset management products, we formed an alliance with Invesco Asset Management (Japan) Limited—the Japan arm of Invesco Limited (U.S.)— and in September 2013 started selling to financial institution customers privately placed investment trusts that mainly invest in bank loans disbursed in the U.S. In addition, we resumed the creation of privately placed investment trusts for high-net-worth customers for the first time in several years. We will continue introducing funds that blaze trails in markets and provide solutions for our customers' needs and challenges.

Shinsei Securities promoted the sale of structured bonds centered on stock price linked bonds as products for individual customers on the back of the strong stock market. As a result of the efforts to enhance the product line-up through the development of new products such as structured bonds linked to two financial indicators or 1-year bonds, the total sales of structured bonds increased significantly.

Status of Regional Revitalization and SME Management Improvement Initiatives

In order to improve the management of Small- and Medium-sized Enterprises ("SME" or "SMEs") and contribute to regional revitalization efforts, the Institutional Group and the Global Markets Group are engaging in initiatives such as those described below, providing Shinsei Bank's expertise and, depending upon the initiative, cooperating with local financial institutions and the SME Business Rehabilitation Support Cooperative. In addition, the VBI Promotion Department is engaging in business with SMEs and local businesses which have promising technologies or business models, as well as businesses in new business areas and earthquake reconstruction that will help revitalize regional economies as its area of focus. By providing multi-faceted solutions (management solutions) that satisfy not only funding needs, but needs for human resources and services such as business strategy planning and implementation support, the Bank aims to expand the scope of its business with SMEs that are undergoing growth and contribute to the development of new businesses that are created as a result of innovation.

Examples of Shinsei Bank Initiatives

- Examples of Support for Business Improvement, Business Rehabilitation, and Changing Business Activities

Food Manufacturing SME: This Company is a well established manufacturer of niche foodstuffs with strong brand value. Due to changes in diets in Japan, however, the market for the foodstuffs they produce had shrunk, and the company had suffered from poor sales over a long period of time. Shinsei Bank had information that a private equity fund was looking for a buyer for a frozen food manufacture and retail company that was owned by the fund which catered to the prepared food market. Recognizing the compatibility of prepared foods with the company's established product retail route to market as well as the growth potential of the prepared food market, we advised the company on this information and took on the role of its financial advisor. Ultimately, the company was selected as the best partner for the frozen food manufacturer/retailer from among several buyer candidates.

Parts Manufacturing SME: This Company has advanced technological skills in the manufacturing of mobile phone parts. However, its cash flow situation had deteriorated due to capital expenditure in overseas as well as a reduction in orders caused by the popularity of smart phones. Consequently, the company had to apply for civil rehabilitation proceedings. The company wished to enlist support from other companies to restructure its business, and approached Shinsei Bank to look for a sponsor. Shinsei Bank approached several companies and funds, and selected as a sponsor a manufacturer of similar parts. Consequently, the company was successfully able to complete its rehabilitation proceedings, ensuring the continuation of its business and the employment of its workers.

- Examples of Support for Business Improvement, Business Rehabilitation, and Change in Business Activities, and Examples of Regional Revitalization

SME Operating Energy Business in Western Japan: This Company had developed its business mainly around energy management including energy saving. Its aspiration is to sponsor solar and geothermal power generation using the technologies it has developed. In the past, Shinsei Bank had provided loans for mega solar facilities located throughout Japan which were sponsored by the company using the project finance method. Recently, however, in light of the company's needs to build its business and to raise funds without stressing management indices, we used the project finance method to support the company, creating a trust account at Shinsei Trust & Banking with this trust bank became the main project entity for mega solar business. By supporting this company, the Bank looks to continue contributing to the expansion of renewable energy facilities and to the stable supply of energy in various regions.

Company Operating Marine Product Wholesale Markets for Fisheries Products in Eastern Japan: This Company saw a deterioration in its business due to factors such as debt burden from the opening of new markets, intensifying competition and changes in the external environment and, as a result tried to rehabilitate its business using the "second company method" where profitable businesses are transferred to a new company under the initiative of the SME Business Rehabilitation Support Cooperative. Subsequently, the company's revenue started increasing and it steadily posted profits. Shinsei Bank refinanced the existing borrowings of the company for which the company was making repayments based on a support plan. As a result, the support plan was completed ahead of schedule. With the recovery of its credit standing, the company was able to re-establish transaction relationships with banks and increase the number of its lenders. This is expected to contribute to the revitalization of the local food industry.

- Examples of Support for Business Improvement, Business Rehabilitation, and Change in Business Activities, and Examples of Great East Japan Earthquake Reconstruction Assistance

Hotel Operator SME in Eastern Japan: This Company operates a long-established hotel in the Tohoku region. After building a new wing in the late 1980s, its business conditions deteriorated due to the collapse of the Bubble Economy and in 2007 the company applied for civil rehabilitation proceedings. Subsequently, it started posting stable turnover and operating profits and completed civil rehabilitation proceedings in 2010. In 2014, Shinsei Bank, together with a public sector financial institution, provided a refinancing loan for the company's remaining debts which were handled under the rehabilitation proceedings. Through the rehabilitation of the company's business, the Bank hopes to contribute to the recovery of the tourism industry and regional revitalization in the Tohoku region.

- Examples of Support for Companies in the Development Stage

Venture Company Developing and Selling Plant Factory Equipment: This Company develops and sells plant factories (hydroponic facilities for growing vegetables) that use advanced technologies with the backing of a national university. Plant factories are supported by Japanese consumers as they provide a safe manufacturing structure without using chemicals. There are also attempts to export plant factories because they allow growers to stably produce high quality vegetables in places with harsh climate conditions. Recognizing the growth potential and advanced nature of the company's business, we subscribed to some of the company's new shares by third party allotment to help it raise growth funds necessary for the expansion of its business. We will also support the company's business development utilizing our networks in Japan and overseas.

Venture Company Manufacturing, Developing, and Selling Electric Vehicles (EV): This Company has an established position in certain areas of the manufacturing, development and sales of EVs in the Japanese market. It aims to enter overseas markets, particularly in South East Asia, as a Japanese EV venture company that addresses a global social issue—environmental pollution. In its preparations to launch business overseas, the company is opening offices in and dispatching its employees to overseas destinations. In support of the company's overseas business development, Shinsei Bank subscribed to some of the company's new shares by third party allotment to help it raise funds for corporate structure enhancement and product development.

GLOSSARY

ABI (Asset-backed Investment)
At Shinsei Bank, ABI refers to a former product program which included loans backed mainly with infrastructure, real estate, businesses, and business assets as collateral.

Advisory
Shinsei Bank's advisory business proposes solutions to meet customers' diverse needs in areas such as M&A, corporate restructuring, and fundraising in Japan and overseas.

ALM (Asset Liability Management)
ALM refers to the comprehensive management of the market risks and liquidity risks that exist in the Bank's balance sheet (i.e. assets and liabilities) as a result of its business operations. ALM aims to optimize interest rate income from the Bank's balance sheet and economic value by monitoring interest rate conditions and asset/liability duration, including off-balance items such as derivatives on the Bank's account, and adjusting for risks in assets/liabilities and derivatives transactions in consideration of the change in values of assets, liabilities, and periodical profits or losses due to market fluctuations.

Asset Management
In a broad sense, Asset Management refers to Shinsei Bank's overall asset management business, but in a narrower sense it refers to the investment trust business and investment advisory business. Shinsei Bank offers a variety of unique financial products and services for both institutional and individual (including high-net worth) customers, primarily through the Global Markets Group and the Individual Group (retail banking Business).

Business Incubation
Business Incubation offers not only loans and capital, but also management solutions such as human resources, supplementary functions, and business planning and strategy support to customers aiming to start, or customers who have recently started, a business.

Capital Markets Business
Capital Markets business refers to capital markets-related transactions, including derivatives and trading, in order to meet customer needs for investment, risk hedging, fundraising, etc.

CLO (Collateralized Loan Obligations)
CLOs are debt-collateralized securities with leveraged loans (LBO), corporate loans, and corporate bonds as the underlying assets.

Consolidated Net Income, Cash Basis Net Income
Cash basis net income is calculated by excluding impairment and amortization of goodwill resulting from acquisitions of subsidiaries and other intangible assets, net of tax benefits, from consolidated net income— and represents the bottom-line profit for the relevant fiscal year.

Credit Guarantee Business
Credit Guarantees represent a guarantee to repay a loan made by a partner financial institution on behalf of the borrower, in the case that the borrower becomes unable to make repayments, in return for a fee. In the Shinsei Bank Group, Shinsei Financial is focused on this business, offering comprehensive support to partner financial institutions including advice on advertising strategies and product design as part of its service.

Credit-linked Loan
Credit-linked Loans are structured loans which incorporate derivatives linked to the credit risk of a company other than Shinsei Bank (the borrower). They are offered as an investment product to customers.

Credit Trading
Credit Trading offers balance sheet optimization solutions, including the purchase of loan receivables from current creditors or an investment in (purchase of) monetary claims held by the customer. Shinsei Bank also invests in monetary claims such as loans and leases sold in the secondary market for nonperforming loans, aiming to make profits by securing a greater return than the initial investment through servicing or resale of the receivables.

Derivative
Derivative is a collective term referring to transactions that are derived from or linked to other underlying transactions such as interest rate, bond, foreign exchange, and equity transactions. They are also called "financial derivatives" since most of the transactions originate from financial products.

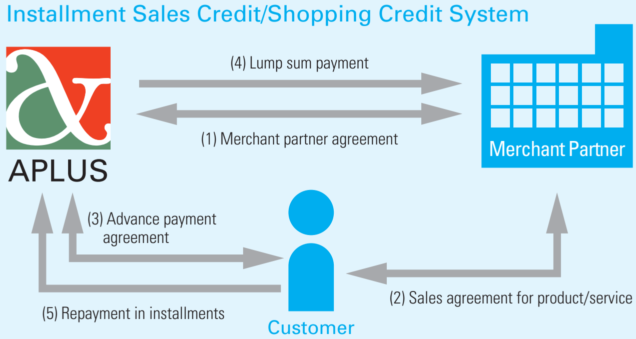
Exposure
Exposure refers to an amount of assets or an amount of money that is exposed to foreign exchange, price fluctuations or other risks as a result of loans and investments.

(Grey Zone) Interest Repayment
Prior to the interest rate reduction implemented as part of the revisions to the Money Lending Business Law, the interest rates on some consumer finance products offered by the Shinsei Bank Group's subsidiaries exceeded the upper limit stipulated by the Investment Law. Following a ruling by the Supreme Court in January 2006, customers who paid more than the upper limit stipulated by the Investment Law have been allowed to request a refund of the extra interest paid. Accordingly, consumer finance companies have recorded reserves in order to cover losses on (grey zone) interest repayments. However, losses from a portion of the "grey zone" interest repayment liabilities at Shinsei Financial are indemnified by GE under the purchase agreement made when Shinsei Bank acquired the company.

Healthcare Finance
Healthcare Finance refers to financing— primarily nonrecourse loans— as well as financial advisory on management strategies and M&A for senior care facilities and nursing homes.

Installment Sales Credit (Shopping Credit)
Installment Sales Credit (Shopping Credit) is a service that allows customers to pay for goods or services in installments without using a credit card. Shinsei Bank group offers this service primarily through APLUS FINANCIAL.

Installment Sales Credit/Shopping Credit System



(1) APLUS concludes a merchant partner agreement with the merchant partner
(2) Customer purchases a product or a service from the merchant partner
(3) Customer applies to APLUS for installment sales credit
(4) APLUS pays the purchase price for the product/service as a lump sum to the merchant partner
(5) Customer repays the purchase price to APLUS in installments

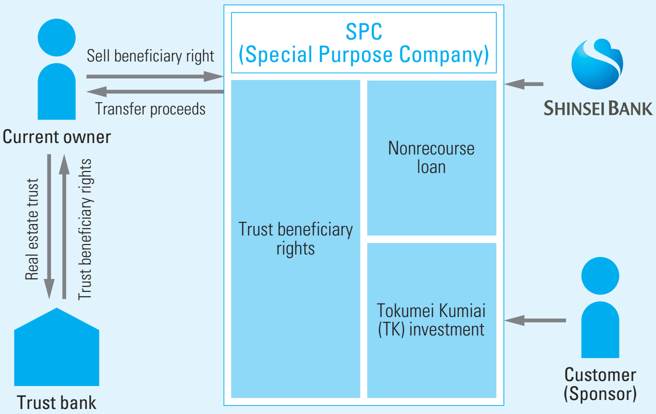
J-REIT
J-REIT stands for Japanese Real Estate Investment Trust.

LBO Finance (Leveraged Buyout Finance)
LBO finance is a type of M&A finance based on the assets or future cash flows of a company to be acquired. It is used when a company or an investment fund acquires another company. At Shinsei Bank, LBO Finance is included in Specialty Finance.

MBO Finance
MBO stands for Management Buyout. It is a type of LBO finance offered when a company's management buys its own company co-working with an investment fund and others. At Shinsei Bank, MBO Finance is included in Specialty Finance.

Net Credit Costs
Net credit costs are the sum of reserves for loan losses set aside (credit costs) according to the credit standing of borrowers, reversal (gains) of reserves for loan losses, and recoveries of written-off claims resulting from their disposal.

Nonrecourse Loan
Nonrecourse loans are loans for which repayment is made solely from the cash flows generated from specific businesses or assets (typically, but not always real estate), with no recourse to the sponsor.



Ordinary Business Profit (Loss)
Ordinary business profit (loss)— the indicator of profit (loss) from core business after expenses— is calculated by subtracting "expenses" from "total revenue." "Net credit costs" are excluded from this calculation.

Portfolio
A portfolio refers to a group of various components. An asset portfolio, for example, refers to a collection of various assets such as real estate, cash deposits, and equities.

Principal Transactions
Principal Transactions generally refer to a bank's proprietary investments. Shinsei Bank proactively makes proprietary investments in the Credit Trading and Private Equity businesses in order to meet customers' needs for corporate restructuring, business succession, and growth funds.

Private Equity
In general, Private Equity refers to privately-placed shares and shares that are not traded in stock exchanges or over-the-counter markets. Private equity investments can be classified into venture capital, which are investments in growing companies, and investments to acquire control of mature companies in order to implement restructuring. Shinsei Bank is proactively engaged in venture capital investments, investing in up to 5% of total shares with representative rights of customers planning a public share offering, as well as making buyout investments related to business divestments from mature companies.

Project Finance
Project Finance refers to loans to finance specific projects for which the principal source of repayment is the cash flow generated from the project itself. Project Finance is often used for medium-to-long term projects in energy, natural resources, and infrastructure. At Shinsei Bank, Project Finance is included in Specialty Finance.

Revised Money Lending Business Law
The key points of the Revised Money Lending Business Law which was enacted and issued in December 2006 are: (1) optimizing control of the money lending business (tightening entry requirements etc.), (2) reducing excessive lending (implementation of the designated credit bureau system and income-linked lending limitation), and (3) controlling the interest rate system (reducing the upper limit of the interest rate under the Investment Law to 20% p.a.). The Law was enforced in a phased manner and was fully enforced in June 2010.

Risk Weighed Assets
Risk weighed assets are an amount equivalent to the volume of "credit risk" and "market risk" of the Bank's assets/transactions and "operational risk" involving operational errors.

RORA
Return on Risk-Weighted Assets—the indicator which shows a profitability based on Risk-Weighted Assets. RORA is calculated as the ratio of its net profit to the total Risk-Weighted Assets at the end of the term.

Ship Finance
Finance for the shipping industry. Shinsei Bank primarily provides shipping companies with funds for ship acquisition.

Specialty Finance
Specialty Finance at Shinsei Bank refers to M&A finance, LBO finance, project finance and other types of finance that focus on the cash flows and value generated by businesses and assets. It is a type of structured finance.

Structured Finance
Structured Finance refers to finance requiring special structures. In general, it takes the form of project finance or nonrecourse finance which focuses on the cash flows or value generated by a specific project or asset. Shinsei Bank is primarily active in real estate finance, project finance, M&A finance, and corporate restructuring finance through the Structured Finance Sub-Group.

Syndicated Loan
Syndicated loans are loans provided jointly by a syndication of multiple financial institutions (lender group) based on a single loan agreement.

Treasury
Treasury is normally the function in a company which is responsible for ALM (asset and liability management). At Shinsei Bank, Treasury basically refers to the function (Sub-Group) responsible for cash flow management including collateral management, transactions through transfer pricing (FTP, the inter-office fund transfer price), issuance or buyback of (subordinated) corporate bonds, liquidity planning, management of overseas subsidiaries that issue capital securities, as well as ALM for the entire Group.

Wealth Management
Wealth Management refers to the financial services that Shinsei Bank offers to high-net worth customers. The Bank offers a variety of differentiated wealth management services tailored to customers' needs.

Management Structure

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DIRECTORS AND EXECUTIVES

As of July 15, 2014

BOARD OF DIRECTORS (6)

Shigeki Toma

Representative Director, President

Jun. 2010 Representative Director, President, Shinsei Bank, Limited (Current)
May 2010 Advisor, Shinsei Bank, Limited
Jun. 2007 Director, Isuzu Motors Limited
Nov. 2002 Executive Vice President and Director, Isuzu Motors Limited
Apr. 2002 Managing Executive Officer, Mizuho Corporate Bank, Ltd. (Predecessor of Mizuho Bank, Ltd.)
May 2001 Managing Executive Officer, The Dai-Ichi Kangyo Bank, Ltd.
Jun. 2000 Executive Officer, The Dai-Ichi Kangyo Bank, Ltd.
Apr. 1972 Joined The Dai-Ichi Kangyo Bank, Ltd. (Predecessor of Mizuho Bank, Ltd.)

Yukio Nakamura

Representative Director, Deputy President

Apr. 2013 Representative Director, Deputy President, Chief of Staff, Head of Corporate Staff Group, Shinsei Bank, Limited (Current)
Jun. 2010 Representative Director, Senior Managing Executive Officer, Chief Risk Officer, Head of Risk Management Group, Shinsei Bank, Limited
Oct. 2009 Managing Executive Officer, Executive Head of Institutional Business Sub-Group, Shinsei Bank, Limited
Jun. 2008 Statutory Executive Officer, Executive Head of Institutional Business Sub-Group, Shinsei Bank, Limited
Apr. 2007 General Manager, Risk Management Planning and Policy Division, Portfolio and Risk Management Division, Operational Risk Management Division, Shinsei Bank, Limited
Oct. 2000 General Manager, Risk Management Planning and Policy Division, Portfolio and Risk Management Division, Shinsei Bank, Limited
Apr. 1978 Joined The Long-Term Credit Bank of Japan, Ltd. (Predecessor of Shinsei Bank, Limited)

J. Christopher Flowers[1]

Director,
Managing Director and Chief Executive Officer, J. C. Flowers & Co. LLC

May 2012 Member of the Supervisory Board, NIBC Holding N.V. (Current)
Sep. 2008 Chairman and Director, Flowers National Bank (Current)
Aug. 2007 Member of the Advisory Board, The Kessler Group (Current)
Nov. 2002 Managing Director and Chief Executive Officer, J.C. Flowers & Co. LLC (Current)
Mar. 2000 Director, Shinsei Bank, Limited (Current)
Dec. 1988 Partner, Goldman Sachs & Co.
Mar. 1979 Joined Goldman Sachs & Co.

Ernest M. Higa[1,3]

Director,
Chairman and Chief Executive Officer, Higa Industries Co., Ltd.

Jun. 2013 Director, Shinsei Bank, Limited (Current)
Apr. 2011 Trustee, Japan Association of Corporate Executives (Current)
Mar. 2011 Chief Executive Officer, Wendy's Japan (Current)
Jun. 2010 Director, JC Comsa Corporation (Current)
Feb. 2010 Chairman and Chief Executive Officer, Higa Industries Co., Ltd. (Current)
May 2009 Board of Overseers, Columbia Business School (Current)
Apr. 2008 Board Member, The Tokyo New Business Conference (Current)
Apr. 1983 President and Chief Executive Officer, Higa Industries Co., Ltd.
Apr. 1976 Joined Higa Industries Co., Ltd.

Shigeru Kani[1,3]

Director,
Former Director, Administration Department, The Bank of Japan, Specially Appointed Professor, Yokohama College of Commerce

Apr. 2014 Specially Appointed Professor, Yokohama College of Commerce (Current)
Apr. 2006 Professor, Yokohama College of Commerce
Jun. 2004 Director, Shinsei Bank, Limited (Current)
Apr. 2002 Advisor, NEC Corporation
May 1999 Executive Managing Director, Tokyo Stock Exchange, Inc.
May 1996 Director, Administration Department, The Bank of Japan
May 1992 Executive Advisor and Senior Advisor to the Chairman, The Tokyo International Financial Futures Exchange (Predecessor of Tokyo Financial Exchange Inc.)
Apr. 1966 Joined The Bank of Japan

Jun Makihara[1,3]

Director,
Chairman of the Board, Neoteny Co., Ltd.

Jun. 2011 Director, Shinsei Bank, Limited (Current)
Jun. 2006 Director, Monex Group, Inc. (Current)
Jul. 2000 Chairman of the Board, Neoteny Co., Ltd. (Current)
Nov. 1996 Co-Head of the Equities Division and Co-Branch Manager, Goldman Sachs Japan Ltd.
Nov. 1992 Partner, Goldman Sachs & Co.
Sep. 1981 Joined Goldman Sachs & Co.

AUDIT & SUPERVISORY BOARD MEMBERS (3)

Shinya Nagata

Audit & Supervisory Board Member

Jun. 2012 Audit & Supervisory Board Member, Shinsei Bank, Limited (Current)
Oct. 2010 Executive Officer, General Manager, Financial and Regulatory Accounting Division, Shinsei Bank, Limited
Sep. 2010 Executive Officer, General Manager, Group Regulatory Accounting and Tax Division, General Manager, Group Financial Accounting Division, Shinsei Bank, Limited
Jun. 2010 General Manager, Group Regulatory Accounting and Tax Division, General Manager, Group Financial Accounting Division, Shinsei Bank, Limited
Sep. 2009 General Manager, Group Regulatory Accounting and Tax Division, Shinsei Bank, Limited
Apr. 2009 General Manager, Group Regulatory Accounting and Tax Division, General Manager, Group Financial Accounting Division, Shinsei Bank, Limited
Oct. 2006 General Manager, Group Regulatory Accounting and Tax Division, General Manager, Financial Projects Division, Shinsei Bank, Limited
Dec. 2001 General Manager, Financial and Regulatory Accounting Division, Shinsei Bank, Limited
Apr. 1981 Joined The Long-Term Credit Bank of Japan, Ltd. (Predecessor of Shinsei Bank, Limited)

Kozue Shiga[2,3]

Audit & Supervisory Board Member
Lawyer

Jun. 2010 Audit & Supervisory Board Member, Shinsei Bank, Limited (Current)
Sep. 2009 Director, Toyoko Inn Co., Ltd. (Current)
Apr. 2007 Audit & Supervisory Board Member, Tokushu Tokai Holdings Co., Ltd. (Predecessor of Tokushu Tokai Paper Co., Ltd.) (Current)
Oct. 2005 Partner, Shiraishi & Partners (Current)
Jun. 2002 Partner, Son Sogo Law Office
Aug. 1999 Established Shiga Law Office
Apr. 1998 Registered Daiichi Tokyo Bar Association
Apr. 1993 Prosecutor, Yokohama District Public Prosecutors' Office
Nov. 1967 Joined Japan Airlines Corporation

Ryuichi Tomimura[2,3]

Audit & Supervisory Board Member
Executive Vice President, Director, SIGMAXYZ Inc.

Jun. 2014 Audit & Supervisory Board Member, Shinsei Bank, Limited (Current)
Aug. 2012 Director, Plan·Do·See Inc. (Current)
Apr. 2010 Executive Vice President, Director, SIGMAXYZ Inc. (Current)
Dec. 2007 Representative Director, Managing Director, RHJ International Japan, Inc.
Feb. 2004 Representative Director, Senior Executive Vice President, JAPAN TELECOM CO., LTD (Predecessor of Softbank Telecom Corp.)
Oct. 2002 Managing Director, IBM Business Consulting Service, Asia Pacific
Jan. 1994 Managing Partner, Pricewaterhouse Consultant
Oct. 1991 General Manager, Network Integration Division, Recruit Co. Ltd. (Predecessor of Recruit Holdings Co., Ltd.)
Oct. 1983 Joined IBM Japan, Ltd.

1 Outside Directors 2 Outside Audit & Supervisory Board Members 3 "Independent director statement" (dokuritsu-yakuin todokede-sho) submitted to Tokyo Stock Exchange Inc.

EXECUTIVE OFFICERS (25)

Shigeki Toma
Representative Director, President,
Chief Executive Officer

Yukio Nakamura
Representative Director,
Deputy President, Chief of Staff,
Head of Corporate Staff Group,
General Manager,
Office of Financing Facilitation
Management

Sanjeev Gupta
Senior Managing Executive Officer,
Head of Individual Group

Michiyuki Okano
Senior Managing Executive Officer,
Group Chief Information Officer,
Head of Banking Infrastructure
Group

Hitomi Sato
Senior Managing Executive Officer,
Head of Institutional Group,
General Manager,
VBI Promotion Division

Shigeru Tsukamoto
Senior Managing Executive Officer,
Chief Financial Officer,
Head of Finance Group,
Head of Treasury Sub-Group

Satoshi Koiso
Managing Executive Officer,
General Manager,
Corporate Planning Division

Yoshiaki Kozano
Managing Executive Officer,
Head of Principal Transactions
Sub-Group

Hideyuki Kudo
Managing Executive Officer,
Chief Risk Officer,
Head of Risk Management Group

Toru Myochin
Managing Executive Officer,
Executive Officer in charge of
Institutional Business,
General Manager,
Healthcare Finance Division

Hironobu Satou
Managing Executive Officer,
Head of Global Markets Group,
General Manager,
Global Markets Business Division

Shinichirou Seto
Managing Executive Officer,
Executive Officer in charge of
Institutional Business,
Head of Institutional
Business Sub-Group

Masashi Yamashita
Managing Executive Officer,
Deputy Head of Individual Group,
Head of Consumer Finance Sub-Group

Shigeto Yanase
Managing Executive Officer,
Executive Officer in charge of
Overseas Banking

Akira Hirasawa
Executive Officer,
General Manager,
Portfolio and Risk
Management Division

Yasunobu Kawazoe
Executive Officer,
General Manager,
Institutional Credit
Management Division

Takahisa Komoda
Executive Officer,
General Manager,
Human Resources Division

Tsukasa Makizumi
Executive Officer,
General Manager,
Specialty Finance Division,
Head of Project Finance Department,
Specialty Finance Division

Takako Masai
Executive Officer,
Head of Markets Research Department,
Markets Sub-Group

Yuji Matsuura
Executive Officer,
Head of Markets Sub-Group

Nozomi Moue
Executive Officer,
General Manager,
Structured Risk Management Division

Masayuki Nankouin
Executive Officer,
Head of Financial Control and
Accounting Sub-Group

Nobuyasu Nara
Executive Officer,
Executive Officer in charge of
Institutional Business,
General Manager, Osaka Branch

Eiji Shibazaki
Executive Officer,
Head of Financial Institutions
Sub-Group

Takashi Yoshikawa
Executive Officer,
General Manager,
Overseas Banking Division,
Head of Overseas Business
Development Department,
Overseas Banking Division

SENIOR ADVISOR (1)

David Morgan Director, HSH Nordbank AG, and Managing Director, Europe and Asia-Pacific, J.C. Flowers & Co. UK Ltd

ADVISOR (1)

Yuji Tsushima

ORGANIZATION

As of July 1, 2014

Customers

- Board of Directors — Chief Executive Officer — Executive Committee
  - Internal Audit Division[2]
  - Office of Corporate Secretary[1]
- Audit & Supervisory Board Members — Audit & Supervisory Board — Office of Audit & Supervisory Board Members

- **Corporate Staff Group**
  - Corporate Planning Division
    - (Research Department)
  - Human Resources Division
  - Investor Relations & Corporate Communications Division [3]
  - Legal and Compliance Division
    - (Legal Department)
    - (Financial Crime Information Department)
  - Credit Assessment Division
  - General Services Division
  - Operations Management Division
    - (FATCA Management Department)
  - Office of Financing Facilitation Management
- **Institutional Group**
  - Institutional Business Sub-Group
    - (Corporate Customer Service Department)
    - Institutional Business Division
      - (West Japan Business Department)
      - Corporate Banking Business Division I
      - Corporate Banking Business Division II
      - Corporate Banking Business Division III
      - Osaka Corporate Banking Business Division[7]
      - Public Sector Finance Division
      - Healthcare Finance Division
        - (Healthcare REIT Launching Preparatory Department)
      - Specialty Finance Division
        - (Project Finance Department)
        - (Shipping Finance Department)
      - Corporate Support Division
      - Real Estate Finance Division
      - Real Estate Business Division
      - Sapporo, Sendai, Kanazawa, Nagoya, Osaka, Hiroshima, Takamatsu and Fukuoka
  - Principal Transactions Sub-Group
    - (Credit Trading Department)
    - (Private Equity Department)
    - VBI Promotion Division
      - (VBI Planning Department)
      - (Business Incubation Department)
      - (New Energy and PFI Department)
    - Overseas Banking Division [9]
      - (Overseas Banking Planning Department)
      - (Overseas Business Development Department)
    - Corporate Advisory Division
      - (Mergers and Acquisitions Department)
      - (Asset Solutions Department)
    - Asset Backed Investments Division
- **Global Markets Group** [9]
  - Global Markets Business Division
    - (Investment Business Department)
  - Markets Sub-Group
    - (Markets Research Department)
    - Trading Division
    - Markets Division
      - (Osaka Business Department)
    - Credit Products Division
  - Financial Institutions Sub-Group
    - Financial Institutions Business Division
    - Osaka Financial Institutions Business Division[7]
  - Asset Management Sub-Group
    - (Asset Management Business Promotion Department)
    - (Asset Management Product Planning Department)
    - Wealth Management Division
    - Asset Management Products Division
- **Individual Group** [9]
  - Consumer Finance Sub-Group
    - (Business Development Department)
    - Group Marketing Division
    - Lake Business Division
      - (Application Service Center)
      - (Customer Service Center)
      - (Osaka Administration Management Center)
      - (Customer Relationship Department)
  - Retail Banking Sub-Group
    - Customer Service Division
      - (Customer Service Department)
    - Customer Development Division
    - Retail Sales and Distribution Division[4] — Financial Centers[5]
      - (Estate Consulting Promotion Department)
    - Customer Analytics Division
    - Retail Products Division
      - (Life Planning Business Department)
      - (Overseas Remittance Business Department)
    - Loan Products Division
    - Retail Business Division
    - Retail Human Resources Development Division
    - Channel Management Division [6]
      - (Fukuoka Call Center)
- **Risk Management Group**
  - Portfolio and Risk Management Division
  - Market Risk Management Division
  - Institutional Credit Management Division
  - Structured Risk Management Division
  - Real Estate Risk Management Division
  - Individual Banking Risk Management Division
  - Risk Management Planning and Policy Division
  - Operational Risk Management Division
- **Finance Group** [3]
  - Financial Control and Accounting Sub-Group
    - (J-SOX Program Department)
    - Business Controlling Division
    - Financial and Regulatory Accounting Division
      - (IFRS Department)
    - Capital Markets and Treasury Product Control Division
  - Treasury Sub-Group
    - Treasury Funding Division
    - ALM Division
- **Banking Infrastructure Group** [6]
  - Information Systems Risk Management Division[8]
  - Banking Infrastructure Planning Division
  - Information Systems Development Division
  - Information Systems Operation Division
  - Operations Services Division

1 Office of Corporate Secretary shall act as the secretariat for the Board of Directors and Executive Committee.

2 Internal Audit Division shall report not only to CEO but also to Audit & Supervisory Board directly.

3 Investor Relations & Corporate Communications Division shall report to Head of Finance Group for Investor Relations matters.

4 Incl. Chiba Annex

5 Head Office, Sapporo, Sendai, Kanazawa, Omiya, Kashiwa, Tsudanuma, Tokyo, Ginza, Ikebukuro (incl. Kawaguchi Annex), Ueno, Kichijoji, Shinjuku, Roppongi Hills, Futakotamagawa (incl. Jiyugaoka Annex), Hachioji, Machida, Yokohama (incl. Kawasaki Annex), Fujisawa (incl. Kamakura Annex), Nagoya, Kyoto, Umeda (incl. Takatsuki Annex, Senri-Chuo Annex, Nishinomiya-Kitaguchi Annex, and Hankyu-Umeda Annex), Namba (incl. Sakai-Higashi Annex), Kobe (incl. Ashiya Annex), Hiroshima, Takamatsu, Fukuoka

6 Channel Management Division shall report to Head of Banking Infrastructure Group.

7 Osaka Corporate Banking Business Division and Osaka Financial Institutions Business Division shall report to GM of Osaka Branch.

8 Information Systems Risk Management Division shall report to the management.

9 Overseas Banking Division handles the establishment of the framework of overseas strategies for the entire Bank including Global Markets Group and Individual Group.

Financial Highlights
Message from the Management
Special Features
Review of Operations
Management Structure
Organization
Data Section

CORPORATE GOVERNANCE

Shinsei Bank has established a corporate governance framework as a "Company with an Audit & Supervisory Board" (*kansayakukai-setchi-gaisha*). This model aims to ensure appropriate managerial decision-making and business implementation in order to establish a corporate governance framework with sufficient organizational checking functions. We aim to achieve this through the following two key actions:

1) Consolidating business execution authorities and responsibilities in the Board of Directors; and

2) Assigning Audit & Supervisory Board Members and an Audit & Supervisory Board that are independent of the Board of Directors auditing duties that include auditing of the Board of Directors.

In addition to this, we have adopted an Executive Officer system which ensures the flexibility of our day to day business execution.

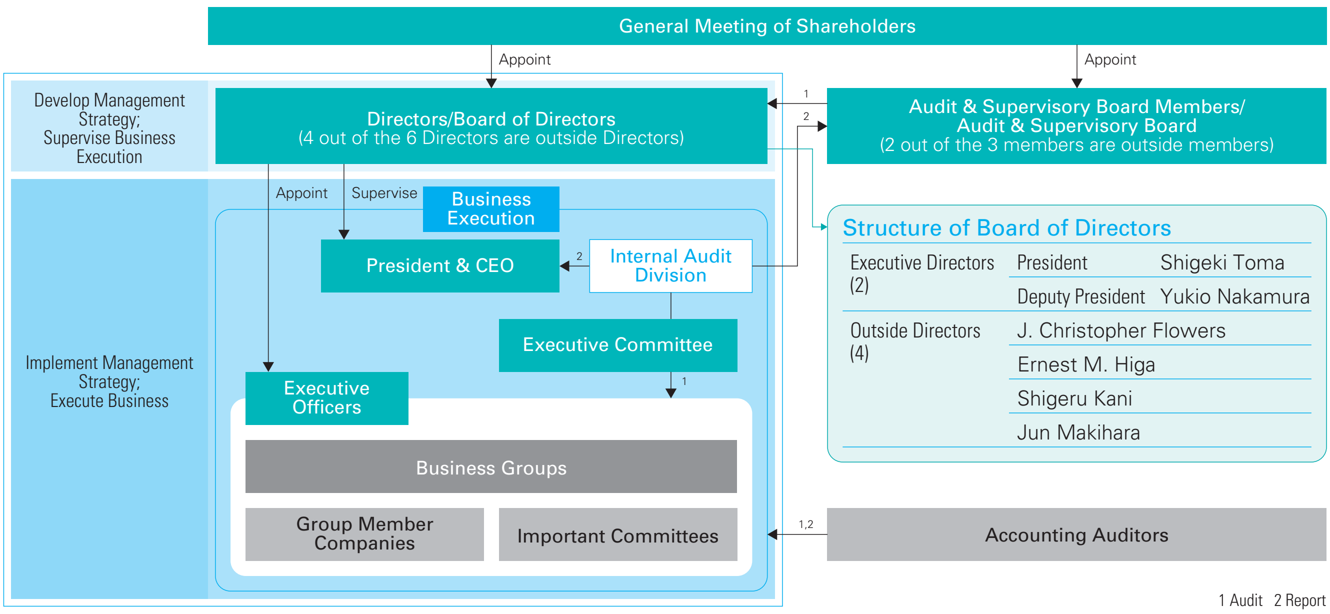
Current Status of Corporate Governance

Shinsei Bank's Board of Directors—the Bank's decision-making body for its business management—consists of two Directors who are responsible for business execution and four outside Directors who supervise the Bank's business execution. This well-balanced structure underpins transparent and objective business management and appropriate decision-making for the Bank's operations. For flexible daily business execution, the Bank has adopted the Executive Officer system centering on two Executive Directors and the Group system, under which Executive Officers with extensive experience in each business area are appointed as Group Heads, whereby they implement the Bank's businesses. In addition, the Audit & Supervisory Board, whose members are independent from the Board of Directors, audit the Board of Directors and the Bank's business execution, creating a corporate governance structure with rigorous check functions. Under this structure, Shinsei Bank adopts the optimal balanced management policy in order to improve its corporate value.

Characteristics of Shinsei Bank's Corporate Governance/ Ensuring Transparency and Objectivity in Business Management through the Appointment of Outside Directors

Since its launch as Shinsei Bank in 2000, the Bank has consistently operated its businesses with an emphasis on the supervisory function of outside Directors in an attempt to achieve transparency and objectivity in business management and to improve its corporate value. The Bank now adopts a corporate governance framework as a "company with an Audit & Supervisory Board" (*kansayakukai-setchi-gaisha*). Under this framework, it continues employing a Board of Directors structure where the majority of the Board members are outside Directors.

Summary of Corporate Governance (as of June 18, 2014)



Executive Directors (2)	President	Shigeki Toma
	Deputy President	Yukio Nakamura
Outside Directors (4)	J. Christopher Flowers	
	Ernest M. Higa	
	Shigeru Kani	
	Jun Makihara	

1 Audit 2 Report

As of June 18, 2014, the Board of Directors has been composed of two inside Directors responsible for daily business execution and four outside Directors who make up the majority of the Board. Outside Directors have extensive experience and advanced expertise in areas such as domestic and overseas financial business, consumer business, and risk management. Applying their experience and expertise, they provide opinions on Shinsei Bank's business operations from an independent and objective point of view and supervise business execution by the Executive Directors.

The Board of Directors hold regular meetings six times a year, and call special meetings as required. In these meetings, all Board members express their opinions freely and have robust discussions. The outside Directors articulate their views on the management of the Bank and monitor our business challenges from various perspectives such as whether the optimum strategies are being adopted, whether an appropriate risk-return balance is maintained, and whether a particular transaction or course of action contributes to the growth of the Bank's businesses. Determining the Bank's policy through such discussions allows us to constantly work on improving the Bank's corporate value, to protect the interests of our shareholders, customers and other stakeholders, and to maintain a proper business promotion system.

In regard to transactions with Directors, major shareholders, and other stakeholders, the Bank conducts checks that are designed to avoid conflicts of interest and to maintain the fairness of transactions. The Bank has organized and implemented a structure to deliberate on relevant transactions at the Board of Directors meetings as well as their follow-up structure.

Reasons for Nomination of Outside Directors

Name	Reason for Nomination
Outside Director J. Christopher Flowers	Reflect in the Bank's management his experience and expertise in the financial service industry as a whole
Outside Director Ernest M. Higa[1]	Reflect in the Bank's management his experience and deep insight of business for consumers
Outside Director Shigeru Kani[1]	Reflect in the Bank's management his expertise in the risk management area and his extensive knowledge concerning banking operations
Outside Director Jun Makihara[1]	Reflect in the Bank's management his extensive knowledge of finance and his domestic and international experience

1 Shinsei Bank has submitted to the Tokyo Stock Exchange an independent director registration form identifying Ernest M. Higa, Shigeru Kani and Jun Makihara as independent directors.

Status of Board of Directors Meetings

Ratio of outside Directors 66%	• Four out of the six Directors of Shinsei Bank are outside Directors and make up the majority of the Board of Directors. • The structure where outside Directors make up the majority of the Board members has continued since the start of Shinsei Bank. • Five officers including outside Audit & Supervisory Board Members are reported as independent officers to the Tokyo Stock Exchange (as of June 2014).
Attendance rate 97.6%	• The Directors, including outside Directors, attended almost all the Board meetings and had robust discussions concerning the management and business execution of Shinsei Bank. • The figure in the box to the left shows the average attendance rate of the Board of Directors meetings held in the fiscal year 2013 (seven meetings in total).

Executive Officer System, Executive Committees and Important Committees

Shinsei Bank has adopted the Executive Officer system to ensure that its day-to-day businesses are executed flexibly. As of June 18, 2014, 23 Executive Officers, including Executive Directors, are appointed by the Board of Directors and execute the Bank's business. Through the implementation of this system under the Group-based structure, Executive Officers and Group Heads appointed by the Board of Directors are able to efficiently execute their business operations under the leadership of Executive Directors including the President.

Additionally, the Bank has established the Executive Committee which is comprised of Executive Directors and

Summary of Executive Committee and Other Important Committees

Name	Main Purpose
Executive Committee	The President's decision-making body for day-to-day business execution
ALM Committee	Negotiate, coordinate and make decisions concerning medium- and long-term Asset and Liability Management
Compliance Committee	Communicate, coordinate and make decisions in regard to compliance
Risk Policy Committee	Discuss the bank-wide risk operation policy and management framework for the Bank's portfolios, and the Bank's approach to major portfolios, sectors, products and so forth
Doubtful Debt Committee	Promptly inform top management about significant bad debt exposure, and make decisions on write-offs and other matters concerning sale of debts, debt forgiveness, and so forth
SME Loan Committee	Through discussions on the business policy and challenges for the entire institutional banking business, take initiative in bank-wide efforts to achieve SME loan goals set in the Revitalization Plan
IT Committee	Discuss, coordinate and make decisions on matters concerning the Shinsei Bank Group's information technology systems
Business Continuity Management Committee	Discuss, coordinate and make decisions concerning the organization of the business continuity structure throughout the Bank
Basel Committee	Discuss, coordinate and make resolutions on matters concerning regulatory capital, with a focus on Basel regulations
Management Development Committee	Discuss, coordinate and make decisions about the HR system, HR measures and so forth

Executive Officers who are Group Heads. The Executive Committee is a body that enables the President to make decisions on business execution and it allows the Bank to operate its business efficiently as well as in a timely manner. The Committee meets almost every week to deliberate on matters concerning the business operations of the Bank. Through these discussions, the Groups confirm, share, and implement the Bank's management strategy and the direction it pursues.

Furthermore, in order to appropriately and flexibly deal with issues arising from the expansion of the Bank's specialized offerings, the Bank has established various committees drawing on cross functional resources.

Audit & Supervisory Board Members/ Audit & Supervisory Board

The Audit & Supervisory Board of Shinsei Bank is composed of one full-time member who has extensive business experience at the Bank and is knowledgeable in finance and accounting, and two outside members who are highly specialized in legal affairs and have expertise in topics such as corporate governance. The Audit & Supervisory Board is completely independent of the Board of Directors and it audits business execution of the Board of Directors in an appropriate manner. In particular, the outside Audit & Supervisory Board Members contribute to highly effective auditing activities by providing independent and objective opinions at meetings of the Audit & Supervisory Board and the Board of Directors.

Reasons for Nomination of Audit & Supervisory Board Members

Name	Reason for Nomination
Full-time Audit & Supervisory Board Member **Shinya Nagata**	Reflect in the Bank's audit operations his long years of business experience in the areas of finance and accounting at Shinsei Bank
Outside Audit & Supervisory Board Member **Kozue Shiga**[1]	Reflect in the Bank's audit operations her expertise and extensive experience as a lawyer.
Outside Audit & Supervisory Board Member **Ryuichi Tomimura**[1]	Reflect in the Bank's audit operations his extensive experience and wide range of knowledge including information systems as a management executive and a consultant.

1 Shinsei Bank has submitted to the Tokyo Stock Exchange an independent director registration form identifying Kozue Shiga and Ryuichi Tomimura as independent directors.

Audit & Supervisory Board Members' Activities in FY2013

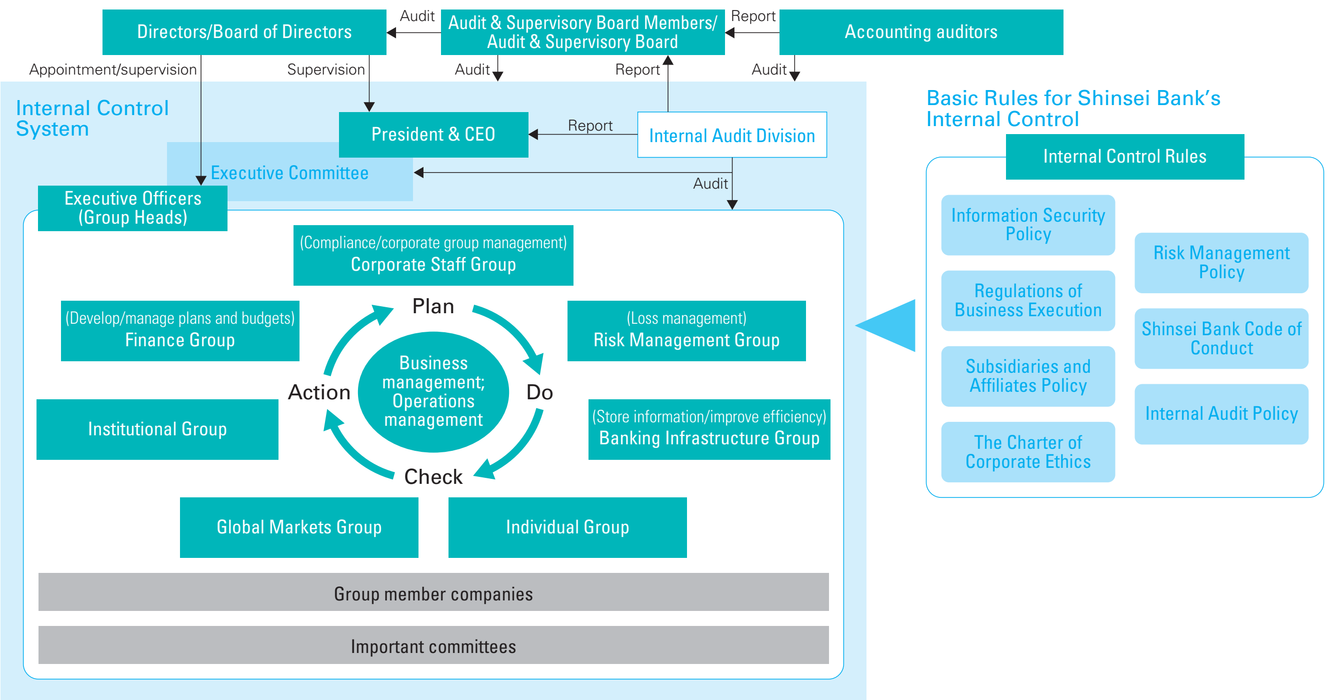
	Board of Directors meetings	Audit & Supervisory Board meetings
Number of meetings held	7 times	12 times
Attendance rate	100%	100%

The Audit & Supervisory Board Members attend important Bank meetings other than Board of Directors meetings, such as Executive Committee meetings, review important documents, and undertake audits of their own by, for instance, interviewing the Directors, Executive Officers and accounting auditors. In addition, the Audit & Supervisory Board Members work with the Internal Audit Division and other internal control sections and utilize staff of the Office of Audit & Supervisory Board to systematically and efficiently audit the state of business execution in the entire Shinsei Bank Group including subsidiaries.

Internal Control

To establish corporate governance that operates appropriately, it is necessary to create a system that allows internal audit, legal and compliance functions to work effectively. It also requires a structure for monitoring business execution and decision-making centered on the Board of Directors. The creation of an internal control system as required by the Corporation Act, and having in place internal controls for ensuring the accuracy of financial reports required by the Financial Instruments and Exchange Act, are also important elements of corporate governance. Even though establishing these internal controls is the responsibility of management, the overall internal control system functions more effectively if each of the Groups that carry out actual operations takes specific measures to secure internal controls. The Bank stipulates its basic policy on the internal control system for appropriate and efficient performance of day-to-day operations in its "Internal Control Rules" approved by the Board of Directors who also review the status of the internal control system each year. The Internal Control Rules aim to create a framework for safeguarding the effectiveness of audits by the Audit & Supervisory Board Members, and designate the Subsidiaries and Affiliate Policy, Information Security Policy, Risk Management Policy, Regulations of Business Execution, Shinsei Bank Code of Conduct and Internal Audit Policy as the basic rules in order to preserve appropriate, transparent and efficient operations of the entire Shinsei Bank Group including subsidiaries. In addition, the Charter of Corporate Ethics prohibits relationships with antisocial forces, and through the cutting off of such relationships, ensures appropriate business operations by the Bank.

Internal Control Framework



Legal and Compliance Activities

The Legal and Compliance Division plays a pivotal role in supporting the Bank's legal and compliance function, a key function of the Bank's corporate governance.

Compliance Framework

Shinsei Bank strongly believes that thorough compliance must be one of management's most important missions, and Shinsei Bank has established a robust compliance framework to help ensure sound and proper management that earns the trust of society.

In addition, in fiscal year 2013, we reviewed and revised our compliance frameworks in order to further enhance employees' awareness of compliance. The Bank's Compliance Committee, the Legal and Compliance Division, and Compliance Supervisors (General Managers) and Compliance Managers who are assigned in divisions, branches, and departments constitute the main elements of our compliance organization. The Compliance Committee, with our Chief of Staff as its chair, examines and discusses important compliance matters. On the other hand, the Legal and Compliance Division plans various measures concerning compliance risk and implements these measures through central management.

Additionally, Compliance Supervisors take leadership in promoting compliance measures in their divisions, branches or departments and are responsible for making compliance-related decisions at their job sites. Compliance Managers act as the point of contact for compliance related matters and periodically report compliance related issues to the Legal and Compliance Division, as well as focus on strengthening compliance at job sites. The Legal and Compliance Division provides support to each division, branch, and department in their compliance decisions. Through the periodical reports by Compliance Managers, the Division conducts Bank-wide monitoring of how various measures are being implemented and also provides centralized compliance guidance. It should be noted that in order to be able to better respond to issues such as financial crimes (e.g. bank transfer scams), anti-money laundering regulations, antisocial forces, and for controlling legal matters, the Financial Crime Information Department and the Legal Department have been established as part of the Legal and Compliance Division.

Compliance Activities

Every year, we create a compliance program which promotes the development of regulations and training programs. We place particular emphasis on the use of training sessions as a tool to ensure the proliferation of compliance awareness and conduct trainings such as the

"Shinsei Bank Code of Conduct"—a basic policy for the Bank employees, voluntary training based on compliance risk of each division, branch, and department, and training for respective important compliance matters such as revisions of laws and regulations, on an ongoing basis.

In addition to group training, we are also working to create an environment that maximizes the effectiveness of training by introducing active e-learning courses and regularly transmitting a "Short Lesson for Compliance" by e-mail, which summarizes compliance issues.

Legal Supervision

Banks are required to comply with a wide variety of laws and regulations in their day-to-day business operations. Violations of any of these laws can have severe repercussions not only to our credibility and reputation as a financial institution, but to that of the overall banking system itself. In the case of individual transactions, there exists a risk that we may face unexpected claims for damages if our contracts are unreasonable or we act in poor faith during the process of negotiation leading up to contract execution. Prevention and proper management of these legal risks are a crucial function within the day to day operations of today's banks.

In order to mitigate these risks, Shinsei Bank has established a specialized section within its Legal and Compliance Division which presides over such legal affairs, including compliance with corporate and transactional laws, legal documentation and litigation supervision and through this specialized support, we aim to prevent and manage any legal risk.

Internal Audit

With the increased diversification and complexity of risks relating to banking, the management of risk is becoming increasingly important. It is the role of the internal audit to independently assess the effectiveness of risk management measures and internal controls. This, in turn, helps maintain and enhance our corporate governance.

The Internal Audit Division (IAD) of the Bank reports directly to the CEO as well as to the Audit & Supervisory Board. The IAD supports the CEO in his responsibilities for controlling business execution, and in particular for establishing an effective system of internal controls. The IAD provides independent and objective assessments of the effectiveness of risk management, control and governance processes, the reliability of information and information technology systems, and compliance with statutory, legal and regulatory requirements as well as internal policy and procedure requirements of the Bank, and provides solutions to management. The IAD also maintains a close relationship with the Audit & Supervisory Board and provides them with internal audit-related information.

The IAD is independent from all the organizations subject to internal audits, as well as day-to-day operational activities and control processes including regular preventive and detective controls. The IAD utilizes a risk-based audit approach and conducts a comprehensive risk assessment by combining a macro-risk assessment, which assesses risk from the perspective of the Banking Group as a whole, together with a micro-risk assessment, which assesses risk from an individual business level. Businesses or processes that are perceived to have relatively higher risk are prioritized in the allocation of audit resources.

In order to improve the effectiveness and efficiency of internal audit activities, it is important to gather relevant information about the business departments. To do so, the IAD has been enhancing off-site monitoring activities by attending key management meetings, reviewing internal control documents and holding regular meetings with senior management.

Comprised of the Business Audit Team, the IT Audit Team and the Quality Control and Planning Team, the IAD takes the initiative in developing our internal auditors' expertise, and in particular, strongly encourages them to obtain professional certifications such as the Certified Internal Auditor and Certified Information Systems Auditor qualifications.

While the IAD pursues the development and introduction of new audit techniques, it also recognizes the importance of maintaining its fundamental skills necessary to its duties in governance. By receiving regular quality assessments by a third party organization on the IAD's internal audit activities, we are able to objectively identify opportunities for improvement.

The IAD also involves Group subsidiaries' internal audit divisions in these efforts in order to continuously improve its performance.

RISK MANAGEMENT

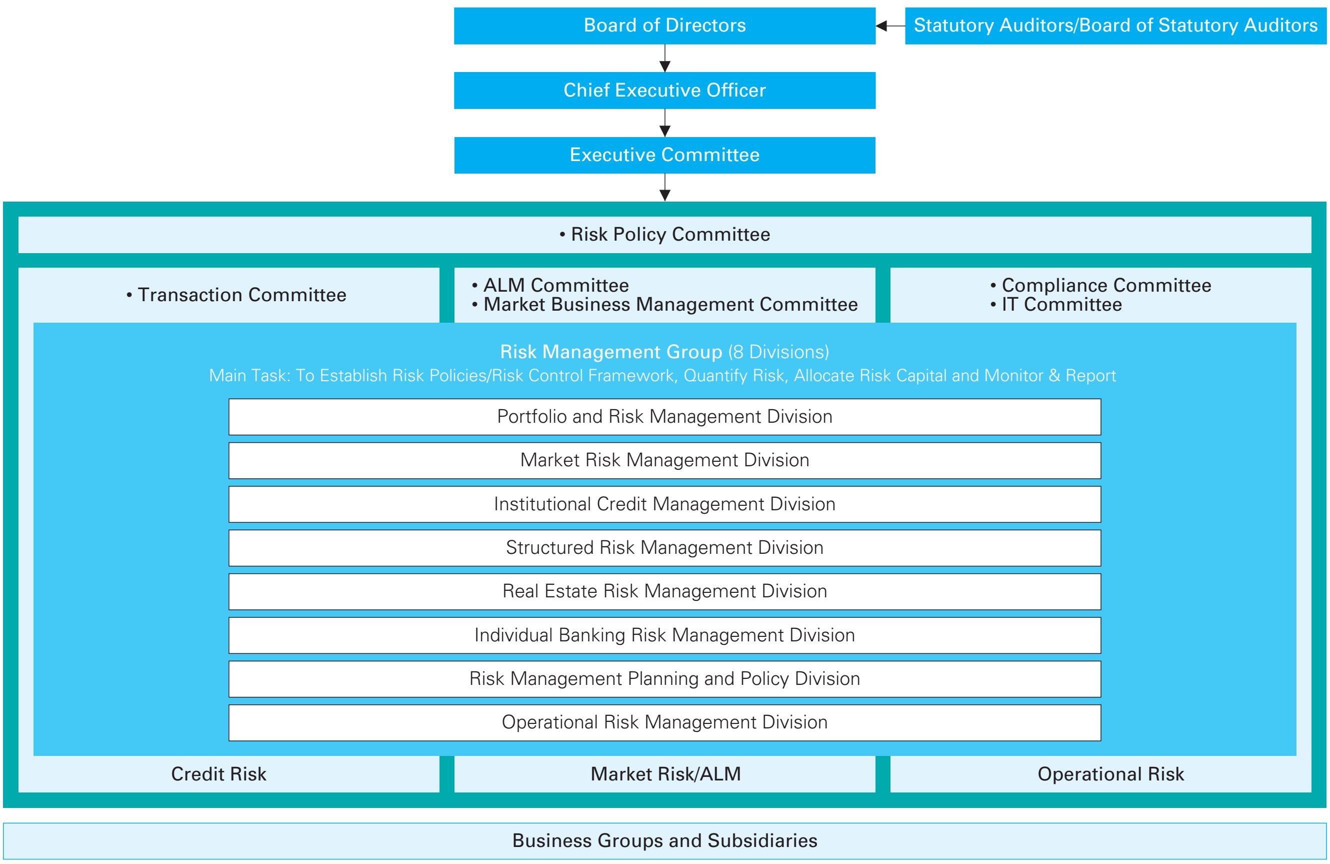
Shinsei Bank has identified risk management as one of its most important management issues and the Bank has already undertaken various measures to strengthen risk management frameworks. These include improvements of our various committees and further empowerment of their functions, and the establishment of a system of checks and balances by the Risk Management Group which is fully independent of other Groups in the Bank. The Risk Management Group sufficiently discusses portfolio-specific risk management policies and policies on transactions with individual companies in order to make decisions in an appropriate and speedy manner. In addition, we are continuing to further strengthen our risk management frameworks in order to improve our risk taking capabilities in line with our business expansion, enhance our risk management methods and frameworks, and further develop our risk culture.

Fiscal Year 2013 Overview

Domestic and Overseas Economic Trends

In FY2013, the world economy was generally on a recovery trend mainly in advanced countries. The U.S. economy experienced a modest recovery driven by strong private consumption, despite the effects of a temporary slowdown in exports and the effects of inclement weather. The European economy also saw an improvement, and government bond yields of Southern European countries, which remained high due to the sovereign debt crisis, have generally dropped to pre-crisis levels. Japan experienced depreciation in the value of the yen and an upswing in stock prices partly due to "Abenomics" centered on the "three arrows policy," which consists of a bold monetary easing policy, a flexible fiscal policy, and a growth strategy to stimulate private investments conceived, by the Abe administration and the Bank of Japan (BOJ). As a result, the Japanese economy started recovering and the FY2013 GDP growth rate (first preliminary estimate) increased to approximately 2% compared to FY2012. Additionally, the number of corporate bankruptcies remained on a downward trend in FY2013 when the "SME Finance Facilitation Act" expired.

Risk Management System Chart (as of June 18, 2014)



Shinsei Bank's Portfolio

In these circumstances, regarding the state of the Bank's portfolio, the impact from the deterioration of the creditworthiness of customers, including that of large borrowers, on our corporate exposure continued to remain small in FY2013 from FY2012. With respect to real estate related loans centered on non-recourse loans, we continued to reduce high-risk assets in an attempt to improve the quality of our exposure through asset replacement. This was the main factor for the reduction in the non-performing loan ratio of the Bank's entire portfolio. In the consumer finance business, while the overall balance had been declining due to changes in the environment, such as legal amendments, signs that the balance would increase became noticeable in FY2013. Additionally, losses on interest repayments have peaked and were within the expected range in FY2013.

For the entire portfolio, capital buffers expanded and management stability increased thanks to risk reductions through the aforementioned credit cost reductions and asset quality improvements, as well as the favorable accumulation of capital through an increase in revenues.

Risk Factors and Future Policy

Under the Second Medium-Term Management Plan which was started in FY2013, Shinsei Bank seeks to establish a unique business base, increase revenues, and further improve financial fundamentals. Although the external environment has been on an upward trend, attention needs to be paid to the impact of higher interest rates, drastic exchange rate fluctuations, and the consumption tax increase on the Japanese economy, as well as potential global economic downturn risks, such as Russia-Ukraine relations, the impact of the scaling back of U.S. monetary easing, the rekindling of the sovereign debt crisis in Europe, and a slowdown in the Chinese economy. The Risk Management Group will work to accurately understand both domestic and overseas environments, comprehend the risk profile of the Bank's portfolio from various perspectives using stress tests and other means, and share its view with management. Additionally, we will exercise an appropriate system of checks and balances for the business promotion sections' initiatives in growth areas and the implementation of their business strategies. We will organize and strengthen the risk management framework, adequately monitoring new assets and flexibly reviewing risk strategies as required.

Comprehensive Risk Management

Basic Concept of Risk Management Systems

Financial institutions are exposed to various risks, including credit risk, market risk, interest rate risk, liquidity risk, and operational risk.

In order to run highly profitable and stable operations, a financial institution must approach the undertaking of and control of risk as a managerial challenge.

In order to accomplish this, there is a need for a function which monitors whether risks are taken in line with Bank-wide policies as well as individual operational policies, whether risks remain within appropriate limits, and whether they are adequately controlled by the respective sections in charge.

Achieving Comprehensive Risk Management

Shinsei Bank has established its "Risk Management Policy" as the fundamental policy to be used to recognize risks and implement active controls based upon an understanding of the risks faced by the Bank as a whole. Due to a fiercely competitive business environment and an evolving regulatory and market environment, the risks faced by Shinsei Bank are becoming increasingly complex. Under such circumstances, the policy stipulates the fundamental principles of risk management including the risk culture within the Bank based on the Bank's experiences in the financial crisis, and facilitates proper judgment on risks allowed to be taken.

Comprehensive risk management requires not only detailed monitoring of each risk involved in individual operations, but also an understanding of total bank-wide risks and quantifying these risks to the greatest extent possible based on analysis and insights into the bank's markets and customers. The Bank defines the "Risk Capital," which is an integrated control approach, and quantifies each risk category, namely (1) credit risk, (2) market risk, (3) interest rate risk, and (4) operational risk. In this way, our financial strength and risk acquisition activities are controlled in an integrated manner by monitoring the Bank-wide risk volume and Group-specific capital attribution status. In FY2013, we continuously reviewed our concept of financial strength as well as preferable management methodologies for comprehensive risk management, and as a result have initiated the updating of management frameworks in the new fiscal year.

It should be noted that at Shinsei Bank, senior management has delegated certain risk management authority to specific committees including the "Risk Policy Committee," "Transaction Committee," "Asset and Liability Management (ALM) Committee" and "Market Business Management Committee." Through continuous improvement of systems and functions in response to a changing environment, these committees are able to function effectively as committees responsible for making important risk judgments. The Risk Policy Committee involves the top management of the Bank (including the CEO, CFO, and CRO), who review business strategy alongside risk management policy in order to define appropriate and optimal risk taking for the Group.

Categories of Risk Capital

Risk Capital	Capital amount required as a cushion against unexpected economic losses. Unexpected Loss calculated by subtracting expected loss from estimated maximum loss of which time horizon is one year.
Credit Risk	Unexpected Loss calculated by subtracting expected loss from Credit VaR (Credit Value at Risk). Credit VaR is estimated maximum loss calculated by a simulation based on data including probability of default, exposure at default, and loss given default.
Market Risk	Estimated maximum loss from interest rate, foreign exchange and price change risk based on Market VaR (Market Value at Risk). Market VaR is calculated by a simulation based on data including position, volatility of risk factors, etc.
Interest Rate Risk	Estimated maximum loss from interest rate risk in banking account based on Interest Rate VaR (Interest Rate Value at Risk). Interest Rate VaR is calculated by a variance-covariance method based on data including sensitivity of fair market value when interest rates move 100 basis points.
Operational Risk	Estimated maximum loss based on Operational Risk VaR (Operational Risk Value at Risk). Operational Risk VaR is calculated by a simulation based on frequency and severity distributions which will be derived from internal loss records and scenario loss data.
Total Risk Capital	Amount calculated by subtracting effect of correlation across risk categories from simple sum of Risk Capital for each risk category.

Institutional Business Credit Risk Management

Credit risk is defined as the risk of losses due to deterioration in the financial condition of a creditor resulting in a reduction in or total loss of value of assets (including off-balance assets).

Our model for credit risk management focuses on securing adequate return on risk, avoiding excessive concentration in particular sectors or obligors, and managing risk while maintaining an awareness of maximum losses possible from the credit portfolio.

Shinsei Bank has established a comprehensive "Credit Risk Policy" which defines specific policies regarding customer attributes, products, markets, industries and credit situations in order to determine whether risks should be taken or limited, and clarifies policies for credit provision operations and specific guidelines for credit risk management together with the "Credit Procedure," and each protocol system.

Credit risk management processes are largely divided into credit risk management for individual transactions and portfolio-based credit risk management, as described below.

Credit Risk Management for Individual Transactions

(1) ORGANIZATION & STRUCTURE

In principle, credit assessment is based upon joint consultation by the Sales Promotion Division and the Risk Management Division (RMD) which is independent from the Sales Promotion Division. In order to ensure a transparent and rigorous evaluation process, the RMD has veto rights, which results in the establishment of an effective system of checks and balances on the Sales Promotion Division. The approval of each transaction is strictly managed, with each transaction being discussed by the Transaction Committee, etc. Through these deliberations, the level of approval authority required over the obligor whose group companies should be taken into consideration is identified based mainly on the total exposure to the obligor group and their credit rating and, as a result, strict credit management is enforced.

Additionally, regarding needs caution receivables, those that fall under a certain category determined by factors such as ratings, the Bank's exposure, and reserves, Shinsei Bank defensively manages the account, monitoring the obligor's business performance through the Doubtful Debt Committee, and by determining measures to handle such obligors in the future, Shinsei Bank is making efforts to minimize credit costs and to ensure the quality of assets.

(2) CREDIT RATING SYSTEMS

The following is an outline of the internal obligor rating system that the Bank uses for corporate exposures:

CHARACTERISTICS OF SHINSEI BANK'S OBLIGOR RATING SYSTEMS

- Increasing model accuracy and reflecting appropriate qualitative factors
- Benchmarked against external ratings
- Ensuring conformity with rating systems among industry classifications

Specifically, obligor ratings are determined by applying adjustments for qualitative factors to the model ratings calculated by our estimation models, which are based on external ratings. Obligor ratings are determined at the "Credit Rating Review Committee" in order to ensure objectivity and transparency. Moreover, we ensure consistency of obligor ratings with obligor categories based on the regulatory self-assessment requirements.

Obligor ratings are used in the standards of credit approval authority procedures and portfolio controls, and are the foundation for credit risk management.

In addition to the obligor ratings, the Bank also applies a facility rating system based on expected losses that incorporates elements such as collateral and/or guarantees, in order to assess obligor ratings and the credit status of individual transactions.

It should be noted that an obligor rating system and facility rating system similar to those adopted by the Bank have been introduced in the analysis of high value leasing receivables at Showa Leasing as well.

Portfolio-Based Credit Risk Management

(1) MONITORING ANALYSIS SYSTEM

It is essential that credit risks are diversified in terms of industries as well as ratings. This is done on a portfolio basis, which is an aggregation of transactions, and operations of individual transactions must be conducted based on appropriate risk analyses. At Shinsei Bank, the Portfolio and Risk Management Division takes the central role in monitoring the segment-specific risk diversification status including industry classifications, ratings, products, and regions, and undertaking analyses from the product-specific perspectives based on each risk profile. The Division uses this information to provide reports to senior management and the CRO on a monthly as well as on an ad hoc basis.

(2) QUANTIFYING CREDIT RISK

Quantifying credit risk means measuring and assessing the likelihood of losses that may be incurred from changes in a customer's creditworthiness. Expected loss amounts derived from the probability of default and collection ratios, an assumption based on past experiences and future outlook, are generally called "expected losses." Also, losses that may be incurred in worst case scenarios and cannot be estimated based on past experiences are generally called "unexpected losses," and it is generally considered that risk capital can be quantified by measuring "unexpected losses."

Shinsei Bank utilizes a system for accurate measurement of risk capital which performs automatic measurement for credit risk based on data such as creditworthiness and transaction types. Through this, we are working to ensure sound portfolio management and resource allocation through the analysis of risk capital changes and profitability against risks. Also, by reflecting measured expected losses and unexpected losses in loan spreads we are able to ensure appropriate risk-return for each transaction.

(3) CREDIT CONCENTRATION GUIDELINE

The credit concentration guideline is an upper limit guideline that was established as part of the framework to prevent the concentration of credit in specific segments, customers or groups. Our credit concentration management framework consists of industry concentration guidelines and obligor group concentration guidelines, and in the event that credit concentration exceeds the guideline, reviews and countermeasures will be performed. These procedures are designed to prevent Shinsei Bank from being exposed to a crisis in the event our credit portfolio is affected by systemic shock or other extraordinary events. As the importance of risk diversification grows in tandem with the globalization of financial markets, we are continuing to work to ensure the establishment of even more effective credit concentration management frameworks.

Market-Related Transaction Credit Risks

Credit risks from market transactions, such as derivative transactions, are managed based on their fair value and estimations of future value fluctuations. Because the amount of risk associated with market transactions changes according to fluctuations in market rates after the transaction is traded, Shinsei Bank undertakes strict management of these transactions based on future value fluctuation forecasts.

Self-Assessment

As a result of the introduction the "Prompt Corrective Action" system, financial institutions conduct self-assessments of their assets, such as loans, in order to adequately write off or set aside reserves.

Shinsei Bank has put in place a self-assessment system through which the Credit Assessment Division, which is independent from the business promotion and credit analysis sections, is the section ultimately responsible for self assessment of assets.

Specifically, the criteria and procedures for self-assessment adhere to the Financial Services Agency's "Inspection Manual for Deposit-Taking Institutions" and, in accordance with the outlined procedures, the business promotion section and the credit analysis section carry out primary assessments and secondary assessments respectively, and final assessments are conducted by the Credit Assessment Division.

In the future, we will continue to strengthen and update systems in order to ensure obligor categories and categorizations are reviewed in a timely manner according to changes in obligor financial fundamentals. Through this, we seek to mitigate the emergence of problem loans and ensure the timely and accurate management of troubled loans.

Measures to Meet Basel Accord Requirements

In order to comply with the credit risk regulations under the Basel Accord, Shinsei Bank has adopted the F-IRB (Foundation Internal Ratings-Based) Approach. This framework ensures strict internal controls for our internal rating systems, the foundation of credit risk management, through the execution of the design and operations of internal rating systems and parameter estimations such as probability of default. The results of the internal rating systems are reflected not only in credit risk management, but also in calculations of capital levels required under the regulations. It should be noted that as of the end of March 2014, Shinsei Bank calculates required capital and capital ratios in accordance with Basel III (enhancement/revision of capital controls, etc.).

Individual Product Risk Management

Risk management for the consumer finance business covers all operations including application underwriting, credit management after contract conclusion, and debt collection. The Individual Banking Risk Management Division holds a risk performance review on a monthly basis with the participation of Shinsei Bank's other risk-related divisions, and provides advice on risk management policies and strategies to subsidiary employees and Divisions responsible for risk management.

Risk divisions in subsidiaries carry out appropriate risk control through a statistical method that is based on initial credit scoring, credit control scoring, and collection strategy scoring using customer attribute data, credit bureau data, and transaction history data. These score cards are constantly monitored to maintain their accuracy and are updated on a regular basis. Credit costs are extremely important in the profitability of the consumer finance business as a whole. For that reason, we analyze leading indicators of various factors that result in credit costs in order to recognize deterioration trends early on and make necessary improvements. We have separated these leading indicators into initial credit quality, portfolio quality, and debt collection quality and monitor each category every month. If we observe a deterioration trend, we take prompt actions to remedy the situation before it becomes serious.

In addition, in risk management of the consumer finance business, we do not merely look to prevent losses, but to maximize profit by constantly looking to ensure that we are employing the most appropriate risk strategy.

Market Risk Management

Market risk is the risk of incurring losses due to changes in the value of the balance sheet through fluctuations of interest rates, FX rates, and stock prices, etc.

Market Risk Management Policy

Risks of the trading business are managed through, in accordance with the "Trading Business Risk Management Policy and Procedure," the determination of overall market risk and loss limits by the Executive Committee, and monitoring of the status of compliance with the limits on a daily basis by the Market Risk Management Division. In addition, the Market Business Management Committee reviews the trends of individual businesses, profits and losses, and the risks of overall business including the risks of products handled on a monthly basis.

Market risk centered on interest rate risk of assets and liabilities in the banking book are managed in accordance with the "Asset Liability Management Policy for Banking Book," and the ALM Committee decides total market risk limit and loss limit. The Market Risk Management Division monitors the status of compliance of the limits on a daily basis and reviews the status of profits and losses and the risk operation policy on a monthly basis.

Trading Book

The market risk in the trading book is measured through techniques such as VaR. VaR is the maximum loss amount possible due to future price fluctuations, which is estimated statistically at a specific confidence level, assuming a specific position is held for a specific time horizon. The VaR method based on historical simulation has been adopted as the internal modeling method for general market risk. In addition, we implement multi-faceted risk management using interest rate sensitivities. The VaR model uses a 99% confidence level, a 10 day holding period and an observation period of 250 days (See the table below).

The validity of the VaR model is verified through back testing, which examines how frequently actual daily loss exceeds daily VaR for a one-day holding period. The back testing results for fiscal year 2013 show that there was one day in which actual losses exceeded VaR on a consolidated basis. Additionally, we conduct stress tests on a weekly basis to understand our possible losses as a result of market stressors, and report the findings to senior management at the Market Business Management Committee meetings.

Interest Rate Risk in Banking Book

The market risk in the banking book is managed through interest rate sensitivities and so on. In order to measure interest rate risk, grid point sensitivity (GPS) for each

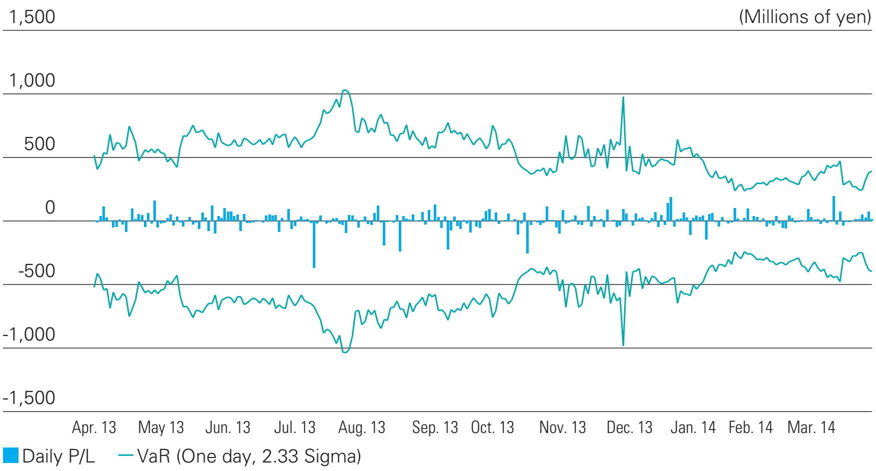
VaR Data for Fiscal Year End, Maximum, Minimum and Average During the Fiscal Year 2012 and 2013

		Millions of yen			
		FY2012		**FY2013**	
		Consolidated	Non-consolidated	**Consolidated**	**Non-consolidated**
FY End VaR		1,642	1,627	**1,209**	**1,189**
FY VaR	Maximum	2,770	2,724	**3,265**	**3,243**
	Average	1,539	1,498	**1,735**	**1,701**
	Minimum	1,053	988	**752**	**713**

Stressed VaR Data for Fiscal Year End, Maximum, Minimum and Average During the Fiscal Year 2013

		Millions of yen	
		FY2013	
		Consolidated	**Non-consolidated**
FY End VaR		**2,222**	**2,189**
FY VaR	Maximum	**4,314**	**4,249**
	Average	**2,834**	**2,760**
	Minimum	**1,375**	**1,319**

VaR and Daily Profit and Loss (Back-Testing) (FY2013, Consolidated basis)



Back-Testing on the VaR Model Applied to the Trading ACCOUNT

Back-testing involves comparing the actual losses to estimated VaR to confirm the reliability of the VaR method.

ASSUMPTIONS OF SHINSEI's VaR MODEL

Method: Historical simulation method

Confidence interval:	2.33 standard deviations
Confidence level:	99%
Holding period:	10 days
Observation days:	250 days
Coverage:	Trading account (Excludes customer margin)

period reflecting a 1% interest rate shock is calculated and used for internal management purposes. (GPS is the fluctuation in the current value of assets, liabilities, and off-balance-sheet transactions in accordance with interest rate fluctuations for each period (grid)). As the amount of interest rate risk is significantly impacted by the recognition of maturities and prepayments, we are endeavoring to appropriately capture interest rate risk by adopting the following models.

a. Housing loans

We calculate the interest rate risk of fixed-rate retail housing loans by statistically analyzing historical prepayment data and estimating future cash flow based on a proportional hazard model using periods lapsed from the loan origination.

b. Core deposits

Core deposits are defined as retail ordinary yen deposits and 2-week yen denominated time deposits which are left with financial institutions for a long term without withdrawal. We model depositors' behaviors by statistically analyzing deposit balance data and estimating maturities by customer segments.

It should be noted the model parameters are regularly reviewed.

Regarding the outlier criteria calculation, a 2% interest rate shock range is utilized and the criteria is calculated through a method which is consistent with internal controls. Additionally, as of March 31, 2014, the actual outlier rate (whether or not the decrease in economic value of the banking book, in the event of an interest rate shock with a range of 2%, would be greater than 20% of core capital) is far below the outlier criterion, indicating that interest rate risk is at a controllable level.

Change in Economic Value for Applied Interest Rate Shock of 2% in the Banking Book at the End of March 2014

	Billions of yen	
	Consolidated	Nonconsolidated
JPY	¥ (57)	¥ (22)
USD	(2)	(2)
Other	(2)	(2)
Total	¥ (62)	¥ (27)
Outlier Ratio	7.69%	3.09%

Basis point value (bpv) method:
The bpv method measures the risk of changes in value due to fluctuations in interest rates. For example, 100 bpv indicates the change in value when interest rates move 100 basis points (=1%).

Liquidity Risk Management

"Cash liquidity risk" (cash flow risk) is the risk of facing difficulty in securing necessary funds or a risk of incurring losses due to a need to raise funds at an interest rate that is significantly higher than the norm due to a mismatch between the durations of investment and funding or an unexpected outflow of funds.

Pursuant to the "Cash Liquidity Risk Management Policy," cash liquidity risk is managed and administered by the Cash Flow Management Unit (Treasury Funding Division) and the Cash Liquidity Risk Management Unit (Market Risk Management Division).

Also, the "risk management indexes" for securing sufficient cash liquidity, the "funding gap limit" and the "minimum liquidity reserves" are determined by the ALM Committee, and compliance with these is monitored on a daily basis and reported to management by the Market Risk Management Division.

In order to be able to implement appropriate measures in the event the funding environment sharply deteriorates, such as undertaking additional fundraising or asset disposals, we conduct liquidity stress tests, and we require the maintenance of a minimum liquidity duration of one month in stressed scenarios. If this requirement is not satisfied, we analyze all factors and, whenever necessary, examine measures necessary to secure the required liquidity, such as changing the fund gap limit or the minimum liquidity reserves, and in such a cases the ALM Committee prepares a liquidity improvement policy. Liquidity stress tests are conducted on a monthly basis and reported to the ALM Committee by the Market Risk Management Division. Moreover, the appropriateness of stress scenarios is regularly reviewed at the ALM Committee.

The levels of cash liquidity risk consist of "Normal," "Need for Concern," "Crisis," and "Risk Administration Mode." The ALM Committee determines the current mode by comprehensively evaluating information and reports from the Cash Flow Management Unit and the Risk Management Unit as well as the status of the risk management indexes. Each mode-specific framework is set forth in the "Cash Liquidity Contingency Plan," and regular training is conducted in preparation of unexpected situations.

Operational Risk Management

1. Management of Operational Risk Frameworks

Operational risk refers to the risk of loss resulting from "inadequate or failed internal processes, personnel, systems, or external events." Operational risk requires organization-wide management, because it is inherent in all business activity and is thus extensive.

In order to comprehensively manage operational risk, an operational risk management policy has been established to clarify the definitions of risk, and our basic policy and system for risk management and frameworks for identifying, evaluating, monitoring, reporting and controlling/mitigating risk has been made clear.

The Operational Risk Management Division, which is responsible for Group-wide operational risk management, evaluates, analyzes and reports on overall operational risks. Additionally, specific management divisions that are independent from business divisions have been designated to monitor respective areas of risk, such as operational and administrative risk and systems risk. The Operational Risk Management Division and these specific management divisions hold periodic meetings to share information on risk management issues and measures as well as to discuss how to manage the common elements across the risk areas including those of subsidiaries, thereby ensuring the effective management of operational risk.

Regarding quantification of operational risk, it should be noted that we have adopted the standardized approach for regulatory capital under the Basel Accord. At the same time, on the internal management level, we gauge potential internal risk scenarios by considering factors such as previous losses due to internal factors and the perception of risks by each business line. The findings that come out of these practices have been used as part of the overall risk capital system.

2. Management of Administrative Risk and Systems Risk

Administrative and systems risk refers to the risk of "incurring losses resulting from executives' or employees' failure to perform accurate clerical work, errors, or misconduct." Although Shinsei Bank has expanded its retail banking and consumer finance businesses and developed our institutional banking business, and as such, we understand that appropriately addressing administrative and systems risk is of crucial importance in order to offer reliable services to our customers.

Shinsei Bank is committed to improving its operations, and in addition to having established guidelines including "Operations Guidelines," is working to further improve its administrative flows and leadership.

Specifically, in the event errors do occur, the Bank tries to prevent recurrences by compiling a database of such cases and analyzing the causes. We have been able to keep the recurrence of administrative errors to a minimum due to having thoroughly simplified our operations by taking steps such as switching to paperless administration, and from automation and mechanization.

We believe that the following three factors are crucial for our information systems strategy: security/reliability, flexibility and scalability. In particular, in FY2013, we have focused on ensuring a more robust, secure and reliable information technology infrastructure in order to ensure the security of customers' transactions. Particularly, in fiscal year 2013, we have continued to implement specific countermeasures and plans aimed at resolving safety and reliability issues identified in the comprehensive systems check conducted in the previous fiscal year, and have worked to ensure a high level of quality in systems development as well as preventing systems failures, and in the event failures do occur, ensuring rapid systems recoveries. Additionally, we have initiated the establishment of an emergency backup center, as well as initiated the establishment of our next generation system.

We will continue to work to develop a robust system infrastructure that is safe and reliable, as well as secure in order to ensure that we are able to safely engage in transactions with our customers. We will also work to ensure that our system is flexible enough to be able to quickly react to the ever changing needs of our customers to provide them with new products and services that meet their needs.

Additionally, we will work to continue to obtain the ISO 27001 qualification as an information security measure.

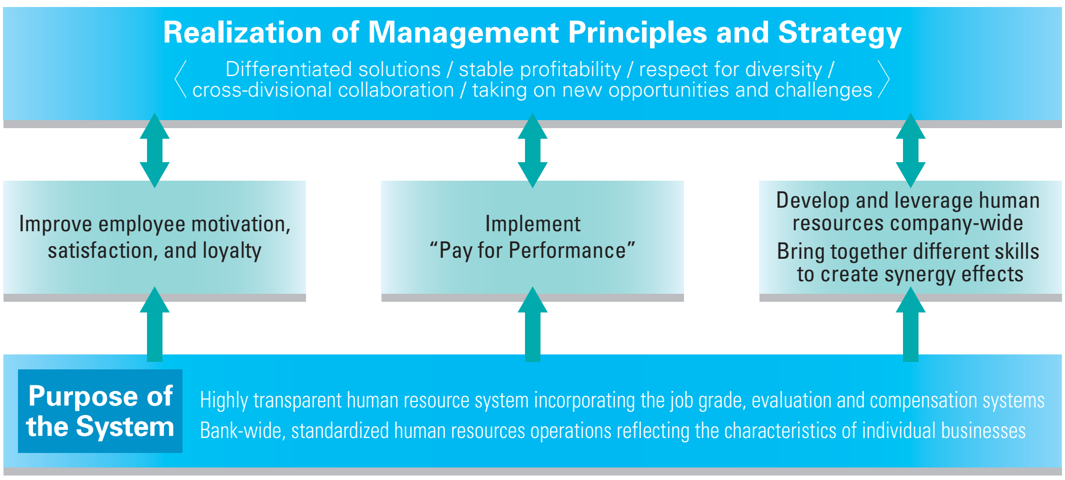
HUMAN RESOURCES AND CORPORATE SOCIAL RESPONSIBILITY (CSR)

"People" as an Engine for Growth

The basic strategy of our Second Medium-Term Management Plan starting in FY2013 is to achieve a new retail finance model for individual customers and support the growth of companies, industries, and regions for our corporate customers through business participation. In today's world where economies and societies are rapidly changing, it is essential that we continue to differentiate ourselves even further from our competition in order to remain as an institution which is appreciated by our customers, society, and the market. In order to be able to accomplish this, it is imperative that we are able to attract and develop the talented individuals who are able to put themselves in the position of our customers in order to be able to consistently deliver services of unsurpassed quality and high value-added solutions. The Bank believes that "people" within the organization will be the driving force for delivering new financial services, pursuing a new Bank image, and responding to the widely varied requirements of our customers in a timely manner. We believe that through our ability to accomplish these things the Bank will become trusted as a cohesive unit which is able to respond to the multifaceted needs of its customers, which in turn will lead to the growth of the Bank.

A Personnel System in Line with our Management Principles

The management philosophy of Shinsei Bank is "to become a banking group that is sought out by our customers, and contributes to the development of both domestic and international industrial economies, while maintaining stable profitability," "to become a banking Group that values diverse talents and cultures and is constantly taking on the challenges presented by change," and "to become a trusted banking group that has highly transparent management, and values all stakeholders." In order to achieve our management principles and strategy, we have made revisions to our personnel system in April 2012, the first time in approximately ten years. The newly revised system includes a grade system in which the responsibilities and requirements for each grade have been redefined; an evaluation system that seeks to measure employee contributions not only in terms of short-term results but also includes an evaluation of efforts and processes that are aimed at mid- to long-term growth; and a compensation system that is based not on seniority or past achievements, but on an objective evaluation of each employee and his or her level of contribution to the organization. Furthermore, by altering a portion of the Bank's seniority scheme in July of 2013, the Bank has succeeded in making clear lines of command as well as establishing a system that fosters healthy competition. By establishing a highly transparent personnel system incorporating these revisions, we are seeking to improve employee motivation and loyalty. The new system is expected to encourage employees to demonstrate the best of their abilities, and thus maximize the organization's performance and increase overall corporate value.



Further Strengthening our Organization and Human Resources

By employing a business group-based organization that reflects the differences in customer profiles and characteristics of individual businesses, Shinsei Bank aims to develop professionals who have a deep understanding of their respective business fields. We also believe that it is important to develop and leverage human resources company-wide, as well as facilitate a positive corporate culture, in order to encourage cross-divisional collaboration between our highly specialized staff who can deliver differentiated financial solutions and the highest value to our customers. Shinsei Bank provides various types of training programs tailored to the development of skills or the career paths of our employees, including courses designed to provide a wide range of general financial knowledge or to hone specialized knowledge and skills necessary in each field, as well as schemes that allow employees to study at graduate schools both in Japan and overseas. We also send our employees overseas for short-term training programs and encourage them to obtain qualifications. Also, in order to strengthen management capability to maximize the strength of our organization, we have implemented 360 degree feedback for employees above the rank of general manager in order to promote awareness and behavioral changes as well as expanding various skill development trainings for management level employees. Additionally, as part of our multi-faceted human resources development measures, we provide our employees with opportunities to engage in cross-organizational business on a project basis, and transfer our human resources strategically across business groups and Group companies. At the same time, we encourage our people to utilize an internal job posting program to take charge of their own career development by taking on new challenges in different fields and utilizing the "self-declaration" system that allows employees to express their satisfaction level of and suitability to their respective current positions.

Shinsei Bank engages in multi-faceted human resources development, such as including volunteer activities as part of new hire training

Leveraging Diversity

One of Shinsei Bank's greatest strengths is the diversity of our people in terms of age, gender, nationality and background. It is the creativity generated by this diverse set of people that has enabled us to launch groundbreaking services and business models, and we believe that this diversity is the source of our competitiveness.

Based on this idea, we routinely hire a number of new graduates to expand the ranks of employees from whom we expect our future leaders to emerge, while also making mid-career hires in line with business needs, and as a result we are able to continue to preserve the strengths of our diverse corporate culture. Also, since its inception, Shinsei Bank has actively promoted the advancement of talented female employees by introducing a variety of support initiatives including child-care leave, flexible working hours, and the "Shinsei Women's Network," an initiative that encourages interaction between female colleagues in the workplace. As of March 31, 2014, the proportion of female managers at Shinsei Bank remains among the highest in our industry with women representing approximately 26% of all titled managers.

In our aging society with smaller numbers of children and increasingly diversified lifestyles, we believe that respecting the differences and uniqueness of our employees and developing human resource development measures tailored to each individual's growth stage will help our employees make the best use of their abilities.

Shinsei Bank is committed to respecting the diversity of our people and will strive to reach new levels of organizational dynamism as we seek to provide completely new solutions to meet our customers' complex and ever-changing needs.

Contributing to Society

Our Approach

As part of our commitment to acting as a responsible corporate citizen and contributing to societal development, the Shinsei Bank Group actively promotes Corporate Philanthropic Initiatives. The Shinsei Bank Group promotes employee-driven activities aspiring to create a sustainable society together with our employees.

Our Focus

The Shinsei Bank Group aims to create a sustainable society by prioritizing our activities centered on the three themes of "nurturing the next generation," "the environment," and "disaster relief activities" after the Great East Japan Earthquake in 2011. The Shinsei Bank Group also continues to participate in charity runs and supports other activities that are strongly supported by our employees.

Nurturing the Next Generation
Support children, youth and physically and intellectually challenged people who create our future

Environment
Protect our earth and the environment we live in

Disaster Relief
Support the areas affected by the Great East Japan Earthquake

Contributing to Society: Nurturing the Next Generation

Financial Literacy Program "MoneyConnection®"

MoneyConnection® is Japan's first financial literacy program aimed at preventing young people from becoming "NEETs" (Not in Employment, Education or Training) by providing them with an opportunity to think about money, work and their own future. This is a workshop-based program that is targeted primarily at high school students. Shinsei Financial Co., Ltd. ("Shinsei Financial"), a consolidated subsidiary of Shinsei Bank, developed the program in 2006 in cooperation with Sodateage.net, a non-profit organization with a solid track record in NEET and youth support. From fiscal year 2012, Shinsei Bank has been running this program together with Sodateage.net as part of its CSR initiatives focusing on the theme of "nurturing the next generation." As a corporate sponsor, Shinsei Bank is supporting the program financially as well as promoting employee involvement by providing opportunities for Group employees to participate as facilitators where possible. MoneyConnection® received an Excellence Award in the "First Career Education Awards" program organized by the Japanese Ministry of Economy, Trade and Industry in 2010. As of March 31, 2014, the program has reached approximately 70,000 students from 507 schools throughout Japan.

A snapshot of the program

Employee participating as a facilitator of the program

Shinsei Bank is collaborating with regional financial institutions to expand the geographical scope of MoneyConnection®. In October 2012, Shinsei Bank and Sodateage.net have signed a memorandum of agreement with The Fukui Bank, Ltd. in October 2012, The Kiyo Bank, Ltd. in May 2013, and The Bank of Iwate, Ltd. in December 2013. Shinsei Bank will continue to promote and strengthen the MoneyConnection® program in regional areas by looking for opportunities for collaboration with regional financial institutions.

Contributing to Society: Disaster Relief

Shinsei Bank Receives Miyagi Prefecture Council of Social Welfare Chairman Award

Shinsei Bank, on November 5, 2013, was awarded the Miyagi Prefecture Council of Social Welfare Chairman Award at the 59th Miyagi Prefecture Social Welfare Convention. This was an acknowledgement of Shinsei Bank's contributions as part of its Great East Japan Earthquake disaster relief activities to Miyagi Prefecture's reconstruction efforts. The Bank was nominated by the Minamisanrikucho Council of Social Welfare and was recognized by the Miyagi Prefecture Council of Social Welfare as a "blue chip

(Table) Shinsei Bank Group Efforts to Support Areas Affected by the Great East Japan Earthquake: Disaster Relief Volunteer Activities

Fiscal Year	Activity Period		Place of Activity	Activity
2011	First Program	Jul. 2011	Ishinomaki City, Miyagi	Removal of mud from street gutters, cleaning photos damaged by the tsunami
	Second Program	Oct. 2011	Minamisanrikucho, Miyagi	Removal of debris
	Third Program	Nov. 2011	Minamisanrikucho, Miyagi	Removal of debris, assisting with work in the fishing industry
	Fourth Program	Mar. 2012	Minamisanrikucho, Miyagi	Assisting with work in the fishing industry
2012	Fifth Program	Jul. 2012	Minamisanrikucho, Miyagi	Removal of debris, removal of mud from street gutters, organizing a mini-concert
	Sixth Program	Oct. 2012	Minamisanrikucho, Miyagi	Removal of mud from street gutters
	Seventh Program	Nov. 2012	Karakuwa Peninsula, Kesennuma City, Miyagi	Oyster farming at Karakuwa Peninsula
		Nov. 2012	Kamaishi City, Iwate	Clean-up of Katakishi Seashore of Otsuchi Bay
2013	Eighth Program	Jul. 2013	Minamisanrikucho, Miyagi	Support for "Fukkou-ichi Shizugawa Bay Summer Festival," agricultural land preparation
	Ninth Program	Dec. 2013	Higashimatsushima, Miyagi	Hosting of Christmas concert for people living in temporary housing

company of merit" that has made significant contributions in this area. From July 2011, Shinsei Bank has conducted a total of nine volunteer activities in the disaster affected areas, and a total of 268 Shinsei Bank Group employees participated in these activities. Of these, six activities were conducted in the Minamisanrikucho region of Miyagi Prefecture and were activities that supported the immediate needs of the disaster affected areas, such as drain clearing and debris removal, aquaculture support work, holding of mini concerts at temporary housing facilities, and summer festival support activities. In this award, the Bank was recognized for its continuation of such support activities. Shinsei Bank considers such support activities of regions affected by the Great East Japan Earthquake to be one of the priority areas of its Corporate Philanthropic Initiatives, and the Bank will continue to proactively engage in activities that respond to the needs of these regions.

"Kato Music World"
Christmas concert held in Higashimatsushima

Supporting vendor sales at the summer festival in Minamisanrikucho

Volunteer Activities in Disaster Affected Areas

In fiscal year 2013, Shinsei Bank organized two disaster relief volunteer programs and employees from across the Shinsei Bank Group took part in volunteer activities in the Tohoku region of Japan to help support the areas affected by the Great East Japan Earthquake. In fiscal year 2013, Shinsei Bank supported the operation of the summer festival and helped prepared agricultural land in Minamisanrikucho, and organized a Christmas concert inviting people living in temporary housing in Higashimatsushima, Miyagi Prefecture. Please refer to the table above for our past activities.

Preparing agricultural land in Minamisanrikucho

Internal Fundraiser to Donate Street Lamps for Fishing Ports

In May 2013, Shinsei Bank organized an internal fundraiser to erect street lighting for the fishing ports located in Minamisanrikucho, Miyagi Prefecture. 138 Shinsei Bank Group employees made donations, raising a total of 1.29 million yen in total (a donation sufficient for the purchase and installation of two LED solar-panel street lamps). Shinsei Bank donated the funds raised to Minamisanrikucho Council of Social Welfare. The two street lamps purchased with the donations from Shinsei Bank were installed at two fishing port sites in the Utatsu area that had the most urgent need for street lighting. Including the donation of the two street lamps, Shinsei Bank donated a total of 7 street lamps to Minamisanrikucho in the past two years by organizing an internal fundraiser to erect street lighting in a temporary housing complex and holding a charity golf event to raise funds to set up street lamps for the fishing ports.

Contributing to Society: Environment

Nature Protection Initiatives: Rice Terrace Conservation Volunteer Activity

The "Rice Terrace Conservation Volunteer Activity" organized by Shinsei Financial was held on October 17, 2013 in Kamidani, Kainan-shi, Wakayama Prefecture and on May 20, 2014 in Jyuji, Tookamachi-shi, Niigata Prefecture where 21 Group employees volunteered in October and 31 Group employees volunteered in May. As part of the nature protection initiatives of the Shinsei Bank Group, we launched this activity in collaboration with NPO Tanada Network in fiscal year 2011. We have so far run activities in three places (Wakayama Prefecture, Nara Prefecture, and Niigata Prefecture). For the activity held in October 2013, volunteers mowed grass to maintain the views of the villages and in May 2014 volunteers removed mud from side ditches and raked fallen leaves.

Employee volunteers removing mud from side ditches

Fujisawa Beach Cleaning Project

The Fujisawa Beach Cleaning Project organized by Soleil Provence French Language School was held on September 29, 2013 and April 20, 2014, with the participation of Shinsei Bank Group employees and their families. The September event was part of the International Coastal Clean-up Initiative organized by the Ocean Conservancy, a U.S. based organization that works to address the issue of marine debris on a global scale. There were 240 volunteers (including 24 volunteers from the Shinsei Bank Group) and 128 bags of debris were collected that weighed 256 kg. The April event to collect debris in Kugenuma Beach and gather data on marine debris was held to commemorate Earth Day—the day in which people are encouraged to act with thought to our environment and the earth. There were 350 volunteers for the April Project (including 21 volunteers from the Shinsei Bank Group), where 138 bags of debris were collected that weighed approximately 276 kg.

Group photo with "Fujisawa Beach Cleaning Project" participants

Our Commitment to Environmental Sustainability

Measures to Conserve Electricity and Reduce our Impact on the Environment

At Shinsei Bank, we continue to work hard to conserve electricity in our head office through initiatives such as reducing lighting in communal spaces and using motion sensors to control lighting in conference and reception rooms. In preparation for the summer season when electricity demand increases, Shinsei Bank is implementing additional measures to minimize the use of electricity, such as reducing ceiling lighting in communal spaces in its head office by approximately 75%, adopting "cool biz" attire as the official dress code, optimizing climate control temperature settings and hours of operation, automating lighting output control that responds to the level of natural light, and automating control of the quantity of fresh air depending on indoor CO_2 density. Shinsei Bank is stepping up efforts to reduce the environmental impact of its offices and work style after the relocation of the Shinsei Bank headquarters in January 2011, the Meguro Production Center in February 2012 and Osaka branch in October 2013 to advanced energy-efficient buildings.

Environmental Impact Data

	Unit	FY2010	FY2011	FY2012	FY2013
CO_2 Emissions	t	9,209	6,687	3,106	3,748
Electricity Usage	kWh	23,411,980	17,475,604	6,159,462	6,658,612
Gas Usage	m^3	99,194	60,476	112,000	114,000
Clean Water Usage	t	56,984	32,764	1,290	1,481

Notes: (1) CO_2 emissions data have been calculated according to "Guidelines for Calculating Specified Greenhouse Gas Emission Volume under the Total Emission Reduction Obligations and the Emission Trading Framework"
(2) Data are for all Shinsei Bank headquarter (do not include affiliated companies) and Meguro Production Center.
(3) After the relocation of the Shinsei Bank headquarters and the Meguro Production Center, Shinsei Bank became a building tenant, therefore, clean water usage data does not include clean water usage for shared space.

Amount of Waste Generated / Recycling Rate

	Unit	FY2010	FY2011	FY2012	FY2013
Waste Generated	t	516	273	184	238
Amount Recycled	t	309	181	111	148
Amount of Waste Disposal	t	208	92	73	90
Recycling Rate	%	59.8%	66.4%	60.4%	62.1%

Notes: (1) Waste generation data have been calculated according to data provided by building maintenance companies.
(2) Data are for all Shinsei Bank headquarter (do not include affiliated companies) and Meguro Production Center.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated and nonconsolidated financial statements prepared in accordance with accounting principles generally accepted in Japan ("Japanese GAAP") for banks, including the notes to those financial statements, included elsewhere in this annual report. Except as otherwise indicated, the financial information in the following discussion is based on our consolidated financial statements.

The discussion below contains forward-looking statements regarding the intent, belief or current expectations of management with respect to our financial condition and future results of operations. In many cases, but not all, we use such words as "anticipate," "believe," "estimate," "expect," "intend," "plan," "probability," "risk" and similar expressions in relation to us or our management to identify forward-looking statements. These statements reflect our current views with respect to future events and are subject to risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those we currently anticipate or target. We do not intend to update these forward-looking statements.

In this section, except where the context indicates otherwise, "we" or "our" means Shinsei Bank, Limited and its subsidiaries and affiliates accounted for by the equity-method, and "Shinsei" or the "Bank" refers to Shinsei Bank, Limited alone.

Financial and operational data that are stated in multiples of ¥0.1 billion have been truncated. All percentages have been rounded to the nearest 0.1%.

OVERVIEW

Shinsei Bank, Limited is a diversified Japanese financial institution providing a range of financial products and services to both institutional and individual customers. Our business is organized around three business groups, the Institutional Group, the Global Markets Group and the Individual Group:

- To provide financial products and services that meet institutional customer needs by a strategic and systematic business promotion structure, the Institutional Group focuses primarily on corporate and public sector finance and advisory business, while the Global Markets Group concentrates on financial markets business and serving financial institution clients. The Institutional Group consists of business promoted by the Bank and Showa Leasing Co., Ltd. (Showa Leasing).
- The Individual Group consists of the retail banking business and the consumer finance business. We continue to improve the quality of our retail banking services to meet customer needs through strengthening our housing loan business and expanding our branch network including Consulting Spots to efficiently develop asset management operations. In the consumer finance business, Shinsei launched an unsecured personal loan service from October 1, 2011, in addition to existing installment sales credit, credit card and settlement businesses through APLUS FINANCIAL Co., Ltd. (APLUS FINANCIAL), and an unsecured personal loan service through Shinsei Financial Co., Ltd. (Shinsei Financial) and SHINKI Co., Ltd. (SHINKI).

FINANCIAL SUMMARY FOR THE FISCAL YEAR ENDED MARCH 31, 2014

We recognized a consolidated net income of ¥41.3 billion and a consolidated cash basis net income of ¥49.8 billion for the fiscal year ended March 31, 2014, a decrease as compared to ¥51.0 billion and ¥60.4 billion for the previous fiscal year, respectively. Additionally, while the fiscal year ended March 31, 2014 was the first year of the Bank's Second Medium-Term Management Plan (MTMP) which was disclosed in March 2013, due to the additional provisioning of reserves for losses on interest repayment in the third and fourth quarters of the fiscal year ended March 31, 2014, which was not in the assumptions of the Second MTMP, consolidated net income for the fiscal year ended March 31, 2014 came in below the ¥48.0 billion target set forth in the Second MTMP.

Total revenue was ¥203.0 billion for the fiscal year ended March 31, 2014. Of this, net interest income was ¥110.5 billion, a decrease as compared to ¥111.6 billion for the fiscal year ended March 31, 2013. Despite an improvement in interest margin, this decline was the result of an increase in the total balance of interest bearing liabilities and the sluggish growth of operating assets. On the other hand, noninterest income in the fiscal year ended March 31, 2014 was ¥92.5 billion, an increase compared to ¥87.3 billion in the fiscal year ended March 31, 2013, due to the recognition of gains on the sale of equities in the Institutional Group, as well as firm growth in installment receivables revenue and fee income on the sale of investment products in the Individual Group.

Regarding general and administrative expenses, while continuing to promote operational efficiency, as a result of the proactive allocation of management resources in order to expand the business base of Shinsei Bank through measures such as increasing personnel and advertising campaigns, expenses in the fiscal year ended March 31, 2014 were ¥135.0 billion, an increase compared to ¥130.9 billion in the fiscal year ended March 31, 2013.

Regarding net credit costs, due to factors such as the reversal of reserves for loan losses upon the sale of nonperforming loans and improvements in loan quality, total net credit costs in the fiscal year ended March 31, 2014 were ¥0.2 billion, an improvement versus ¥5.5 billion recorded in the fiscal year ended March 31, 2013.

Regarding reserves for losses on interest repayment, while there were no additional reserves made in the previous fiscal year, total additional reserves of ¥15.6 billion were made in the fiscal year ended March 31, 2014, with ¥13.6 billion of additional provisions in the third quarter of the fiscal year ended March 31, 2014, and ¥2.0 billion of additional provisions in the fourth quarter of the fiscal year ended March 31, 2014.

Regarding the performance of each business group, all groups

OVERVIEW (continued)

continued to post steady ordinary business profits (OBP) after net credit costs in the fiscal year ended March 31, 2014 and 2013.

In the Institutional Group, the expansion of the customer base continued with progress made in further differentiation of strategic areas aimed at strengthening earnings. OBP after net credit costs was strong, increasing from ¥26.3 billion recorded in the fiscal year ended March 31, 2013, to ¥53.2 billion recorded in the fiscal year ended March 31, 2014.

While the Global Markets Group continued to work to expand the customer base and to develop and provide products that meet the needs of customers, OBP after net credit costs for the fiscal year ended March 31, 2014 was ¥2.8 billion, down from ¥12.7 billion for the fiscal year ended March 31, 2013. This was due to the combined effects of the absence of major collections of written-off claims, as was seen in the previous fiscal year in the fiscal year ended March 31, 2014, and sluggish growth of the total volume of market related-transactions.

In the Individual Group, the proactive allocation of management resources in order to expand the business base has resulted in the growth of net interest income, due to the steady growth of the housing loan and Shinsei Bank Card Loan Lake balances, and the growth of noninterest income, associated with steady sales of investment products and the increase in the shopping credit balance. However, this growth in net interest income and noninterest income being less than the increase in expenses and net credit costs resulted in OBP after net credit costs of ¥22.6 billion in the fiscal year ended March 31, 2014, a decline compared to ¥26.9 billion recorded in the fiscal year ended March 31, 2013.

The balance of loans and bills discounted went from ¥4,292.4 billion as of March 31, 2013, to ¥4,319.8 billion as of March 31, 2014. In loans to institutional customers, competition remains fierce in meeting the demand for funding, and the balance has decreased somewhat due to collections on nonperforming loans. In loans to individual customers, however, due to housing loan disbursements continuing to be strong, and the consumer finance loan balance having shifted to a growth trend in the fourth quarter of the fiscal year ended March 31, 2013, the balance continued to grow steadily in the fiscal year ended March 31, 2014.

Net interest margin of 2.07% was recorded for the fiscal year ended March 31, 2014, an increase as compared to 2.02% for the fiscal year ended March 31, 2013. This was mainly due to the significant decline in the rate on deposits, including negotiable certificates of deposit ("NCDs"), and the rate on interest bearing liabilities as a result of factors such as the maturation of high interest rate time deposits made in the past offsetting the effect of the decline in yield on interest earning assets. It should be noted that the decline in yield on interest earning assets was due to the yields on newly procured assets under management remaining at low levels as a result of increased competition, while high yield assets under management procured in the past continued to run off.

Regarding Basel II capital adequacy ratios, Tier I capital and total capital increased due to the accumulation of net income and amortization of goodwill and other intangible assets during the fiscal year ended March 31, 2014 and, additionally, there was a reduction in risk assets due to factors such as a reduction of need caution claims, resulting in an improvement of the consolidated capital adequacy ratio from 12.24% as of March 31, 2013, to 13.80% as of March 31, 2014, and the Tier I capital adequacy ratio rose from 10.41% as of March 31, 2013 to 12.22% as of March 31, 2014. On a Basel III domestic standard basis (including grandfathering), the capital adequacy ratio was 13.58% as of March 31, 2014.

The balance of nonperforming loans under the Financial Revitalization Law (nonconsolidated) totaled ¥164.7 billion as of March 31, 2014, decreasing ¥77.9 billion during the fiscal year ended March 31, 2014, mainly due to sales of and collections on nonperforming loans. In addition, the ratio of nonperforming claims to the balance of total claims improved from 5.32% as of March 31, 2013, to 3.81% as of March 31, 2014.

SIGNIFICANT EVENTS

ISSUANCE OF UNSECURED CALLABLE SUBORDINATED BONDS

On June 7, 2013, Shinsei issued unsecured callable subordinated bonds of ¥10.0 billion to retail investors in Japan. On December 25, 2013, Shinsei issued unsecured callable subordinated bonds of ¥15.0 billion mainly to retail investors in Japan.

SHINSEI BANK AND GE JAPAN CONCLUDE THE INDEMNITY FOR LOSSES ON INTEREST REPAYMENT

On February 26, 2014, Shinsei Bank and GE Japan Corporation ("GE Japan") have agreed to conclude the GE Japan indemnity provision for losses on interest repayment for the Bank's subsidiary, Shinsei Financial effective March 31, 2014. In connection with the conclusion of the indemnity, Shinsei Financial received a cash payment of ¥175.0 billion to cover expected future losses on interest repayment, as compensation for conclusion of the indemnity. In addition, a recognition of the same amount, ¥175.0 billion, for reserves for losses on interest repayment for Shinsei Financial was made in the fourth quarter of the fiscal year ended March 31, 2014.

On September 22, 2008, Shinsei Bank concluded the share transfer agreement with GE Japan (GE Japan Holdings Co., Ltd. at the time of acquisition) and acquired Shinsei Financial and its subsidiaries from GE Japan. The agreement provided for GE Japan to indemnify Shinsei Financial for interest repayment losses on a substantial portion of the assets acquired. The agreement also provided GE Japan with a buyout option to end such obligation as of March 31, 2014, whereby GE Japan would make a one-time payment to Shinsei Financial in the amount that Shinsei Bank had determined to be necessary to cover expected future losses on interest repayment. In accordance with the agreement, GE Japan has exercised its option to conclude the indemnity for losses on interest repayment.

SELECTED FINANCIAL DATA (CONSOLIDATED)

Shinsei Bank, Limited and its Consolidated Subsidiaries
As of or for the fiscal years ended March 31, 2014, 2013, 2012, 2011 and 2010

	Billions of yen (except per share data and percentages)				
	2014	2013	2012	2011	2010
Statements of income data:					
Net interest income	**¥ 110.5**	¥ 111.6	¥ 116.9	¥ 156.6	¥ 207.9
Net fees and commissions	**22.4**	19.1	25.1	26.0	25.1
Net trading income	**13.9**	20.0	13.6	11.6	9.0
Net other business income	**56.1**	48.1	47.2	68.3	22.1
Total revenue	**203.0**	199.0	202.9	262.6	264.2
General and administrative expenses	**135.0**	130.9	130.3	145.3	170.8
Amortization of goodwill and intangible assets acquired in business combinations	**9.7**	10.8	11.9	13.0	20.9
Total general and administrative expenses	**144.8**	141.7	142.3	158.4	191.7
Net credit costs	**0.2**	5.5	12.2	68.3	112.2
Net business profit (loss) after net credit costs	**57.9**	51.6	48.3	35.8	(39.7)
Other gains (losses), net	**(11.9)**	2.1	(32.9)	21.9	(83.3)
Income (loss) before income taxes and minority interests	**46.0**	53.8	15.3	57.7	(123.0)
Current income taxes	**2.4**	0.5	2.9	1.9	1.5
Deferred income taxes (benefit)	**(0.7)**	(1.3)	2.4	5.2	6.7
Minority interests in net income of subsidiaries	**2.9**	3.5	3.5	7.9	8.8
Net income (loss)	**¥ 41.3**	¥ 51.0	¥ 6.4	¥ 42.6	¥ (140.1)
Balance sheet data:					
Trading assets	**¥ 249.1**	¥ 287.9	¥ 202.6	¥ 195.3	¥ 223.2
Securities	**1,557.0**	1,842.3	1,873.4	3,286.3	3,233.3
Loans and bills discounted	**4,319.8**	4,292.4	4,136.8	4,291.4	5,163.7
Customers' liabilities for acceptances and guarantees	**358.4**	511.0	562.6	575.7	623.7
Reserve for credit losses	**(137.3)**	(161.8)	(180.6)	(199.2)	(196.6)
Total assets	**9,321.1**	9,029.3	8,609.6	10,231.5	11,376.7
Deposits, including negotiable certificates of deposit	**5,850.4**	5,457.5	5,362.4	5,610.6	6,475.3
Debentures	**41.7**	262.3	294.1	348.2	483.7
Trading liabilities	**218.5**	240.0	176.0	147.7	177.8
Borrowed money	**643.4**	719.2	476.7	1,672.7	1,186.8
Acceptances and guarantees	**358.4**	511.0	562.6	575.7	623.7
Total liabilities	**8,598.5**	8,345.6	7,982.0	9,620.3	10,741.8
Common stock	**512.2**	512.2	512.2	512.2	476.2
Total equity	**722.5**	683.6	627.6	611.1	634.9
Total liabilities and equity	**¥ 9,321.1**	¥ 9,029.3	¥ 8,609.6	¥ 10,231.5	¥ 11,376.7
Per share data:					
Common equity[1]	**¥ 247.82**	¥ 233.65	¥ 212.67	¥ 205.83	¥ 232.72
Basic net income (loss)	**15.59**	19.24	2.42	21.36	(71.36)
Diluted net income	**15.59**	—	—	—	—
Capital adequacy data:					
Total capital adequacy ratio	**13.8%**	12.2%	10.3%	9.8%	8.4%
Tier I capital ratio	**12.2%**	10.4%	8.8%	7.8%	6.4%
Average balance data:					
Securities	**¥ 1,892.7**	¥ 2,014.3	¥ 2,394.6	¥ 3,056.4	¥ 3,212.6
Loans and bills discounted	**4,241.5**	4,246.2	4,159.8	4,680.7	5,457.6
Total assets	**9,175.2**	8,819.5	9,420.6	10,804.1	11,662.9
Interest-bearing liabilities	**7,465.5**	7,054.0	7,237.5	8,507.2	9,354.5
Total liabilities	**8,472.1**	8,163.8	8,801.2	10,181.1	10,961.7
Total equity	**703.1**	655.6	619.4	623.0	701.2
Other data:					
Return on assets	**0.5%**	0.6%	0.1%	0.4%	(1.2)%
Return on equity[1]	**6.5%**	8.6%	1.2%	8.5%	(27.6)%
Ratio of deposits, including negotiable certificates of deposit, to total liabilities	**68.0%**	65.4%	67.2%	58.3%	60.3%
Expense-to-revenue ratio[2]	**66.5%**	65.8%	64.2%	55.3%	64.6%
Nonperforming claims, nonconsolidated	**¥ 164.7**	¥ 242.6	¥ 295.9	¥ 279.5	¥ 333.0
Ratio of nonperforming claims to total claims, nonconsolidated	**3.8%**	5.3%	6.7%	6.8%	6.7%
Net deferred tax assets	**¥ 16.5**	¥ 16.3	¥ 15.2	¥ 17.9	¥ 17.4
Net deferred tax assets as a percentage of Tier I capital	**2.5%**	2.7%	2.8%	3.5%	3.5%

1 Stock acquisition rights and minority interests are excluded from equity.
2 The expense-to-revenue ratio is calculated by dividing general and administrative expenses by total revenue.

RESULTS OF OPERATIONS (CONSOLIDATED)

SUPPLEMENTAL FINANCIAL DATA AND RECONCILIATIONS TO JAPANESE GAAP MEASURES

Shinsei Bank, Limited and its Consolidated Subsidiaries

For the fiscal year ended March 31, 2014	Billions of yen (except per share data and percentages)
Amortization of goodwill and intangible assets acquired in business combinations	
Amortization of intangible assets acquired in business combinations	¥ 3.3
Associated deferred tax income	(1.2)
Amortization of goodwill	6.4
Total amortization of goodwill and intangible assets acquired in business combinations, net of tax benefit	¥ 8.4
Reconciliation of net income to cash basis net income	
Net income	¥ 41.3
Amortization of goodwill and intangible assets acquired in business combinations, net of tax benefit	8.4
Cash basis net income	¥ 49.8
Reconciliation of basic net income per share to cash basis basic net income per share	
Basic net income per share	¥ 15.59
Effect of amortization of goodwill and intangible assets acquired in business combinations, net of tax benefit	3.19
Cash basis basic net income per share	¥ 18.78
Reconciliation of return on assets to cash basis return on assets	
Return on assets	0.5%
Effect of amortization of goodwill and intangible assets acquired in business combinations, net of tax benefit	0.0%
Cash basis return on assets	0.5%
Reconciliation of return on equity to cash basis return on equity	
Return on equity	6.5%
Effect of amortization of goodwill and intangible assets acquired in business combinations, net of tax benefit	1.3%
Cash basis return on equity	7.8%
Reconciliation of return on equity to return on tangible equity	
Return on equity	6.5%
Effect of goodwill and intangible assets acquired in business combinations	1.8%
Return on tangible equity[1]	8.3%

1 Net income excludes Amortization of goodwill and intangible assets acquired in business combinations, net of tax benefit. Average equity excludes goodwill and intangible assets acquired in business combinations, net of associated deferred tax liability.

NET INTEREST INCOME

Net interest income of ¥110.5 billion was recorded in the fiscal year ended March 31, 2014, a decline of ¥1.1 billion from ¥111.6 billion recorded in the previous fiscal year. While funding costs declined due to the maturation of high interest rate time deposits, due to sluggish growth of the operating asset balance and the decline in interest earning asset yield due to increased competition, interest income from assets declined resulting in an overall decline in net interest income.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

NET REVENUE ON INTEREST-EARNING ASSETS

The table below shows the principal components of net revenue on interest-earning assets.

TABLE 1. INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES (CONSOLIDATED)

Billions of yen (except Yield/Rate)

	2014			2013		
Fiscal years ended March 31	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Interest-earning assets:						
Loans and bills discounted	**¥ 4,241.5**	**¥ 124.4**	**2.93%**	¥ 4,246.2	¥ 128.5	3.03%
Lease receivables and leased investment assets/ installment receivables	**610.3**	**36.5**	**5.99**	568.4	35.6	6.26
Securities	**1,892.7**	**15.6**	**0.83**	2,014.3	17.0	0.85
Other interest-earning assets[1]	**423.5**	**3.1**	**n.m.[3]**	420.8	2.2	n.m.[3]
Total revenue on interest-earning assets (A)	**¥ 7,168.1**	**¥ 179.8**	**2.51%**	¥ 7,249.9	¥ 183.4	2.53%
Interest-bearing liabilities:						
Deposits, including negotiable certificates of deposit	**¥ 5,821.9**	**¥ 20.6**	**0.35%**	¥ 5,450.2	¥ 23.4	0.43%
Debentures	**64.6**	**0.1**	**0.24**	281.5	0.9	0.35
Borrowed money	**642.9**	**4.9**	**0.77**	654.4	5.2	0.80
Subordinated debt	**88.2**	**1.9**	**2.26**	92.5	1.9	2.08
Other borrowed money	**554.6**	**2.9**	**0.54**	561.8	3.3	0.59
Corporate bonds	**192.4**	**5.9**	**3.09**	176.9	5.4	3.09
Subordinated bonds	**172.5**	**5.7**	**3.31**	153.7	5.0	3.30
Other corporate bonds	**19.8**	**0.2**	**1.12**	23.2	0.3	1.70
Other interest-bearing liabilities[1]	**743.5**	**1.0**	**n.m.[3]**	490.8	0.9	n.m.[3]
Total expense on interest-bearing liabilities (B)	**¥ 7,465.5**	**¥ 32.7**	**0.44%**	¥ 7,054.0	¥ 36.1	0.51%
Net interest margin (A) - (B)	**—**	**—**	**2.07%**	—	—	2.02%
Non interest-bearing sources of funds:						
Non interest-bearing (assets) liabilities, net	**¥ (937.5)**	**—**	**—**	¥ (397.8)	—	—
Total equity excluding minority interest[2]	**640.1**	**—**	**—**	593.7	—	—
Total non interest-bearing sources of funds (C)	**¥ (297.3)**	**—**	**—**	¥ 195.8	—	—
Total interest-bearing liabilities and non interest-bearing sources of funds (D) = (B)+(C)	**¥ 7,168.1**	**¥ 32.7**	**0.46%**	¥ 7,249.9	¥ 36.1	0.50%
Net revenue on interest-earning assets/ yield on interest-earning assets (A) - (D)	**—**	**¥ 147.0**	**2.05%**	—	¥ 147.2	2.03%
Reconciliation of total revenue on interest-earning assets to total interest income						
Total revenue on interest-earning assets	**¥ 7,168.1**	**¥ 179.8**	**2.51%**	¥ 7,249.9	¥ 183.4	2.53%
Less: Income on lease transactions and installment receivables	**610.3**	**36.5**	**5.99**	568.4	35.6	6.26
Total interest income	**¥ 6,557.8**	**¥ 143.2**	**2.18%**	¥ 6,681.4	¥ 147.8	2.21%
Total interest expenses	**—**	**32.7**	**—**	—	36.1	—
Net interest income	**—**	**¥ 110.5**	**—**	—	¥ 111.6	—

1 Other interest-earning assets and other interest-bearing liabilities include interest swaps and funding swaps.
2 Represents a simple average of the balance as of the beginning and the end of the fiscal years presented.
3 n.m. is not meaningful.

Net revenue on interest-earning assets includes net interest income as well as revenue earned on lease receivables and leased investment assets and installment receivables. We consider income on lease transactions and installment receivables to be a component of interest income, while Japanese GAAP does not include income on lease transactions and installment receivables in net interest income. In our consolidated statements of income, income on lease transactions and installment receivables is reported in net other business income under Japanese GAAP.

Net interest margin of 2.07% was recorded for the fiscal year ended March 31, 2014, an increase as compared to 2.02% for the fiscal year ended March 31, 2013. This was mainly due to the significant declines in the rate on deposits, including NCDs, and the rate on interest bearing liabilities as a result of factors such as the maturation of high interest rate time deposits made in the past offsetting the effect of the decline in yield on interest earning assets. It should be noted that the decline in yield on interest earning assets was due to the yields on newly acquired interest-earning assets remaining

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

at low levels as a result of increased competition, while high yield interest-earning assets acquired in the past continued to run off.

Net revenue on interest-earning assets for the fiscal year ended March 31, 2014 was ¥147.0 billion, decreasing from ¥147.2 billion for the previous fiscal year. While the total expense on interest-bearing liabilities decreased by ¥3.3 billion from ¥36.1 billion for the previous fiscal year to ¥32.7 billion for the fiscal year ended March 31, 2014, this was offset by a ¥3.6 billion decrease in total revenue on interest-earning assets. The decrease in total revenue on interest-earning assets was due to the lower yield on loans and bills discounted, and a decrease in the balance of securities.

NET FEES AND COMMISSIONS

Net fees and commissions consists mainly of fees from nonrecourse finance on domestic real estate, servicing fees from specialty finance and principal transactions, fees from guarantee and other businesses in consumer finance operations, and fees from sales of mutual funds and insurance products. Net fees and commissions of ¥22.4 billion were recorded for the fiscal year ended March 31, 2014, increasing from ¥19.1 billion for the fiscal year ended March 31, 2013, mainly due to factors such as an increase in revenue associated with the guarantee business at consumer finance subsidiaries and the steady growth of fees from mutual funds and structured bonds in Retail Banking.

NET TRADING INCOME

The table below shows the principal components of net trading income.

TABLE 2. NET TRADING INCOME (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2014**	2013	% Change
Income from trading securities	**¥ 6.3**	¥ 4.0	58.1
Income from securities held to hedge trading transactions	**(2.3)**	(2.5)	8.6
Income from trading-related financial derivatives	**10.1**	18.6	(45.5)
Other, net	**(0.1)**	(0.0)	(95.4)
Net trading income	**¥ 13.9**	¥ 20.0	(30.2)

Net trading income includes revenue from derivatives associated with transactions with customers as well as revenue from proprietary trading at the Bank. Net trading income of ¥13.9 billion was recorded for the fiscal year ended March 31, 2014, a decline from ¥20.0 billion for the fiscal year ended March 31, 2013, a result of a decrease in revenue from market related transactions.

NET OTHER BUSINESS INCOME

The table below shows the principal components of net other business income.

TABLE 3. NET OTHER BUSINESS INCOME (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2014**	2013	% Change
Net gain on monetary assets held in trust	**¥ 6.7**	¥ 8.2	(17.7)
Net gain (loss) on foreign exchanges	**5.0**	(0.1)	2,671.6
Net gain on securities	**0.9**	4.3	(77.9)
Net gain on other monetary claims purchased	**0.8**	1.1	(26.4)
Other, net:	**5.9**	(0.9)	706.2
Income (loss) from derivatives entered into for banking purposes, net	**0.6**	(1.2)	150.7
Equity in net income (loss) of affiliates	**2.6**	(1.3)	300.3
Gain on lease cancellation and other lease income (loss), net	**1.7**	1.0	76.0
Other, net	**0.8**	0.5	51.9
Net other business income before income on lease transactions and installment receivables, net	**19.5**	12.5	56.4
Income on lease transactions and installment receivables, net	**36.5**	35.6	2.6
Net other business income	**¥ 56.1**	¥ 48.1	16.6

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

Net other business income of ¥56.1 billion was recorded in the fiscal year ended March 31, 2014 as compared to ¥48.1 billion in the fiscal year ended March 31, 2013. This increase was due to factors such as income on lease transactions and installment receivables of ¥36.5 billion being recorded for the fiscal year ended March 31, 2014, somewhat of an increase as compared to ¥35.6 billion in the fiscal year ended March 31, 2013, and due to profits of ¥4.8 billion from equities related business, including the gain on sale of private equities in the fiscal year ended March 31, 2014, up from a profit of ¥1.1 billion in the fiscal year ended March 31, 2013. However, in the ALM business, a loss of ¥1.4 billion was incurred in the first quarter of the fiscal year ended March 31, 2014 on the sale of Japanese national government bonds made in order to avoid interest rate risk resulting from volatility in the market, and a ¥1.5 billion loss associated with the sale of U.S. Treasury bonds was incurred in the fourth quarter of the fiscal year ended March 31, 2014 offsetting a portion of the other gains.

TOTAL REVENUE

Due to the factors described above, total revenue in the fiscal year ended March 31, 2014 was ¥203.0 billion, as compared with ¥199.0 billion for the previous fiscal year.

GENERAL AND ADMINISTRATIVE EXPENSES

The table below sets forth the principal components of general and administrative expenses.

TABLE 4. GENERAL AND ADMINISTRATIVE EXPENSES (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2014**	2013	% Change
Personnel expenses	**¥ 55.2**	¥ 53.9	2.4
Premises expenses	**20.0**	19.4	2.8
Technology and data processing expenses	**18.1**	17.6	3.1
Advertising expenses	**10.0**	9.2	9.4
Consumption and property taxes	**6.1**	6.5	(5.5)
Deposit insurance premium	**3.4**	3.5	(3.9)
Other general and administrative expenses	**21.9**	20.6	6.6
General and administrative expenses	**135.0**	130.9	3.1
Amortization of goodwill and intangible assets acquired in business combinations	**9.7**	10.8	(9.8)
Total general and administrative expenses	**¥ 144.8**	¥ 141.7	2.1

General and administrative expenses of ¥135.0 billion, excluding amortization of goodwill and intangible assets acquired in business combinations, for the fiscal year ended March 31, 2014 represented an increase from ¥130.9 billion for the fiscal year ended March 31, 2013. This was a result of the prioritized allocation of management resources in relevant business areas in order to be able to smoothly expand our customer base further and to enhance our profitability, both of which are major strategic targets established in the Second MTMP.

Personnel expenses of ¥55.2 billion for the fiscal year ended March 31, 2014 increased from ¥53.9 billion for the fiscal year ended March 31, 2013. We are looking to allocate additional personnel to each business area in order to expand our customer base and enhance our profitability.

Non personnel expenses of ¥79.8 billion were recorded in the fiscal year ended March 31, 2014, an increase from ¥77.0 billion recorded in the fiscal year ended March 31, 2013, as we have worked to rationalize expenses across all of our business lines through strict expense controls, while also investing in enhancing in our business infrastructure. Premises expenses of ¥20.0 billion were recorded in fiscal year ended March 31, 2014, compared to ¥19.4 billion recorded in fiscal year ended March 31, 2013, primarily due to the upgrade of business hubs underway for the consumer finance business, whilst continuing efforts to streamline expenses. Additionally, technology and data processing expenses of ¥18.1 billion were recorded in the fiscal year ended March 31, 2014, an increase from ¥17.6 billion in the fiscal year ended March 31, 2013, due primarily to maintenance costs related to investments aimed at stabilizing our information technology infrastructure becoming fully realized. Advertising expenses of ¥10.0 billion were recorded in the fiscal year ended March 31, 2014, an increase from ¥9.2 billion in the fiscal year ended March 31,

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

2013, as we have actively increased advertising activities with the aim of expanding our customer base. Consumption and property taxes for the fiscal year ended March 31, 2014 were ¥6.1 billion, a decrease from ¥6.5 billion in the fiscal year ended March 31, 2013, due in part to a decline in subsidiary taxes and dues. Deposit insurance premium expenses of ¥3.4 billion were recorded in the fiscal year ended March 31, 2014, a slight decrease from ¥3.5 billion in the fiscal year ended March 31, 2013. This was due to the average balance of deposits, etc., which forms the basis for calculating the Bank's deposit insurance premium, not fluctuating drastically and the insurance premium rate not changing. Other general and administrative expenses of ¥21.9 billion were recorded for the fiscal year ended March 31, 2014, an increase from ¥20.6 billion for the fiscal year ended March 31, 2013, due in part to temporary staff expenses in order to stabilize operation of our information technology systems.

AMORTIZATION OF GOODWILL AND INTANGIBLE ASSETS ACQUIRED IN BUSINESS COMBINATIONS

Amortization of goodwill and intangible assets acquired in business combinations associated with the acquisition of consumer and commercial finance companies totaled ¥9.7 billion for the fiscal year ended March 31, 2014 compared to ¥10.8 billion for the previous fiscal year. The lower amount is attributable to factors including the sum-of-the-years' digits method for amortization of goodwill and intangible assets acquired in business combinations related to Shinsei Financial. Amortization of goodwill and intangible assets acquired in business combinations of APLUS FINANCIAL was ¥0.8 billion for the fiscal year ended March 31, 2014 related to the amortization of goodwill for Zen-Nichi Shinpan, a subsidiary of APLUS FINANCIAL. Full impairment of goodwill and intangible assets for APLUS FINANCIAL was taken as of March 31, 2010.

TABLE 5. AMORTIZATION OF GOODWILL AND INTANGIBLE ASSETS ACQUIRED IN BUSINESS COMBINATIONS (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2014**	2013	% Change
Shinsei Financial	**¥ 6.3**	¥ 7.4	(14.7)
SHINKI	**(0.3)**	(0.3)	0.0
APLUS FINANCIAL	**0.8**	0.8	2.2
Showa Leasing	**2.7**	2.8	(4.2)
Others	**0.1**	0.0	1,177.3
Amortization of goodwill and intangible assets acquired in business combinations	**¥ 9.7**	¥ 10.8	(9.8)

NET CREDIT COSTS

The following table sets forth the principal components of net credit costs.

TABLE 6. NET CREDIT COSTS (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2014**	2013	% Change
Losses on write-off or sales of loans	**¥ 3.1**	¥ 8.4	(62.5)
Net provision of reserve for loan losses:			
Net provision (reversal) of general reserve for loan losses	**2.8**	(5.3)	153.8
Net provision of specific reserve for loan losses	**3.4**	19.1	(82.2)
Subtotal	**6.2**	13.7	(54.5)
Net provision (reversal) of specific reserve for other credit losses	**—**	(0.0)	100.0
Other credit costs (recoveries) relating to leasing business	**(0.2)**	(0.4)	53.0
Recoveries of written-off claims	**(8.9)**	(16.2)	44.9
Net credit costs	**¥ 0.2**	¥ 5.5	(94.9)

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

The principal components of net credit costs are provisions or reversals of reserve for loan losses. In accordance with Japanese regulatory requirements, Shinsei maintains general and specific reserves for loan losses, a reserve for loans to restructuring countries, as well as a specific reserve for other credit losses. Certain of our subsidiaries, particularly Shinsei Financial, APLUS FINANCIAL, SHINKI and Showa Leasing, also maintain general and specific reserves for loan losses.

Net credit costs of ¥0.2 billion were recorded for the fiscal year ended March 31, 2014, showing a significant improvement as compared to ¥5.5 billion for the previous fiscal year. We have been able to achieve this significant improvement as, although the balance of loans and bills discounted increased due to accumulation of institutional business loans and housing loans, large reserves for credit losses were not recorded as in previous years as a result of the reduction of noncore assets aimed at limiting potential risks, and strict credit management. There was also an improvement in the creditworthiness of some institutional accounts.

For the fiscal year ended March 31, 2014, recoveries of written-off claims were ¥8.9 billion, compared to ¥16.2 billion of recoveries of written-off claims for the previous fiscal year. A performance of ¥9.2 billion recorded for the fiscal year ended March 31, 2014, an improved as compared to ¥21.7 billion recorded for the previous fiscal year even when excluding recoveries of written-off claims from net credit costs.

Additionally, the recoveries of written-off claims for the fiscal year ended March 31, 2014 of ¥8.9 billion included ¥1.9 billion at Shinsei Bank (nonconsolidated basis), ¥5.6 billion at Shinsei Financial, and ¥0.9 billion at SHINKI.

OTHER GAINS (LOSSES), NET

The table below sets forth the principal components of other gains (losses).

TABLE 7. OTHER GAINS (LOSSES), NET (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2014**	2013	% Change
Net gain on disposal of premises and equipment	**¥ 1.4**	¥ 0.1	672.3
Pension-related costs	**(0.0)**	(0.0)	25.6
Gains on write-off of unclaimed debentures	**1.2**	0.8	49.0
Provision of reserve for losses on interest repayments	**(15.6)**	—	—
Impairment losses on long lived assets	**(1.5)**	(0.9)	(69.9)
Gain on liquidation of subsidiaries	**2.2**	0.2	993.1
Gain on sale of subsidiary's stock	**—**	0.4	(100.0)
Other, net	**0.3**	1.4	(73.5)
Total	**¥ (11.9)**	¥ 2.1	(645.0)

Other losses of ¥11.9 billion were recorded for the fiscal year ended March 31, 2014, including additional provisions of reserve for losses on interest repayments of ¥0.7 billion for Shinsei Financial, ¥12.8 billion for SHINKI and ¥2.0 billion for APLUS FINANCIAL.

INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS

As a result of the preceding, income before income taxes and minority interests totaled ¥46.0 billion for the fiscal year ended March 31, 2014, as compared to ¥53.8 billion for the previous fiscal year.

INCOME TAXES (BENEFIT)

Current and deferred income taxes reflected a net expense of ¥1.6 billion for the fiscal year ended March 31, 2014 compared to a net income of ¥0.7 billion for the previous fiscal year. For the fiscal year ended March 31, 2014, we recorded ¥2.4 billion of current income tax expense and ¥0.7 billion of deferred income tax income. For the previous fiscal year, ¥0.5 billion of current income tax expense and ¥1.3 billion of deferred income tax income were recorded.

MINORITY INTERESTS IN NET INCOME OF SUBSIDIARIES

Minority interests in net income of subsidiaries largely reflect dividends accrued on perpetual preferred securities issued by the Bank's subsidiaries, and minority interests in the net income of other consolidated subsidiaries for the fiscal year ended March 31, 2014. Minority interests in net income of subsidiaries for the fiscal year ended March 31, 2014 was ¥2.9 billion, a decrease from ¥3.5 billion for the previous fiscal year.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

TABLE 8. MINORITY INTERESTS IN NET INCOME OF SUBSIDIARIES (CONSOLIDATED)

Fiscal years ended March 31	Billions of yen 2014	2013	% Change
Dividends on preferred securities (hybrid Tier I capital) issued by foreign SPCs	**¥ 3.1**	¥ 3.1	1.0
Others	**(0.1)**	0.4	(140.7)
Minority interests in net income of subsidiaries	**¥ 2.9**	¥ 3.5	(15.8)

NET INCOME

We recognized a consolidated net income of ¥41.3 billion for the fiscal year ended March 31, 2014, compared to ¥51.0 billion for the previous fiscal year.

Consolidated cash basis net income for the fiscal year ended March 31, 2014 was ¥49.8 billion, compared to ¥60.4 billion for the previous fiscal year. The cash basis net income is calculated by excluding amortization and impairment of goodwill and intangible assets acquired in business combinations, net of tax benefit, from net income under Japanese GAAP.

RECONCILIATION FROM REPORTED-BASIS RESULTS TO OPERATING-BASIS RESULTS

In addition to analyzing our results of operations in the format used for our financial statements, which we refer to as the "reported-basis," our management also reviews our results on an "operating-basis" to assess each of our business lines and to measure our results against targeted goals. Operating-basis results are calculated by adjusting the reported-basis results principally for the amortization of goodwill and intangible assets acquired in business combinations, certain revenue items, amortization of net actuarial losses and lump-sum payments. In essence, the operating-basis results represent what we consider to be "core" business results and are in accordance with Japanese GAAP at the net income (loss) level. The following summary table provides a reconciliation between our results on a reported-basis and operating-basis.

TABLE 9. RECONCILIATION FROM REPORTED-BASIS RESULTS TO OPERATING-BASIS RESULTS (CONSOLIDATED)

Billions of yen

Fiscal years ended March 31	2014 Reported-basis	2014 Reclassifications	2014 Operating-basis	2013 Reported-basis	2013 Reclassifications	2013 Operating-basis
Revenue:						
Net interest income	**¥ 110.5**	**¥ —**	**¥ 110.5**	¥ 111.6	¥ —	¥ 111.6
Noninterest income	**92.5**	**—**	**92.5**	87.3	—	87.3
Total revenue	**203.0**	**—**	**203.0**	199.0	—	199.0
General and administrative expenses[1,3]	**135.0**	**(2.1)**	**132.8**	130.9	(2.3)	128.6
Amortization of goodwill and intangible assets acquired in business combinations[2,3]	**9.7**	**(9.7)**	**—**	10.8	(10.8)	—
Total general and administrative expenses	**144.8**	**(11.9)**	**132.8**	141.7	(13.1)	128.6
Net business profit/Ordinary business profit[2]	**58.2**	**11.9**	**70.1**	57.2	13.1	70.3
Net credit costs	**0.2**	**—**	**0.2**	5.5	—	5.5
Amortization of goodwill and intangible assets acquired in business combinations[2]	**—**	**9.6**	**9.6**	—	10.7	10.7
Other gains (losses), net[1]	**(11.9)**	**(2.3)**	**(14.2)**	2.1	(2.3)	(0.1)
Income before income taxes and minority interests	**46.0**	**—**	**46.0**	53.8	—	53.8
Income taxes and minority interests	**4.6**	**—**	**4.6**	2.7	—	2.7
Net income	**¥ 41.3**	**¥ —**	**¥ 41.3**	¥ 51.0	¥ —	¥ 51.0

1 Reclassifications consist principally of adjustments relating to lump-sum compensation and amortization of net actuarial gains or losses from general and administrative expenses to other gains (losses), net.
2 Amortization of goodwill and intangible assets acquired in business combinations associated with acquisitions of companies is reclassified under ordinary business profit after net credit costs.
3 Amortization of goodwill and intangible assets acquired in business combinations associated with partial acquisitions of businesses is classified to general and administrative expenses.

BUSINESS LINES RESULTS

Management monitors the performance of these business lines on an operating-basis. The business line discussion below covers the operating-basis ordinary business profit (loss) after net credit costs (recoveries).

TABLE 10. OPERATING-BASIS ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS (RECOVERIES) BY BUSINESS LINE (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2014**	2013	% Change
Institutional Group:			
Net interest income	**¥ 27.6**	¥ 29.8	(7.2)
Noninterest income	**41.8**	27.0	54.6
Total revenue	**69.5**	56.8	22.3
General and administrative expenses	**24.8**	24.2	2.5
Ordinary business profit	**44.6**	32.6	36.9
Net credit costs (recoveries)	**(8.5)**	6.3	(235.9)
Ordinary business profit after net credit costs (recoveries)	**¥ 53.2**	¥ 26.3	102.5
Global Markets Group:			
Net interest income	**¥ 3.9**	¥ 2.9	31.8
Noninterest income	**7.3**	11.2	(34.7)
Total revenue	**11.2**	14.2	(20.7)
General and administrative expenses	**8.9**	9.0	(0.9)
Ordinary business profit	**2.3**	5.2	(55.0)
Net credit costs (recoveries)	**(0.4)**	(7.5)	93.9
Ordinary business profit after net credit costs (recoveries)	**¥ 2.8**	¥ 12.7	(78.1)
Individual Group:			
Net interest income	**¥ 85.3**	¥ 84.4	1.0
Noninterest income	**44.0**	42.0	4.8
Total revenue	**129.3**	126.4	2.3
General and administrative expenses	**97.3**	93.3	4.4
Ordinary business profit	**31.9**	33.1	(3.6)
Net credit costs	**9.3**	6.2	49.2
Ordinary business profit after net credit costs	**¥ 22.6**	¥ 26.9	(15.9)
Corporate/Other[1]:			
Net interest income	**¥ (6.4)**	¥ (5.6)	(15.0)
Noninterest income	**(0.7)**	6.9	(110.5)
Total revenue	**(7.1)**	1.3	(620.8)
General and administrative expenses	**1.6**	2.0	(17.2)
Ordinary business profit (loss)	**(8.8)**	(0.6)	(1,266.8)
Net credit costs (recoveries)	**(0.0)**	0.5	(100.1)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ (8.8)**	¥ (1.1)	(661.1)
Total:			
Net interest income	**¥ 110.5**	¥ 111.6	(1.0)
Noninterest income	**92.5**	87.3	5.9
Total revenue	**203.0**	199.0	2.0
General and administrative expenses	**132.8**	128.6	3.3
Ordinary business profit	**70.1**	70.3	(0.3)
Net credit costs	**0.2**	5.5	(94.9)
Ordinary business profit after net credit costs	**¥ 69.8**	¥ 64.8	7.7

1 Includes company-wide accounts, allocation variance of indirect expense and elimination amount of inter-segment transactions.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

INSTITUTIONAL GROUP

The Institutional Group consists of: 1) Institutional Business Sub-Group which provides financial products and services for the corporate and public sectors, 2) Structured Finance Sub-Group which includes businesses such as real estate finance and specialty finance, 3) Principal Transactions Sub-Group which covers credit trading and private equity business, 4) Showa Leasing and 5) Others including advisory business and asset-backed investment. From April 1, 2013 onwards, the Structured Finance Sub-Group will be integrated into the Institutional Business Sub-Group, as per organizational changes.

TABLE 11. INSTITUTIONAL GROUP ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS (RECOVERIES) BY BUSINESS/SUBSIDIARY (CONSOLIDATED)

Fiscal years ended March 31	Billions of yen 2014	2013	% Change
Institutional Business Sub-Group—Institutional Business[1]:			
Net interest income	**¥ 9.4**	¥ 9.4	(0.1)
Noninterest income	**3.2**	4.4	(26.6)
Total revenue	**12.7**	13.9	(8.6)
General and administrative expenses	**6.2**	6.1	1.0
Ordinary business profit	**6.5**	7.7	(16.2)
Net credit costs (recoveries)	**(2.0)**	(3.0)	32.4
Ordinary business profit after net credit costs (recoveries)	**¥ 8.5**	¥ 10.8	(20.8)
Institutional Business Sub-Group—Structured Finance[1]:			
Net interest income	**¥ 15.6**	¥ 17.0	(8.1)
Noninterest income	**8.1**	4.3	85.2
Total revenue	**23.7**	21.4	11.1
General and administrative expenses	**4.7**	4.8	(1.2)
Ordinary business profit	**19.0**	16.5	14.7
Net credit costs (recoveries)	**(8.0)**	5.8	(237.3)
Ordinary business profit after net credit costs (recoveries)	**¥ 27.0**	¥ 10.7	152.4
Principal Transactions Sub-Group:			
Net interest income	**¥ 5.2**	¥ 5.0	5.5
Noninterest income	**12.6**	6.3	97.7
Total revenue	**17.9**	11.4	57.1
General and administrative expenses	**4.2**	3.8	9.9
Ordinary business profit	**13.7**	7.5	81.1
Net credit costs (recoveries)	**(0.2)**	(0.5)	53.7
Ordinary business profit after net credit costs (recoveries)	**¥ 13.9**	¥ 8.1	72.3
Showa Leasing:			
Net interest income	**¥ (2.4)**	¥ (1.6)	(52.5)
Noninterest income	**17.6**	15.7	12.4
Total revenue	**15.1**	14.0	7.8
General and administrative expenses	**8.2**	7.8	5.3
Ordinary business profit	**6.9**	6.2	10.9
Net credit costs (recoveries)	**(2.6)**	(0.0)	(3,013.3)
Ordinary business profit after net credit costs (recoveries)	**¥ 9.5**	¥ 6.3	51.6
Others:			
Net interest income	**¥ (0.2)**	¥ (0.0)	(283.0)
Noninterest income	**0.1**	(3.8)	103.7
Total revenue	**(0.1)**	(3.9)	97.3
General and administrative expenses	**1.3**	1.5	(12.5)
Ordinary business profit (loss)	**(1.4)**	(5.4)	73.6
Net credit costs	**4.4**	4.1	6.4
Ordinary business profit (loss) after net credit costs	**¥ (5.8)**	¥ (9.6)	39.2
Institutional Group:			
Net interest income	**¥ 27.6**	¥ 29.8	(7.2)
Noninterest income	**41.8**	27.0	54.6
Total revenue	**69.5**	56.8	22.3
General and administrative expenses	**24.8**	24.2	2.5
Ordinary business profit	**44.6**	32.6	36.9
Net credit costs (recoveries)	**(8.5)**	6.3	(235.9)
Ordinary business profit after net credit costs (recoveries)	**¥ 53.2**	¥ 26.3	102.5

1 Results for Shipping finance is included in "Institutional Business Sub-Group—Structured Finance," formerly shown in "Institutional Business Sub-Group—Institutional Business," in line with the organizational change on April 1, 2013.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

Revenue for the Institutional Group increased to ¥69.5 billion in the fiscal year ended March 31, 2014, firm results compared to ¥56.8 billion in the fiscal year ended March 31, 2013, as the progress made during the First Medium-Term Management Plan (MTMP) towards rebuilding our customer base and stabilizing our profitability are steadily yielding results. Net interest income was ¥27.6 billion in the fiscal year ended March 31, 2014, a decline compared to ¥29.8 billion in the fiscal year ended March 31, 2013. Noninterest income was ¥41.8 billion in the fiscal year ended March 31, 2014, a substantial increase from ¥27.0 billion in the fiscal year ended March 31, 2013.

In the Institutional Business under the Institutional Business Sub-Group, revenue was ¥12.7 billion in the fiscal year ended March 31, 2014 versus ¥13.9 billion in the fiscal year ended March 31, 2013. This was due to early repayment fees which were recorded in the fiscal year ended March 31, 2013 not being recorded in the fiscal year ended March 31, 2014. On the other hand, the total revenue of Structured Finance under the Institutional Business Sub-Group was ¥23.7 billion in the fiscal year ended March 31, 2014 as compared to ¥21.4 billion in the fiscal year ended March 31, 2013. This increase was due in part to dividend income from past investments in real estate, and fee income from new undertakings in institutional real estate such as REITs and specialty finance.

The Principal Transactions Sub-Group recorded total revenue of ¥17.9 billion in the fiscal year ended March 31, 2014, an increase from ¥11.4 billion in the fiscal year ended March 31, 2013. This was a result of continued stable performance in domestic credit trading operations, as well as a profit of ¥1.1 billion on sales of private equity investments being recorded. It should be noted ¥1.0 billion of impairments on private equity investment was recognized in the fiscal year ended March 31, 2013, which was contained to under ¥0.1 billion in the fiscal year ended March 31, 2014.

Total revenue of Others was a loss of ¥0.1 billion in the fiscal year ended March 31, 2014, as compared to a loss of ¥3.9 billion in the fiscal year ended March 31, 2013. This was due to one-off losses recorded in the fiscal year ended March 31, 2014 being limited compared to the fiscal year ended March 31, 2013.

General and administrative expenses were ¥24.8 billion in the fiscal year ended March 31, 2014 compared to ¥24.2 billion in the fiscal year ended March 31, 2013. While the Group continued efforts to improve efficiency, expenses were up due to investment of management resources into strategic focus areas through measures such as increasing personnel and expanding the business base in order to strengthen profitability.

Net credit recoveries were ¥8.5 billion in the fiscal year ended March 31, 2014 compared to net credit costs of ¥6.3 billion in the fiscal year ended March 31, 2013. Due to measures undertaken during the Bank's First MTMP aimed at improving asset quality in order to limit potential risks, no large reserves for credit losses like those seen in the past were recorded. In addition, the creditworthiness of some accounts improved, and there were some reversals of reserves for loan losses due to the sale of nonperforming loans, resulting in an overall improvement in the net credit costs of the Institutional Group.

As a result of the preceding, the Institutional Group recorded an ordinary business profit after net credit costs of ¥53.2 billion in the fiscal year ended March 31, 2014, a significant increase from ¥26.3 billion in the fiscal year ended March 31, 2013.

Showa Leasing recorded ¥9.5 billion of ordinary business profit after net credit costs in the fiscal year ended March 31, 2014, an increase as compared to ¥6.3 billion in the fiscal year ended March 31, 2013. Total revenue was ¥15.1 billion in the fiscal year ended March 31, 2014, trending stably as compared to ¥14.0 billion in the fiscal year ended March 31, 2013. Net credit recoveries were ¥2.6 billion in the fiscal year ended March 31, 2014, compared to ¥0.0 billion (¥85 million) in the fiscal year ended March 31, 2013, due to improvements in credit quality of loans and the progression of collections.

GLOBAL MARKETS GROUP

The Global Markets Group consists of: 1) Financial Institutions Sub-Group which provides financial products and services for financial institutions, 2) Markets Sub-Group which deals with foreign exchange, derivatives and other capital markets business, and 3) Others including asset management, wealth management, and Shinsei Securities' businesses.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

TABLE 12. GLOBAL MARKETS GROUP ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS (RECOVERIES) BY BUSINESS (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2014**	2013	% Change
Financial Institutions Sub-Group:			
Net interest income	**¥ 1.5**	¥ 1.6	(2.0)
Noninterest income	**1.6**	2.9	(43.4)
Total revenue	**3.2**	4.5	(28.9)
General and administrative expenses	**2.1**	2.3	(7.5)
Ordinary business profit	**1.1**	2.2	(50.7)
Net credit costs (recoveries)	**(0.4)**	(6.2)	93.0
Ordinary business profit after net credit costs (recoveries)	**¥ 1.5**	¥ 8.5	(81.8)
Markets Sub-Group:			
Net interest income	**¥ 2.2**	¥ 1.2	78.9
Noninterest income	**2.6**	5.9	(55.4)
Total revenue	**4.9**	7.2	(32.0)
General and administrative expenses	**3.2**	3.1	1.7
Ordinary business profit	**1.6**	4.0	(58.9)
Net credit costs (recoveries)	**0.0**	(1.0)	109.3
Ordinary business profit after net credit costs (recoveries)	**¥ 1.5**	¥ 5.0	(69.4)
Others:			
Net interest income	**¥ 0.1**	¥ 0.1	(4.3)
Noninterest income	**3.0**	2.3	29.7
Total revenue	**3.1**	2.4	27.8
General and administrative expenses	**3.5**	3.5	1.2
Ordinary business profit (loss)	**(0.4)**	(1.0)	60.4
Net credit costs (recoveries)	**(0.1)**	(0.2)	51.0
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ (0.3)**	¥ (0.8)	63.2
Global Markets Group:			
Net interest income	**¥ 3.9**	¥ 2.9	31.8
Noninterest income	**7.3**	11.2	(34.7)
Total revenue	**11.2**	14.2	(20.7)
General and administrative expenses	**8.9**	9.0	(0.9)
Ordinary business profit	**2.3**	5.2	(55.0)
Net credit costs (recoveries)	**(0.4)**	(7.5)	93.9
Ordinary business profit after net credit costs (recoveries)	**¥ 2.8**	¥ 12.7	(78.1)

The Global Markets Group generated total revenue of ¥11.2 billion in the fiscal year ended March 31, 2014, compared to ¥14.2 billion in the fiscal year ended March 31, 2013. While the Group continued efforts to expand the customer base and to develop and provide financial products which meet customers' needs, total revenue decreased due to sluggish growth in the total volume of customer transactions and market related-transactions.

The Financial Institutions Sub-Group's total revenue was ¥3.2 billion in the fiscal year ended March 31, 2014, compared to ¥4.5 billion in the fiscal year ended March 31, 2013. In the fiscal year ended March 31, 2014, growth in revenue from transactions with customers was sluggish, and total revenue decreased compared to the fiscal year ended March 31, 2013.

The Markets Sub-Group similarly experienced sluggish growth in revenue from transactions with customers and market related transactions, and as a result total revenue decreased to ¥4.9 billion in the fiscal year ended March 31, 2014, a decline from ¥7.2 billion in the fiscal year ended March 31, 2013.

Others revenue of the Global Markets Group was ¥3.1 billion for the fiscal year ended March 31, 2014, an increase as compared to ¥2.4 billion for the fiscal year ended March 31, 2013. This was mainly due to firm results in the securities brokerage business.

The Global Markets Group recorded ¥8.9 billion of general and administrative expenses for the fiscal year ended March 31, 2014, compared to ¥9.0 billion in the fiscal year ended March 31, 2013. While the allocation of resources to relevant business areas in order to rebuild the client base was increased, continuous cost rationalization was promoted across each business line, which resulted in a slight decrease in expenses as compared to the fiscal year ended March 31, 2013.

Net credit recoveries of ¥0.4 billion were recorded in the fiscal year ended March 31, 2014, compared to recoveries of ¥7.5 billion in the fiscal year ended March 31, 2013. The Group's performance in this area in the fiscal year ended March 31, 2013 was due to collections of written-off claims and the corresponding recording of major credit recoveries.

As a result of the preceding, the Global Markets Group recorded ¥2.8 billion of ordinary business profit after net credit costs in the fiscal year ended March 31, 2014, compared to ¥12.7 billion in the fiscal year ended March 31, 2013.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

INDIVIDUAL GROUP

The Individual Group consists of: 1) Retail Banking, 2) Shinsei Financial and Shinsei Bank Card Loan Lake ("Shinsei Bank Lake"), 3) SHINKI, 4) APLUS FINANCIAL, and 5) Others including Shinsei Property Finance Co., Ltd. and Consumer Finance Sub-Group.

TABLE 13. INDIVIDUAL GROUP TOTAL REVENUE BY PRODUCT/ENTITY (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2014**	2013	% Change
Retail Banking:	**¥ 32.4**	¥ 33.1	(2.1)
Deposits and Debentures Net Interest Income	**15.6**	17.6	(11.4)
Deposits and Debentures Noninterest Income	**2.7**	3.6	(23.3)
Asset management	**4.9**	4.3	12.5
Loans	**9.0**	7.4	21.8
Shinsei Financial and Shinsei Bank Lake[1]	**40.9**	37.6	8.7
SHINKI	**6.1**	6.3	(2.7)
APLUS FINANCIAL	**48.1**	47.8	0.7
Others[2]	**1.7**	1.6	6.8
Total revenue	**¥ 129.3**	¥ 126.4	2.3

1 Results for Shinsei Financial and Shinsei Bank Lake in the Lake business (started on October 1, 2011) are combined on a management accounting basis.
2 Includes Shinsei Property Finance and unallocated Consumer Finance Sub-Group financials.

TABLE 14. INDIVIDUAL GROUP ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS (RECOVERIES) BY BUSINESS/SUBSIDIARY (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2014**	2013	% Change
Retail Banking:			
Net interest income	**¥ 25.3**	¥ 26.0	(2.4)
Noninterest income	**7.0**	7.0	(1.0)
Total revenue	**32.4**	33.1	(2.1)
General and administrative expenses	**31.7**	30.2	5.1
Ordinary business profit	**0.6**	2.8	(78.1)
Net credit costs (recoveries)	**(0.0)**	0.0	(376.2)
Ordinary business profit after net credit costs (recoveries)	**¥ 0.6**	¥ 2.8	(76.4)
Shinsei Financial and Shinsei Bank Lake[1]:			
Net interest income	**¥ 44.2**	¥ 40.9	8.1
Noninterest income	**(3.3)**	(3.2)	(0.6)
Total revenue	**40.9**	37.6	8.7
General and administrative expenses	**25.8**	25.2	2.1
Ordinary business profit	**15.1**	12.3	22.2
Net credit costs (recoveries)	**2.6**	(0.1)	2,359.6
Ordinary business profit after net credit costs (recoveries)	**¥ 12.4**	¥ 12.4	(0.4)
SHINKI:			
Net interest income	**¥ 6.7**	¥ 6.9	(2.6)
Noninterest income	**(0.5)**	(0.5)	1.2
Total revenue	**6.1**	6.3	(2.7)
General and administrative expenses	**4.2**	4.0	4.9
Ordinary business profit	**1.8**	2.2	(16.8)
Net credit costs (recoveries)	**0.1**	(0.0)	316.0
Ordinary business profit after net credit costs (recoveries)	**¥ 1.7**	¥ 2.2	(22.9)
APLUS FINANCIAL:			
Net interest income	**¥ 7.5**	¥ 9.2	(18.7)
Noninterest income	**40.6**	38.5	5.3
Total revenue	**48.1**	47.8	0.7
General and administrative expenses	**34.7**	33.2	4.6
Ordinary business profit	**13.4**	14.6	(8.1)
Net credit costs	**6.8**	6.4	5.1
Ordinary business profit after net credit costs	**¥ 6.5**	¥ 8.1	(18.8)
Others[2]:			
Net interest income	**¥ 1.4**	¥ 1.4	4.7
Noninterest income	**0.2**	0.1	21.7
Total revenue	**1.7**	1.6	6.8
General and administrative expenses	**0.7**	0.5	50.5
Ordinary business profit	**0.9**	1.1	(13.1)
Net credit costs (recoveries)	**(0.2)**	(0.0)	(154.6)
Ordinary business profit after net credit costs (recoveries)	**¥ 1.1**	¥ 1.1	(0.6)
Total Individual Group:			
Net interest income	**¥ 85.3**	¥ 84.4	1.0
Noninterest income	**44.0**	42.0	4.8
Total revenue	**129.3**	126.4	2.3
General and administrative expenses	**97.3**	93.3	4.4
Ordinary business profit	**31.9**	33.1	(3.6)
Net credit costs	**9.3**	6.2	49.2
Ordinary business profit after net credit costs	**¥ 22.6**	¥ 26.9	(15.9)

1 Results for Shinsei Financial and Shinsei Bank Lake (started on October 1, 2011) are combined on a management accounting basis.
2 Includes Shinsei Property Finance and unallocated Consumer Finance Sub-Group financials.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

The Individual Group's ordinary business profit after net credit costs decreased to ¥22.6 billion for the fiscal year ended March 31, 2014 compared to ¥26.9 billion for the previous fiscal year.

RETAIL BANKING

Total revenue of Retail Banking went from ¥33.1 billion in the fiscal year ended March 31, 2013, to ¥32.4 billion in the fiscal year ended March 31, 2014. Net interest income totaled ¥25.3 billion in the fiscal year ended March 31, 2014, compared to ¥26.0 billion in the fiscal year ended March 31, 2013. The housing loan performance continues to be firm, with a net increase in the loan balance and an increase in revenues. However, as a result of net interest income from deposits, including deposits held for liquidity purposes, decreasing due to a decline in market interest rates, total net interest income declined compared to the fiscal year ended March 31, 2013. Noninterest income was ¥7.0 billion in the fiscal year ended March 31, 2014, flat vs. ¥7.0 billion in the fiscal year ended March 31, 2013.

General and administrative expenses were ¥31.7 billion in the fiscal year ended March 31, 2014, an increase as compared to ¥30.2 billion in the fiscal year ended March 31, 2013, due to the active implementation of initiatives to smoothly carry out the Second MTMP, while continuing to simultaneously implement various rationalization and efficiency measures, such as reviewing the unit cost of advertising.

Regarding net credit costs, costs totaled ¥0 billion (¥16 million) in the fiscal year ended March 31, 2013, compared to ¥0 billion (¥46 million) of recoveries in the fiscal year ended March 31, 2014. As a result of the preceding, ordinary business profit after net credit costs was ¥0.6 billion in the fiscal year ended March 31, 2014, compared to ¥2.8 billion in the fiscal year ended March 31, 2013.

SHINSEI FINANCIAL AND SHINSEI BANK LAKE

The ordinary business profit after net credit costs of Shinsei Financial and Shinsei Bank Lake, after related consolidation adjustments, was ¥12.4 billion in the fiscal year ended March 31, 2014, a similar level to the fiscal year ended March 31, 2013.

Total revenue was ¥40.9 billion in the fiscal year ended March 31, 2014, compared to ¥37.6 billion in the fiscal year ended March 31, 2013, primarily due to the increase in the total loan balance. The combined loan balances of Shinsei Financial and Shinsei Bank Lake has shifted to a growth trend since the fourth quarter of fiscal year 2012, and the balance, including consumer finance operations conducted within the Bank, has grown by ¥15.5 billion in the fiscal year ended March 31, 2014 as compared to the end of the fiscal year ended March 31, 2013.

In net credit costs, while phased efforts to strengthen credit management and the structure for loan collections continue, the total loan balance has increased in the fiscal year ended March 31, 2014 compared to the fiscal year ended March 31, 2013, and net credit costs of ¥2.6 billion were recorded in the fiscal year ended March 31, 2014 as compared to ¥0.1 billion of net credit recoveries recorded in the fiscal year ended March 31, 2013.

SHINKI

The ordinary business profit after net credit costs of SHINKI after related consolidation adjustments was ¥1.7 billion in the fiscal year ended March 31, 2014, compared to ¥2.2 billion in the fiscal year ended March 31, 2013.

APLUS FINANCIAL

The ordinary business profit after net credit costs of APLUS FINANCIAL after related consolidation adjustments totaled ¥6.5 billion in the fiscal year ended March 31, 2014, a decline compared to ¥8.1 billion in the fiscal year ended March 31, 2013. Total revenue for the fiscal year ended March 31, 2014 was ¥48.1 billion, an increase compared to ¥47.8 billion recorded in the fiscal year ended March 31, 2013. Of total revenue, while net interest income was ¥7.5 billion in the fiscal year ended March 31, 2014, down compared to ¥9.2 billion in the fiscal year ended March 31, 2013 as a result of the continuing decline in the loan balance, due to an increase in transaction volume in the settlement and shopping credit businesses, noninterest income was ¥40.6 billion in the fiscal year ended March 31, 2014, an increase compared to ¥38.5 billion in the fiscal year ended March 31, 2013. Regarding expenses, while continuing to pursue rationalization and efficiency, general and administrative expenses increased to ¥34.7 billion in the fiscal year ended March 31, 2014, from ¥33.2 billion in the fiscal year ended March 31, 2013, due to factors such as an increase in temporary staff expenses to ensure the stable operation of IT systems. Additionally, net credit costs were ¥6.8 billion in the fiscal year ended March 31, 2014, compared to ¥6.4 billion in the fiscal year ended March 31, 2013.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

INTEREST REPAYMENT

Regarding reserves for losses on interest repayment, while no additional reserves were made in the fiscal year ended March 31, 2013, additional reserves of ¥0.7 billion for Shinsei Financial, ¥12.8 billion for SHINKI, and ¥2.0 billion for APLUS FINANCIAL were made in the fiscal year ended March 31, 2014. The usage of reserves for losses on interest repayment in the fiscal year ended March 31, 2014 has decreased compared to the fiscal year ended March 31, 2013 at Shinsei Financial, SHINKI, and APLUS FINANCIAL.

At Shinsei Financial, coinciding with the conclusion of the GE Japan indemnity for losses on interest repayment, an additional provision of ¥175.0 billion was made for reserves for losses on interest repayment. This is the amount of losses on interest repayment expected to be incurred in the future and was received as a cash payment.

In addition, the usage of reserves for losses on interest repayment and others (intended for interest repayment and principal amortization) on the portion of assets originally not covered under the GE indemnity was ¥4.7 billion in the fiscal year ended March 31, 2014 compared to ¥4.8 billion in the fiscal year ended March 31, 2013. In the fiscal year ended March 31, 2014, a separate provision of ¥0.7 billion in reserves for losses on interest repayment was also made for these assets.

As a result, additional reserves for losses on interest repayment provisioned at Shinsei Financial in the fiscal year ended March 31, 2014 totaled ¥175.7 billion, and outstanding balance of reserves for losses on interest repayment as of March 31, 2014 totaled ¥187.3 billion compared to ¥21.3 billion on March 31, 2013.

SHINKI's usage of reserves for losses on interest repayment (intended for interest repayment and principal amortization) totaled ¥4.5 billion in the fiscal year ended March 31, 2014, compared to ¥6.2 billion in the fiscal year ended March 31, 2013. Additional reserves of ¥12.8 billion were made in the fiscal year ended March 31, 2014 resulting in a total balance of ¥16.2 billion in reserves for losses on interest repayment as of March 31, 2014, compared to ¥7.8 billion as of March 31, 2013.

APLUS FINANCIAL and its consolidated subsidiaries' usage of reserves for losses on interest repayment (intended for interest repayment and principal amortization) totaled ¥3.1 billion in the fiscal year ended March 31, 2014, compared to ¥4.8 billion in the fiscal year ended March 31, 2013. Additional reserves for losses on interest repayment of ¥2.0 billion were made during the fiscal year ended March 31, 2014 resulting in a total balance of ¥4.6 billion in reserves for losses on interest repayment as of March 31, 2014, compared to ¥5.7 billion as of March 31, 2013.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

TABLE 15. CORPORATE/OTHER ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS (RECOVERIES) BY BUSINESS (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2014**	2013	% Change
Treasury Sub-Group:			
Net interest income	**¥ (3.3)**	¥ (2.7)	(23.3)
Noninterest income	**(1.0)**	7.2	(115.0)
Total revenue	**(4.4)**	4.4	(198.4)
General and administrative expenses	**1.5**	1.2	21.9
Ordinary business profit (loss)	**(5.9)**	3.2	(284.5)
Net credit costs	**—**	—	—
Ordinary business profit (loss) after net credit costs	**¥ (5.9)**	¥ 3.2	(284.5)
Others[1]:			
Net interest income	**¥ (3.1)**	¥ (2.8)	(7.2)
Noninterest income	**0.3**	(0.2)	259.3
Total revenue	**(2.7)**	(3.1)	11.6
General and administrative expenses	**0.1**	0.7	(81.8)
Ordinary business profit (loss)	**(2.8)**	(3.8)	25.4
Net credit costs (recoveries)	**(0.0)**	0.5	(100.1)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ (2.8)**	¥ (4.3)	34.2
Corporate/Other[1]:			
Net interest income	**¥ (6.4)**	¥ (5.6)	(15.0)
Noninterest income	**(0.7)**	6.9	(110.5)
Total revenue	**(7.1)**	1.3	(620.8)
General and administrative expenses	**1.6**	2.0	(17.2)
Ordinary business profit (loss)	**(8.8)**	(0.6)	(1,266.8)
Net credit costs (recoveries)	**(0.0)**	0.5	(100.1)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ (8.8)**	¥ (1.1)	(661.1)

1 Includes company-wide accounts, allocation variance of indirect expense and elimination amount of inter-segment transactions.

CORPORATE/OTHER

Corporate/Other includes company-wide accounts, allocation variance of indirect expense and elimination amount of inter-segment transactions. For the fiscal year ended March 31, 2014, ordinary business loss after net credit costs was ¥8.8 billion.

The Treasury Sub-Group's total revenue was a loss of ¥4.4 billion in the fiscal year ended March 31, 2014, compared to a profit of ¥4.4 billion in the fiscal year ended March 31, 2013. The Treasury Sub-Group holds liquidity reserves and Japanese national government bonds for ALM purposes, and while a profit of ¥4.9 billion was recorded in the fiscal year ended March 31, 2013 on the sale of Japanese national government bonds, there were major fluctuation in the market in the fiscal year ended March 31, 2014, and in order to avoid the resulting interest rate risk, a ¥1.4 billion loss was incurred on the sale of Japanese national government bonds in the first quarter of the fiscal year ended March 31, 2014, and a ¥1.5 billion loss associated with the sale of U.S. Treasury bonds was incurred in the fourth quarter of the fiscal year ended March 31, 2014.

RESULTS OF OPERATIONS (NONCONSOLIDATED)

OVERVIEW

We disclose nonconsolidated financial information in addition to our consolidated financial statements. As a recipient of public funds, we are required by the FSA to update and report on nonconsolidated performance in relation to targets set forth in our Revitalization Plan on a quarterly basis and to publicly disclose that information semi-annually.

Shinsei recorded a net income for the fiscal year ended March 31, 2014 of ¥36.4 billion on a nonconsolidated basis. Differences between the net incomes on a nonconsolidated basis and consolidated basis are mainly because of the gains and losses from our consolidated subsidiaries, including Showa Leasing, Shinsei Financial, APLUS FINANCIAL and SHINKI, the gains and losses on our investment in our equity-method affiliate, Jih Sun Financial Holding Co., Ltd., and the dividends received from our major consolidated subsidiaries.

TABLE 16. COMPARISON OF TARGETS AND RESULTS FOR KEY MEASURES IN THE REVITALIZATION PLAN (NONCONSOLIDATED)

Billions of yen (except percentages)

	2014		2013	
Fiscal years ended March 31	**Target**	**Actual**	Target	Actual
Net income	**¥ 26.0**	**¥ 36.4**	¥ 22.0	¥ 24.6
Total expenses (without taxes)[1]	**70.0**	**65.6**	66.3	64.1
Return on equity based on net business profit[2]	**5.3%**	**4.3%**	4.7%	3.9%

1 Equals Shinsei's total general and administrative expenses excluding business taxes such as consumption tax.
2 Equals net business profit (*jisshitsu gyomu jun-eki*), as such term is defined under "Supplemental Measures" below, divided by average total equity excluding stock acquisition rights.

SUPPLEMENTAL MEASURES

In addition to the reporting items set forth in our nonconsolidated financial statements, the Banking Act of Japan requires us to disclose gross business profit (*gyomu sorieki*) on a nonconsolidated basis. Furthermore, in the Japanese banking industry, net business profit (*jisshitsu gyomu jun-eki*) has traditionally been used as a measure of the profitability of core banking operations. We review these non Japanese GAAP performance measures in monitoring the results of our operations.

Gross business profit (*gyomu sorieki*) is the sum of:

- net interest income, which excludes interest expense related to investment in monetary assets held in trust;
- net fees and commissions, which includes net gain (loss) on monetary assets held in trust (in keeping with the definition of gross business profit in our revitalization plan);
- net trading income; and
- net other business income, which excludes net gain (loss) on monetary assets held in trust and on equity securities.

Net business profit (*jisshitsu gyomu jun-eki*) is gross business profit (*gyomu sorieki*) minus nonconsolidated expenses, which corresponds to general and administrative expenses adjusted for certain items.

While these non Japanese GAAP business profit measures should not be viewed as a substitute for net income, management believes that these measures provide a meaningful way of comparing a number of the important components of Shinsei's revenues and profitability from year to year. The following table sets forth these supplemental financial data and corresponding reconciliations to net income under Japanese GAAP for the fiscal years ended March 31, 2014 and 2013.

RESULTS OF OPERATIONS (NONCONSOLIDATED) (continued)

TABLE 17. SUPPLEMENTAL MEASURES (NONCONSOLIDATED)

	Billions of yen	
Fiscal years ended March 31	**2014**	2013
Gross business profit (*gyomu sorieki*):		
Net interest income	**¥ 80.9**	¥ 62.0
Net fees and commissions[1]	**7.9**	10.3
Net trading income	**5.3**	14.5
Net other business income (loss)	**4.6**	6.3
Total gross business profit	**98.9**	93.3
Expenses[2]	**69.0**	67.3
Net business profit (*jisshitsu gyomu jun-eki*)	**29.8**	25.9
Net credit costs	**(7.2)**	(1.2)
Other, net[3]	**0.5**	(1.5)
Net operating income (*keijo rieki*)	**37.6**	25.7
Extraordinary income (loss)	**(1.8)**	(2.3)
Income before income taxes	**35.8**	23.4
Current income taxes (benefit)	**(0.3)**	(0.7)
Deferred income taxes	**(0.2)**	(0.4)
Net income	**¥ 36.4**	¥ 24.6

1 Includes net gain (loss) on monetary assets held in trust of ¥3.8 billion in the fiscal year ended March 31, 2014 and ¥5.1 billion in the previous fiscal year.
2 General and administrative expenses with certain adjustment.
3 Excludes net gain (loss) on monetary assets held in trust.

CRITICAL ACCOUNTING POLICIES

GENERAL

Our financial statements are prepared in accordance with Japanese GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. In addition, certain accounting principles require significant judgment by management in applying complex accounting principles to individual transactions to determine the most appropriate accounting treatment. We have established procedures and processes to facilitate making the estimates and assumptions necessary to value assets and liabilities, record transactions and prepare the financial statements. On an ongoing basis, management evaluates its estimates and judgments, including those related to the valuation of assets and liabilities. Although actual results may differ from these estimates under different assumptions and conditions and future changes in the key assumptions could change future valuations and results, we have used the best information available at the time to make our estimates. Significant accounting policies are described in Note 2 to the Consolidated Financial Statements included in this annual report.

Management believes the following are our critical accounting policies. These policies are considered "critical" because:

- the estimates involved in these policies require us to make assumptions about matters that are uncertain at the time the estimates are made; and
- different estimates that we reasonably could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on the presentation of our financial condition, or changes in our financial condition or results of operations.

RESERVE FOR CREDIT LOSSES

The reserve for loan losses, a separate component of the reserve for credit losses, is management's estimate of the credit losses to be incurred in the lending portfolio and is discussed in further detail in "—Financial Condition—Asset Quality and Disposal of Nonperforming Loans of Shinsei." We establish a specific reserve, a general reserve and a reserve for loans to restructuring countries based on our self-assessment guidelines to absorb estimated credit losses in the lending portfolio.

A specific reserve is provided for claims against obligors in the legally bankrupt, virtually bankrupt and possibly bankrupt categories. For claims against obligors in the legally and virtually bankrupt categories, the unsecured, unguaranteed portion of the claim is written off or otherwise fully reserved because such portion is deemed unlikely to be collected. For claims against obligors in the possibly bankrupt category, a specific reserve is principally determined by estimating discounted future cash flows, other than in cases where it is difficult to reasonably estimate future cash flows.

A general reserve is provided for claims against normal obligors, as well as claims against need caution obligors (including substandard obligors). Shinsei applies the discounted cash flow method in calculating the amount of a general reserve for most of its claims against substandard obligors. The amount of the reserve for claims against normal obligors and claims against need caution obligors (other than substandard obligors of

CRITICAL ACCOUNTING POLICIES (continued)

Shinsei which are subject to the discounted cash flow method) is based on the total amount of, as well as the expected loss ratios for, claims against each category of obligor. Using the expected loss ratios, which are based on the historical loss ratios calculated in accordance with the pre-defined method in internal reserves guidelines, Shinsei reserves for the estimated amount of losses for the next three years for claims against substandard obligors, for the remaining term of the claims with respect to claims against normal obligors given ratings of 5A through 6C in Shinsei's credit ratings system and claims against need caution obligors other than substandard obligors or other need caution obligors, and for the next year for claims against normal obligors given ratings higher than 5A.

Shinsei reviews its classification of obligors quarterly, although every month it downgrades obligors whose financial condition has deteriorated based on the results of its self-assessment process. A reserve for loans to restructuring countries is provided for estimated losses on those loans due to political and economic conditions in the countries.

Estimating Shinsei's specific reserve for claims against obligors in the possibly bankrupt category and the general reserve for claims against obligors in the substandard category is subject to a number of significant judgments and uncertainties regarding discounted cash flows due to the changing financial conditions of the obligors and general economic conditions surrounding the obligors' business operations. In addition, because the secured portion of claims is not covered by a specific reserve, actual losses on such claims are also subject to significant judgments and uncertainties regarding the fair value of collateral. Estimating the general reserve for claims against obligors in the normal and other need caution categories could be affected by changes made by management in the methodologies used to calculate the migration analyses of obligors or the assumptions used in the calculation of the reserve. As a result, actual losses in the nonperforming loans portfolio could be greater or lesser than we have estimated. If the estimated credit losses are not enough to cover actual losses incurred from the ultimate disposition of the portfolio, it would result in additional write-offs or additional reserves in the future for the lending portfolio, increasing our reported total credit costs. If the estimate is in excess of actual losses, it would result in a reduction of our total credit costs.

APLUS FINANCIAL establishes loan loss reserves based on the historical loss ratio for delinquent and non delinquent accounts. The amount of reserves in the case of delinquent accounts primarily depends on the number of months for which a particular account is past due. In addition, APLUS FINANCIAL writes off the entire amount of any claims it deems uncollectible, either as a result of personal bankruptcy or otherwise. Shinsei Financial and SHINKI establish loan loss reserves in the same manner as APLUS FINANCIAL, and Showa Leasing establishes reserves on the basis of obligor classification in accordance with its self-assessment guidelines.

RESERVE FOR LOSSES ON INTEREST REPAYMENTS

In October, 2006, the Japanese Institute of Certified Public Accountants (the "JICPA") issued "Audit Guidelines on Consumer Finance Companies' Provisions for Possible Losses on Reimbursements of Excess Interest Payments." These guidelines stipulate that consumer and commercial finance companies make certain provisions for possible losses on reimbursements of excess interest payments and loan losses related to consumer finance loans extended at interest rates in excess of the maximum interest rate prescribed in the Interest Rate Restriction Act of Japan. The reserve is established in the amount of the estimated future reimbursement requests based on past experience. If any of the assumptions change due to changes in circumstances, an additional reserve could become necessary.

In addition, a reserve for losses on interest repayments of Shinsei Financial had been calculated considering the terms stipulated in the share transfer agreement entered into by and between the Bank and the seller, GE Japan Holdings Co., Ltd. ("GE Japan"), for the acquisition of Shinsei Financial, under which the sharing of interest repayment costs between the Bank and GE Japan is determined. The agreement also provided GE Japan with a buyout option to end such obligation as of March 31, 2014, whereby GE Japan would make a one-time payment to Shinsei Financial in the amount that the Bank had determined to cover expected future losses on interest repayments. In accordance with the agreement, GE Japan exercised its option to conclude the indemnity for losses on interest repayments and Shinsei Financial received a cash payment for expected future losses on interest repayments of ¥175 billion and additionally recorded a reserve for losses on interest repayments of the same amount as of March 31, 2014.

VALUATION OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

We have various types of financial instruments in our trading and banking books. Pursuant to Japanese GAAP, we record some of our financial instruments at their fair values, which are measured based on market prices or third-party quotes or, if both are unavailable, our internal valuation methodologies.

Although we strive to follow market standards in making assumptions and determining scenarios necessary for these valuation methodologies, the outcomes of our methodologies could differ from those derived from other methodologies.

CRITICAL ACCOUNTING POLICIES (continued)

AVAILABLE-FOR-SALE SECURITIES

We record available-for-sale securities, both debt and equity, at their fair values except for securities whose fair value cannot be reliably determined, such as non marketable equity securities, etc. The net unrealized gains or losses on these securities are included in and presented as a separate component of equity.

Available-for-sale securities include some securities without readily obtainable market prices or quotes. These securities primarily consist of residual interests and debt investments in collateralized debt obligations as well as illiquid corporate bonds. We estimate the fair values of these securities based on historical data concerning market prices and quotes. In some cases, we determine fair value using internal valuation methodologies that are subject to complex assumptions, including those relating to scenarios, interest rates and volatility.

IMPAIRMENT IN VALUE OF DEBT AND EQUITY SECURITIES

Available-for-sale debt and equity securities, and held-to-maturity debt securities are both exposed to the risk of decline in their fair values. If the decline in fair values of available-for-sale securities and held-to-maturity securities whose fair value can be reliably determined is deemed to be significant, impairment loss is recognized in the amortized/acquisition cost of the securities since the decline in fair values is deemed to be other than temporary. To determine whether an other-than-temporary impairment has occurred, we apply the following rule, which depends on the obligor classification of the security issuer based on our self-assessment guidelines:

Securities issued by "legally bankrupt," "virtually bankrupt" and "possibly bankrupt" obligors	The fair value of securities is lower than the amortized/acquisition cost
Securities issued by "need caution" obligors	The fair value of securities is 30% or more lower than the amortized/acquisition cost
Securities issued by "normal" obligors	The fair value of securities is 50% or more lower than the amortized/acquisition cost

See "— Financial Condition— Asset Quality and Disposal of Nonperforming Loans— Self-Assessment Guidelines and Reserve Policies— Definition of Obligor Classifications," for the definition of each obligor classification.

For available-for-sale securities, whose fair value cannot be reliably determined, if the net asset value of a security has declined in excess of 50% of its acquisition cost, we deem the impairment to be other-than-temporary in principle.

FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING PURPOSES

Our trading book assets and liabilities consist of derivative financial instruments, securities, short-term money market investments and other monetary claims maturing within a short period of time.

In addition, we hold certain securities investments, such as foreign fund trusts and corporate bonds, financial assets backed by loans and receivables as well as mortgages included in securities, other monetary claims purchased and monetary assets held in trust that are not recorded in the trading book, but are held for trading purposes in the banking book. All of these trading-purpose assets and liabilities are booked at their fair values, and changes in value are reflected in our net income (loss). The fair values of trading-purpose assets that are traded actively in open markets are based on observable market prices of the same or similar securities and monetary claims.

When actively traded market prices are not available, we estimate the fair values of the assets and liabilities held for trading purposes using our internal valuation methodologies. These methodologies require us to use our judgment in both making assumptions regarding market parameters, such as swap rates for interest rate and currency swaps with longer maturities, as well as determining the required scenarios, such as future cash flow projections for financial assets underlying purchased monetary claims. In addition, we adjust the fair value estimates for derivative financial instruments to reflect credit and liquidity risks.

CREDIT TRADING ACTIVITIES

We are engaged in credit trading activities in Japan and foreign countries, in which we purchase monetary claims such as loans, bonds, guarantees, receivables and lease receivables without intending to hold them to maturity. To recover our investment, we either collect on the claim, including through repayments, legal proceedings and discounted payoffs, or resell or securitize the claim. Claims purchased are recorded either in monetary assets held in trust or other monetary claims purchased, depending on the structure used for the purchase, and are principally measured at fair value. Fair value is estimated in the same way as it is for assets held for trading purposes. The internal valuation methodology we use to calculate the fair value of these claims primarily relies on a discounted cash flow method based on cash flow projections and implied discount rates. As estimations of future cash flows and discount rates are based on complex processes and contain an element of judgment, changes in assumptions could lead to different estimates of the fair value of monetary assets held in trust and other monetary claims purchased, which could in turn impact the related gain or loss amounts in our financial statements.

CRITICAL ACCOUNTING POLICIES (continued)

VALUATION OF DEFERRED TAX ASSETS

We record deferred tax assets for deductible temporary differences and tax loss carry-forwards and evaluate them in accordance with the guidelines of the JICPA. Under the JICPA guidelines for the valuation of deferred tax assets, if a company records a material amount of tax loss carry-forwards, in most cases, it is deemed difficult to reasonably estimate future "Taxable Income" (which, for the purpose of utilizing deferred tax assets, is treated as taxable income before adjustments for existing temporary differences and tax loss carry-forwards). If, however, a company is able to reasonably estimate future Taxable Income for the next fiscal year, it may record deferred tax assets based on deductible temporary differences and tax loss carry-forwards to the extent that it is probable that those differences or carry-forwards would be used during the next fiscal year. In addition, the JICPA guidelines provide that a company with a material amount of tax loss carry-forwards could recognize deferred tax assets as realizable based on future Taxable Income, reasonably estimated, for up to the next five fiscal years if the tax loss carry-forwards had been incurred due to certain non recurring events, such as the restructuring of businesses, and there was not necessarily any significant doubt as to the company's ability to earn Taxable Income in the future.

As a result of Taxable Income (as defined in the previous paragraph) recorded in recent periods, we could have recorded deferred tax assets realizable based on a reasonable estimate of income for at least a part of the next five fiscal years if we would have demonstrated that we would record actual Taxable Income for the foreseeable future. We have evaluated the available evidence concerning our future Taxable Income and other possible sources of the realization of deferred tax assets, and have concluded that we should record deferred tax assets that are realizable only in the following fiscal year for Shinsei and most of its subsidiaries. We have recorded a valuation allowance to reduce deferred tax assets accordingly. The actual Taxable Income amount for the fiscal year ended March 31, 2015 may be different from our estimate, which would result in a larger or smaller amount of deferred tax assets that should have been recognized.

"Act for Partial Reform of the Income Tax Act, etc." (Law No. 10 for 2014) was promulgated in March 31, 2014 and the special corporate tax for reconstruction will be abolished from the fiscal year beginning on or after April 1, 2014. In connection with this change, the effective statutory tax rate for calculating deferred tax assets and deferred tax liabilities will be changed from the existing 38.01% to 35.64% for temporary differences and tax loss carryforwards that are expected to be realized in the fiscal year beginning on April 1, 2014. With these tax rate changes, the deferred tax assets have decreased by ¥1.0 billion, the unrealized gain (loss) on available-for-sale securities have increased by ¥0.0 billion (¥3 million) and the income taxes (benefit)—deferred have increased by ¥1.0 billion.

EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN ASSETS

Shinsei, APLUS FINANCIAL and Showa Leasing each have a noncontributory defined benefit pension plan, and Shinsei Financial and certain of the other consolidated domestic subsidiaries have unfunded severance indemnity plans, which cover substantially all of our employees. The liability for retirement benefits is provided for the payment of employees' retirement benefits in future years. We follow the revised accounting standard and guideline for employees' retirement benefit plans issued by the Accounting Standards Board of Japan ("ASBJ") and estimate the amounts of the projected benefit obligation and the fair value of pension plan assets at the end of the fiscal year using assumptions for the long-term expected rate of return on plan assets and the discount rate. No retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

We determine the long-term expected rate of return on plan assets based on the targeted average long-term performance of the assets. Because assumptions regarding the long-term expected rate of return on plan assets are affected by changing general economic and market conditions, we need to make significant judgments to determine appropriate assumptions underlying the estimate of long-term performance, which also impact the estimate of the liability for employees' retirement benefits and net periodic retirement benefit cost.

We have selected the interest rate for Japanese government bonds with a maturity which is the closest to the period of time for effective settlement of the benefit obligation under the pension plan as the basis for the discount rate. If we become aware of information that leads us to determine that a different period for settling the benefit obligation is required, the discount rate could be changed accordingly, which may have an impact on the related amounts reported in our financial statements. Changing our methodologies for calculating the estimated settlement period would also affect our estimate of the discount rate and related amounts in our financial statements.

HEDGE ACCOUNTING

We follow guidelines issued by the JICPA regarding hedge accounting applicable to financial assets and liabilities exposed to a risk of change in fair value or cash flow. Derivative transactions that meet the hedge accounting criteria are primarily accounted for under a deferral method whereby unrealized gains and losses are deferred in a separate component of equity until the gains and losses on the hedged items are realized.

CRITICAL ACCOUNTING POLICIES (continued)

We adopted portfolio hedging in accordance with Industry Audit Committee Report No. 24 issued by the JICPA. Under portfolio hedging activities to mitigate the change in fair value, a portfolio of hedged items with common maturities such as deposits or loans is designated and matched with a group of hedging instruments such as interest rate swaps, which offset the effect of fair value fluctuations of the hedged items by identified maturities. The effectiveness of the portfolio hedging is assessed by each group.

As for portfolio hedging activities to fix the cash flows, the effectiveness is assessed based on the correlation between the base interest rate index of the hedged cash flow and that of the hedging instrument. The interest rate swaps of certain consolidated subsidiaries which qualify for hedge accounting and meet specific matching criteria are not measured at fair values, but the net payments or receipts under the swap agreements are recognized and included in interest expenses or income.

Shinsei applies either deferral hedge accounting or fair value hedge accounting in accordance with Industry Audit Committee Report No. 25 of the JICPA to the derivative transactions that meet the hedge accounting criteria for mitigating foreign currency fluctuation risks of Shinsei's financial assets and liabilities such as fund swap and certain currency swap transactions. Fund swap transactions are foreign exchange swaps, and consist of spot foreign exchange contracts bought or sold and forward foreign exchange contracts sold or bought. Such transactions are contracted for the purpose of lending or borrowing in a different currency and converting the corresponding principal equivalents and foreign currency equivalents to pay and receive, whose amounts and due dates are predetermined at the time of the transactions, into forward foreign exchange contracts sold or bought. Under deferral hedge accounting, hedged items are identified by grouping the foreign currency-denominated financial assets and liabilities by currencies and designating derivative transactions such as currency swap transactions and forward exchange contracts as hedging instruments. Hedge effectiveness is reviewed by comparing the total foreign currency position of the hedged items and hedging instruments by currency.

In accordance with Industry Audit Committee Report No. 25 of the JICPA, Shinsei also applies deferral hedge accounting and fair value hedge accounting to translation gains or losses from foreign currency assets of net investments in foreign nonconsolidated subsidiaries, affiliates and securities available for sale (other than bonds denominated in foreign currencies) when such foreign currency exposures recorded as assets are hedged with offsetting foreign currency liabilities and the liabilities exceed the acquisition cost of such foreign currency assets.

IMPAIRMENT OF LONG-LIVED ASSETS

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Impairment losses on an asset or asset group establish a new cost basis for the assets. We evaluate our long-lived assets for impairment using our best estimates based on reasonable and supportable assumptions and projections. 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 an 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.

BUSINESS COMBINATIONS

For consolidated financial statement purposes, assets and liabilities of acquired subsidiaries are recorded primarily on the basis of their estimated fair values at the date of the acquisition.

We acquired controlling interests in APLUS FINANCIAL and Showa Leasing on September 29, 2004 and March 23, 2005, respectively. On December 13, 2007, we acquired a controlling interest in SHINKI, which was previously an affiliate, through the purchase of additional shares. On September 22, 2008, the Bank, together with APLUS FINANCIAL, acquired 100% of the controlling interest (equity and debt) in Shinsei Financial, and its subsidiaries.

In connection with the consolidation of APLUS FINANCIAL, Showa Leasing, SHINKI and Shinsei Financial, we recognized the assets (including intangibles) and liabilities of those entities primarily at their fair values. We used quoted market prices in active markets as the best evidence of fair value, where available. If quoted market prices were not available, the estimate of fair value was based on the best information available, including prices for similar assets and liabilities and the results using other fair value measurement methodologies. We adopted the following methodologies based on the nature of the assets and liabilities being valued and the availability of information:

- market approach: market transactions involving the sale of comparable assets.
- income approach: present value of earnings attributable to the asset.

As a result of fair value recognition, reserves for credit losses were offset with the corresponding loans or other assets.

CRITICAL ACCOUNTING POLICIES (continued)

We also recognized certain identifiable intangible assets in connection with the acquisition of Showa Leasing, Shinsei Financial and their consolidated subsidiaries, because they were separable such as contractual or other legal rights. The identified intangible assets consist of trade names and customer and/or merchant relationships, among others, which are valued using variations of the income approach and which are being amortized over various periods and using different methodologies depending on the nature of the asset. See Note 2 (C) to the Consolidated Financial Statements.

The excess of the purchase price over the fair value of the net assets acquired, including identified intangible assets, was recorded as goodwill and is being amortized on a consistent basis primarily over 20 years. The amortization period of 20 years is the maximum period allowed under Japanese GAAP and was determined based upon the Bank's business strategy. With regard to the acquisitions undertaken before April 1, 2010, accounted for under the previous accounting standard, when the purchase price was lower than the fair value of the net assets acquired, including identified intangible assets, the difference is recorded as negative goodwill and primarily amortized on a straight-line basis over 20 years, which is the maximum period allowed under the previous accounting standards. Any unamortized balances of identified intangible assets and goodwill are subject to impairment testing periodically.

IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS ACQUIRED IN BUSINESS COMBINATIONS

We conduct impairment testing for goodwill and intangible assets acquired in business combinations as a result of certain triggering events such as:

- An expectation of an operating loss or negative cash flow for two consecutive years;
- Impairment of underlying investment securities is recognized;
- A significant adverse change in the environment surrounding the business operations of the subsidiary, such as a change in the law which significantly impacts the business in a negative way; and
- Management decisions that could have an adverse effect on the value of goodwill and intangible assets acquired in business combinations

As the first step of the impairment test, we estimate the undiscounted future cash flows of the business. If the value of the undiscounted future cash flows is less than the book value of the net assets, including goodwill and intangible assets acquired in business combinations, of the business, it is determined that impairment exists and the next step of the impairment test is performed to measure the amount of impairment loss.

The next step of the impairment test compares the "value in use," which is calculated as the discounted value of future cash flows of the business, and the net asset book value which includes unamortized balances of goodwill and intangible assets acquired in business combinations. (i) Impairment loss for the total of goodwill and intangible assets acquired in business combinations, is recognized as an amount by which the net asset book value exceeds the "value in use." The recoverable amount of intangible assets acquired in business combinations is determined in the same manner used to apply purchase accounting at the date of the initial acquisition, and (ii) the impairment loss of intangible assets acquired in business combinations, is determined as the difference between the recoverable amount and book value. Finally the impairment loss on goodwill is calculated as (i) less (ii) above.

ASSET RETIREMENT OBLIGATIONS

Effective April 1, 2010, the Group has applied ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations."

Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability.

The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See "(AC) NEW ACCOUNTING PRONOUNCEMENTS" in Note 2 "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" to the Consolidated Financial Statements.

FINANCIAL CONDITION

TOTAL ASSETS

As of March 31, 2014, we had consolidated total assets of ¥9,321.1 billion, representing a 3.2% increase from March 31, 2013.

The balance of loans and bills discounted went from ¥4,292.4 billion as of March 31, 2013, to ¥4,319.8 billion as of March 31, 2014. In loans to institutional customers, competition remains fierce in meeting the demand for funding, and the balance has decreased somewhat due to collections on nonperforming loans. In loans to individual customers, however, due to housing loan disbursements continuing to be strong, and the consumer finance loan balance having shifted to a growth trend in the fourth quarter of the fiscal year ended March 31, 2013, the balance continued to grow steadily in the fiscal year ended March 31, 2014.

SECURITIES

The following table sets forth the composition of our consolidated portfolio of trading securities in the banking book, available-for-sale securities and held-to-maturity securities as of March 31, 2014. As reflected below, 85.2% of the securities will mature during the next five years. The balance of securities as of March 31, 2014 was ¥1,557.0 billion, decreased compared to the balance of ¥1,842.3 billion as of March 31, 2013. Over half of the investments in securities were consisted of Japanese national government bonds for ALM purposes, including liquidity reserves. In the course of portfolio management, the total balance of Japanese national government bonds was ¥1,126.8 billion as of March 31, 2014, as compared to ¥1,337.3 billion as of March 31, 2013.

TABLE 18. SECURITIES BY MATURITY (CONSOLIDATED)

Billions of yen

	As of March 31, 2014							
	1 year or less	**Over 1 year to 3 years**	**Over 3 years to 5 years**	**Over 5 years to 7 years**	**Over 7 years to 10 years**	**Over 10 years**	**Unspecified term**	**Total**
Japanese national government bonds	**¥ 290.2**	**¥ 120.1**	**¥ 647.4**	**¥ 15.8**	**¥ 53.0**	**¥ —**	**¥ —**	**¥ 1,126.8**
Japanese local government bonds	**—**	**0.5**	**—**	**—**	**—**	**—**	**—**	**0.5**
Japanese corporate bonds	**32.6**	**48.7**	**34.2**	**—**	**—**	**0.5**	**—**	**116.1**
Japanese equity securities	**—**	**—**	**—**	**—**	**—**	**—**	**26.2**	**26.2**
Foreign bonds and other	**27.3**	**55.3**	**70.4**	**18.7**	**15.2**	**8.6**	**91.4**	**287.2**
Total securities	**¥ 350.2**	**¥ 224.7**	**¥ 752.2**	**¥ 34.6**	**¥ 68.3**	**¥ 9.1**	**¥ 117.7**	**¥ 1,557.0**

Billions of yen

	As of March 31, 2013							
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years	Unspecified term	Total
Japanese national government bonds	¥ 158.0	¥ 420.8	¥ 642.9	¥ 77.1	¥ 38.3	¥ —	¥ —	¥1,337.3
Japanese local government bonds	—	—	0.5	—	—	—	—	0.5
Japanese corporate bonds	64.0	68.5	29.5	21.6	—	—	—	183.6
Japanese equity securities	—	—	—	—	—	—	27.2	27.2
Foreign bonds and other	16.0	50.2	68.7	36.4	30.1	3.5	88.2	293.5
Total securities	¥ 238.1	¥ 539.6	¥ 741.8	¥ 135.1	¥ 68.4	¥ 3.5	¥ 115.4	¥1,842.3

FINANCIAL CONDITION (continued)

LOAN PORTFOLIO

As of March 31, 2014, loans and bills discounted totaled ¥4,319.8 billion. This represented 46.3% of total consolidated assets. Installment receivables of APLUS FINANCIAL, Showa Leasing and other non bank subsidiaries are classified in our consolidated balance sheets as other assets, and are not reflected in our data on loans and bills discounted.

Most of our loan portfolio was originated by Shinsei and our domestic subsidiaries. Of loans we originated, loans to the finance and insurance industry and the real estate industry accounted for 29.0% of total loans as of March 31, 2014. Loans to the real estate industry consisted in part of non recourse and project finance loans. Loans to others of ¥1,897.0 billion as of March 31, 2014 included loans extended to Shinsei's retail banking, Shinsei Bank Lake, Shinsei Financial's, APLUS FINANCIAL's and SHINKI's individual customers amounting, in aggregate, to ¥1,657.5 billion.

TABLE 19. LOANS BY BORROWER INDUSTRY (CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2014		2013	
Domestic offices (excluding Japan offshore market account):				
Manufacturing	**¥ 212.4**	**5.0%**	¥ 242.9	5.7%
Agriculture and forestry	**0.1**	**0.0**	0.2	0.0
Fishery	**0.0**	**0.0**	—	—
Mining, quarrying and gravel extraction	**0.1**	**0.0**	0.1	0.0
Construction	**9.9**	**0.2**	13.9	0.3
Electric power, gas, heat supply and water supply	**170.1**	**4.0**	124.8	3.0
Information and communications	**40.7**	**1.0**	31.7	0.8
Transportation, postal service	**203.2**	**4.7**	230.0	5.4
Wholesale and retail	**89.2**	**2.1**	74.4	1.8
Finance and insurance	**662.6**	**15.5**	720.0	17.0
Real estate	**580.0**	**13.5**	597.7	14.1
Services	**317.9**	**7.4**	314.2	7.4
Local government	**104.3**	**2.4**	114.0	2.7
Others	**1,897.0**	**44.2**	1,768.1	41.8
Total domestic (A)	**¥ 4,288.2**	**100.0%**	¥ 4,232.7	100.0%
Overseas offices (including Japan offshore market accounts):				
Governments	**¥ 1.5**	**4.8%**	¥ 1.8	3.2%
Financial institutions	**0.5**	**1.7**	0.8	1.5
Others	**29.4**	**93.5**	56.9	95.3
Total overseas (B)	**¥ 31.5**	**100.0%**	¥ 59.7	100.0%
Total (A+B)	**¥ 4,319.8**		¥ 4,292.4	

TABLE 20. OVERSEAS AND OFFSHORE LOANS BY REGION (NONCONSOLIDATED)

Billions of yen

As of March 31	2014	2013
United States	**¥ 4.5**	¥ 8.3
Asset-backed investments in the U.S.	**—**	—
Europe	**49.0**	43.6
Asset-backed investments in Europe	**12.5**	18.5
Others	**174.2**	155.0
Total overseas and offshore loans	**¥ 227.9**	¥ 207.0
Total asset-backed investments	**¥ 12.5**	¥ 18.5

FINANCIAL CONDITION (continued)

LOAN MATURITY

The following table sets forth the composition of Shinsei's nonconsolidated loan portfolio by type of interest rate and maturity as of the dates indicated. In the fiscal year ended March 31, 2014, the increase in total loans resulted from an increase in both variable-interest rate loans and fixed-interest rate loans.

TABLE 21. LOAN MATURITY (NONCONSOLIDATED)

	Billions of yen	
As of March 31	**2014**	2013
Fixed-interest loans:		
One year or less[1]	**¥ —**	¥ —
Over one year to three years	**23.6**	48.1
Over three years to five years	**134.4**	15.3
Over five years to seven years	**11.9**	153.3
Over seven years	**712.8**	589.9
Indefinite term	**130.2**	77.0
Variable-interest loans:		
One year or less[1]	**¥ —**	¥ —
Over one year to three years	**751.9**	839.4
Over three years to five years	**652.9**	624.6
Over five years to seven years	**244.9**	155.6
Over seven years	**652.7**	650.5
Indefinite term	**18.8**	50.7
Total loans:		
One year or less	**¥ 901.1**	¥ 1,019.7
Over one year to three years	**775.6**	887.5
Over three years to five years	**787.3**	640.0
Over five years to seven years	**256.8**	308.9
Over seven years	**1,365.5**	1,240.4
Indefinite term	**149.1**	127.7
Total loans	**¥ 4,235.7**	¥ 4,224.4

1 Loans with maturities of one year or less are not broken down by type of interest rate.

ASSET QUALITY AND DISPOSAL OF NONPERFORMING LOANS OF SHINSEI

At March 31, 2014, 68.3% of our consolidated nonperforming loans as disclosed in accordance with the guidelines of the Japanese Bankers Association (JBA) were held by Shinsei and most of the remaining nonperforming loans were held by Shinsei Financial and APLUS FINANCIAL. This discussion of our asset quality presents information of Shinsei on a nonconsolidated basis unless specified otherwise. In particular, nonperforming claims as defined in the Financial Revitalization Law are only disclosed on a nonconsolidated basis, and therefore do not include nonperforming loans held by Shinsei Financial, APLUS FINANCIAL, Showa Leasing and SHINKI. For a discussion of the nonperforming claims of Shinsei Financial, APLUS FINANCIAL, Showa Leasing and SHINKI see "— Asset Quality of Shinsei Financial, APLUS FINANCIAL, Showa Leasing and SHINKI."

We classify our obligors and assess our asset quality based on our self-assessment guidelines developed in accordance with guidelines published by the FSA. We generally perform our self-assessment quarterly. The self-assessment process involves classifying obligors based on their financial condition and then categorizing claims against obligors in order of collection risk. Based on these classifications, we establish reserves and disclose our nonperforming loans and other claims using criteria specified in the Financial Revitalization Law. We also disclose our nonperforming loans under a format devised by the JBA for the disclosure of risk-monitored loans.

The following table compares the scope of each category of claim under the Financial Revitalization Law and each type of risk-monitored loan, as well as the obligor type to which they relate as of March 31, 2014:

FINANCIAL CONDITION (continued)

COMPARISON OF CATEGORIES OF OBLIGORS, CLAIMS UNDER THE FINANCIAL REVITALIZATION LAW AND RISK-MONITORED LOANS (NONCONSOLIDATED)

(Billions of yen)

Obligor Classifications		Internal Ratings	Reserve Ratios for Borrowers Type	Claims Classified under the Financial Revitalization Law[2,3] Total loans and bills discounted: 4,235.7 (Other 92.5)	Risk-monitored Loans[2] Total loans and bills discounted: 4,235.7
Legally bankrupt		9E	100.0% for unsecured portion	Claims against bankrupt and quasi-bankrupt obligors 13.2 (Amount of coverage, coverage ratio) (13.2*, 100.0%) *Amount of reserve for loan losses is –, collateral and guarantees is 13.2	Loans to bankrupt obligors 7.2
Virtually bankrupt		9D	100.0% for unsecured portion		Non accrual delinquent loans 138.6
Possibly bankrupt		9C	95.7% for unsecured portion	Doubtful claims 146.6 (Amount of coverage, coverage ratio) (140.2*, 95.6%) *Amount of reserve for loan losses is 58.3, collateral and guarantees is 81.9	
Need caution	Substandard	9B	67.6% for unsecured portion	Substandard claims (loan account only) 4.8 (Amount of coverage, coverage ratio) (3.4*, 71.8%) *Amount of reserve for loan losses is 1.9, collateral and guarantees is 1.5	Loans past due for three months or more Restructured loans 4.8
	Other need caution	9A	6.6% for total claims	Normal claims 4,163.5	Normal 4,084.9
Normal		0A–6C	0.3% for total claims		
				Total nonperforming claims and ratio to total claims 164.7, 3.8% (Total amount of coverage, coverage ratio) (156.9*, 95.3%) *Total amount of reserve for loan losses is 60.2, collateral and guarantees is 96.6	Total risk-monitored loans and ratio to total loans and bills discounted 150.7, 3.6%

1 Financial and operational data that are stated in multiples of ¥0.1 billion have been truncated. All percentages have been rounded to the nearest 0.1%.
2 The Financial Revitalization Law requires us to classify and disclose "claims" which include, in addition to loans and bills discounted, foreign exchange claims, securities lent, private placement bonds guaranteed by Shinsei, accrued income and suspense payments in other assets, as well as customers' liabilities for acceptances and guarantees. By comparison, as for risk-monitored loans, the format devised by the JBA only classifies, and calls for disclosure of, certain loans and bills discounted.
3 Shaded claims denoted claims that are considered to be nonperforming under the Financial Revitalization Law.

In October 2002, the FSA announced the "Program for Financial Revival" that has led to more stringent evaluations of claims. This program requires banks to use discounted cash flow analyses, among other measures, when providing loan loss reserves against major borrowers with substandard claims. Through the program, the FSA also sought greater scrutiny of the effect of recording large amounts of deferred tax assets on the quality of a bank's regulatory capital. We have exceeded the FSA's requirements for employing the discounted cash flow method, applying it to approximately 90%, by principal amount, and ¥500 million or more in outstanding balance, of our claims against substandard obligors and possibly bankrupt obligors, excluding non Japanese transactions and transactions with individuals as their future cash flows cannot be reasonably estimated.

FINANCIAL CONDITION (continued)

SELF-ASSESSMENT GUIDELINES AND RESERVE POLICIES

DEFINITION OF OBLIGOR CLASSIFICATIONS

OBLIGOR CLASSIFICATION	DEFINITION
Legally bankrupt *(hatan-saki)*	Obligors who have already gone bankrupt, from a legal and/or formal perspective.
Virtually bankrupt *(jisshitsu hatan-saki)*	Obligors who have not yet gone legally or formally bankrupt but who are substantially bankrupt because they are in serious financial difficulties and are not deemed to be capable of restructuring.
Possibly bankrupt *(hatan kenen-saki)*	Obligors who are not yet bankrupt but are in financial difficulties and are very likely to go bankrupt in the future because they are having difficulty implementing their management improvement plans. This includes obligors who are receiving ongoing support from financial institutions.
Need caution *(youchui-saki)*	Obligors who require close attention because there are problems with their borrowings, such as reduced or suspended interest payments, problems with fulfillment, such as substantial postponements of principal or interest payments, or problems with their financial position as a result of their poor or unstable business conditions. The term "need caution obligors" includes "substandard obligors" *(youkanri-saki)*, which refers to obligors with "substandard claims," that is, loans past due for three months or more or restructured loans. Claims against need caution obligors that are not substandard claims are sometimes referred to as "claims against other need caution obligors" *(sono ta youchui-saki)*.
Normal *(seijou-saki)*	Obligors whose business conditions are favorable and who are deemed not to have any particular problems in terms of their financial position.

DEFINITIONS OF CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

CATEGORY	DEFINITION
Claims against bankrupt and quasi-bankrupt obligors *(hasan kosei saiken oyobi korera ni junzuru saiken)*	Claims against obligors under bankruptcy and similar claims, as provided for under the Bankruptcy Law, the Corporate Reorganization Law, the Civil Rehabilitation Law and similar laws.
Doubtful claims *(kiken saiken)*	Claims against obligors that are not yet in bankruptcy but have experienced deterioration in their financial condition and operating performance and for which there is a high probability of contractual defaults on principal and interest payments.
Substandard claims *(youkanri saiken)*	Loans past due for three months or more and restructured loans, excluding those categorized as claims against bankrupt and quasi-bankrupt obligors or doubtful claims.
Normal claims *(seijou saiken)*	Claims against obligors that are experiencing no particular problems with their financial condition or operating performance, other than claims in any of the three categories above.

DEFINITIONS OF CATEGORIES OF RISK-MONITORED LOANS

CATEGORY	DEFINITION
Loans to bankrupt obligors *(hatan-saki saiken)*	Loans to legally bankrupt obligors.
Non accrual delinquent loans *(entai-saki saiken)*	Loans to virtually bankrupt and possibly bankrupt obligors.
Loans past due for three months or more *(san-ka-getsu ijou entai saiken)*	Loans on which principal and/or interest are past due three months or more.
Restructured loans *(kashidashi jouken kanwa saiken)*	Loans with lending terms that have been changed in ways favorable to the borrower, including reducing interest rates, providing grace periods for repayment and forgiving a portion of the debt.

FINANCIAL CONDITION (continued)

RESERVE POLICIES

CLAIMS AGAINST OBLIGORS, AS CATEGORIZED UNDER SELF-ASSESSMENT GUIDELINES	RESERVE POLICY
Claims against legally and virtually bankrupt obligors	We either write off directly or make a provision for, in the specific reserve for loan losses, the full amount of the unsecured, unguaranteed portion of the claim.
Claims against possibly bankrupt obligors	For most claims against possibly bankrupt obligors, we make a provision in the specific reserve for loan losses in an amount calculated based on the discounted cash flow method. For the remaining claims, we make a provision to that reserve for the unsecured, unguaranteed portion of the claims in the amount of the product of that portion and the higher of 70% or the estimated loss ratio, based on historical losses on claims in this category, for the next three years.
Claims against substandard obligors	For most claims against substandard obligors, we make a provision in the general reserve for loan losses in an amount calculated based on the discounted cash flow method. For the remaining claims, we make a provision to that reserve for the estimated amount of losses over three years computed based on the expected loss ratio for claims in this category.
Claims against need caution obligors, other than claims against substandard obligors	We make a provision, in the general reserve for loan losses, for the estimated amount of losses over the average remaining term of the loans computed based on the expected loss ratio for claims in this category.
Claims against normal obligors	For claims against obligors rated 5A through 6C under our credit rating system, we make a provision, in the general reserve for loan losses, for the estimated amount of losses over the average remaining term of the loans computed based on the expected loss ratio for claims in this category. For the remaining claims, we make a provision to that reserve for the estimated amount of losses over a year computed based on the expected loss ratio for claims in this category.

CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

Under the Financial Revitalization Law, Japanese banks categorize their total claims in four categories by reference to the nature of the relevant assets. In addition to loans and bills discounted, claims that are subject to disclosure under the Financial Revitalization Law include foreign exchange claims, securities lent, private placement bonds guaranteed by Shinsei, accrued income and suspense payments in other assets, as well as customers' liabilities for acceptances and guarantees.

DISCLOSURE OF CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

Our current management team has consistently emphasized the monitoring of nonperforming loans. Shinsei's total amount of nonperforming claims as disclosed pursuant to the Financial Revitalization Law decreased by ¥77.9 billion, or 32.1%, to ¥164.7 billion, between March 31, 2013 and 2014. During the fiscal year ended March 31, 2014, claims against bankrupt and quasi-bankrupt obligors decreased from ¥38.6 billion to ¥13.2 billion, doubtful claims decreased from ¥198.3 billion to ¥146.6 billion, and substandard claims decreased from ¥5.6 billion to ¥4.8 billion as a result of our self assessment. The ratio of nonperforming claims disclosed under the Financial Revitalization Law to total nonconsolidated claims as of March 31, 2014 decreased to 3.8%, compared to 5.3% as of March 31, 2013.

Shinsei's claims against other need caution obligors, excluding substandard claims, totaled ¥108.8 billion as of March 31, 2014, a 44.5% decrease from ¥196.0 billion as of March 31, 2013. These include private placement bonds guaranteed by Shinsei and classified as claims against other need caution obligors. These claims represented 2.5% of total nonconsolidated claims as of March 31, 2014, down from 4.3% as of March 31, 2013.

TABLE 22. CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW (NONCONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2014	2013
Claims against bankrupt and quasi-bankrupt obligors	¥ 13.2	¥ 38.6
Doubtful claims	146.6	198.3
Substandard claims	4.8	5.6
Total claims disclosed under the Financial Revitalization Law[1]	164.7	242.6
Normal claims and claims against other need caution obligors, excluding substandard claims	4,163.5	4,317.8
Total claims	¥ 4,328.2	¥ 4,560.4
Ratio of total claims disclosed under the Financial Revitalization Law to total claims	3.8%	5.3%

1 Total claims consists of loans and bills discounted, foreign exchange claims, securities lent, accrued interest income and suspense payments in other assets, as well as customers' liabilities for acceptances and guarantees.

FINANCIAL CONDITION (continued)

COVERAGE RATIOS

As of March 31, 2014, Shinsei's nonconsolidated coverage ratios for claims classified under the Financial Revitalization Law, which for each category of claims is the total of collateral pledged against claims, guarantees for claims and reserve for loan losses, measured against total claims, were 100.0% for claims against bankrupt and quasi-bankrupt obligors, 95.6% for doubtful claims and 71.8% for substandard claims. For all claims classified under the Financial Revitalization Law, the coverage ratio was 95.3%, a decrease from 95.9% as of March 31, 2013.

Shinsei directly writes off, rather than reserves, the portion of claims against bankrupt and quasi-bankrupt obligors that are estimated to be uncollectible. In the fiscal years ended March 31, 2014 and 2013, ¥63.4 billion and ¥58.1 billion, respectively, of such claims were written off on a nonconsolidated basis.

TABLE 23. COVERAGE RATIOS FOR NONPERFORMING CLAIMS DISCLOSED UNDER THE FINANCIAL REVITALIZATION LAW (NONCONSOLIDATED)

Billions of yen (except percentages)

	Amount of claims	Amounts of coverage: Reserve for loan losses	Amounts of coverage: Collateral and guarantees	Amounts of coverage: Total	Coverage ratio
As of March 31, 2014:					
Claims against bankrupt and quasi-bankrupt obligors	**¥ 13.2**	**¥ —**	**¥ 13.2**	**¥ 13.2**	**100.0%**
Doubtful claims	**146.6**	**58.3**	**81.9**	**140.2**	**95.6**
Substandard claims	**4.8**	**1.9**	**1.5**	**3.4**	**71.8**
Total	**¥ 164.7**	**¥ 60.2**	**¥ 96.6**	**¥ 156.9**	**95.3%**
As of March 31, 2013:					
Claims against bankrupt and quasi-bankrupt obligors	¥ 38.6	¥ —	¥ 38.6	¥ 38.6	100.0%
Doubtful claims	198.3	72.9	118.0	190.9	96.3
Substandard claims	5.6	1.1	2.0	3.1	55.1
Total	¥ 242.6	¥ 74.0	¥ 158.6	¥ 232.7	95.9%

CHANGES IN AMOUNT OF NONPERFORMING CLAIMS

The table below sets forth Shinsei's experience since March 31, 2012 with the removal of nonperforming claims and the emergence of new claims on a nonconsolidated basis:

TABLE 24. CHANGES IN AMOUNT OF NONPERFORMING CLAIMS (NONCONSOLIDATED)

Billions of yen

	Substandard claims	Doubtful claims	Claims against bankrupt and quasi-bankrupt obligors	Total
Balance of nonperforming claims as of March 31, 2012	¥ 1.5	¥ 245.2	¥ 49.1	¥ 295.9
Claims newly added April 1, 2012 to March 31, 2013	3.7	3.1	1.2	8.0
Claims removed April 1, 2012 to March 31, 2013	(0.4)	(38.8)	(22.0)	(61.3)
Claims migrating between classifications April 1, 2012 to March 31, 2013	0.8	(11.1)	10.3	—
Net change	4.1	(46.9)	(10.4)	(53.3)
Balance of nonperforming claims as of March 31, 2013	¥ 5.6	¥ 198.3	¥ 38.6	¥ 242.6
Claims newly added April 1, 2013 to March 31, 2014	**3.0**	**7.5**	**1.5**	**12.1**
Claims removed April 1, 2013 to March 31, 2014	**(3.3)**	**(44.0)**	**(42.6)**	**(90.0)**
Claims migrating between classifications April 1, 2013 to March 31, 2014	**(0.4)**	**(15.1)**	**15.6**	**—**
Net change	**(0.8)**	**(51.6)**	**(25.4)**	**(77.9)**
Balance of nonperforming claims as of March 31, 2014	**¥ 4.8**	**¥ 146.6**	**¥ 13.2**	**¥ 164.7**

In the fiscal year ended March 31, 2014, ¥12.1 billion of claims were newly classified as substandard or worse, while Shinsei removed ¥90.0 billion of claims in these categories during the same period. Of the newly added nonperforming claims, ¥7.5 billion were classified as doubtful claims, and ¥3.0 billion were substandard claims.

For the fiscal year ended March 31, 2013, ¥8.0 billion of claims were newly classified as substandard or worse, while Shinsei removed ¥61.3 billion of claims in these categories during the same period.

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FINANCIAL CONDITION (continued)

RESERVE FOR CREDIT LOSSES

The following table sets forth a breakdown of our total reserve for credit losses on a nonconsolidated basis as of the dates indicated:

TABLE 25. RESERVE FOR CREDIT LOSSES (NONCONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2014	2013
General reserve for loan losses	¥ 19.9	¥ 28.5
Specific reserve for loan losses	59.7	74.0
Reserve for loans to restructuring countries	0.0	0.0
Subtotal of reserve for loan losses	79.6	102.6
Specific reserve for other credit losses	3.9	3.9
Total reserve for credit losses	¥ 83.5	¥ 106.5
Total claims[1]	¥ 4,328.2	¥ 4,560.4
Ratio of total reserve for loan losses to total claims	1.8%	2.3%
Ratio of total reserve for credit losses to total claims	1.9%	2.3%

1 Total claims consists of loans and bills discounted, foreign exchange claims, securities lent, accrued interest income and suspense payments in other assets, as well as customers' liabilities for acceptances and guarantees.

As of March 31, 2014 and 2013, Shinsei's total reserve for credit losses on a nonconsolidated basis was ¥83.5 billion and ¥106.5 billion, respectively, constituting 1.9% and 2.3%, respectively, of total claims.

TABLE 26. RESERVE RATIOS BY BORROWERS' CATEGORY (NONCONSOLIDATED)

Percentages

As of March 31		2014	2013
Legally and virtually bankrupt	(unsecured portion)	100.0%	100.0%
Possibly bankrupt	(unsecured portion)	95.7%	96.1%
Substandard	(unsecured portion)	67.6%	36.9%
Need caution	(total claims)	6.6%	5.5%
	(unsecured portion)	22.9%	27.4%
Normal	(total claims)	0.3%	0.4%

RISK-MONITORED LOANS

Consolidated risk-monitored loans decreased by 29.4% during the fiscal year ended March 31, 2014 to ¥220.7 billion. The decrease of ¥75.1 billion in nonaccrual delinquent loans during the period were primarily attributable to collection of nonconsolidated loans.

The following tables set forth information concerning our consolidated and nonconsolidated risk-monitored loans as of the dates indicated:

TABLE 27. RISK-MONITORED LOANS (CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2014	2013
Total loans and bills discounted	¥ 4,319.8	¥ 4,292.4
Loans to bankrupt obligors (A)	10.0	20.5
Nonaccrual delinquent loans (B)	177.7	252.9
Subtotal (A)+(B)	¥ 187.8	¥ 273.4
Ratio to total loans and bills discounted	4.3%	6.4%
Loans past due for three months or more (C)	¥ 1.1	¥ 1.2
Restructured loans (D)	31.7	38.1
Total risk-monitored loans (A)+(B)+(C)+(D)	¥ 220.7	¥ 312.8
Ratio to total loans and bills discounted	5.1%	7.3%
Reserve for credit losses	¥ 137.3	¥ 161.8

FINANCIAL CONDITION (continued)

TABLE 28. RISK-MONITORED LOANS (NONCONSOLIDATED)

As of March 31	Billions of yen (except percentages) 2014	2013
Total loans and bills discounted	¥ 4,235.7	¥ 4,224.4
Loans to bankrupt obligors (A)	7.2	8.1
Nonaccrual delinquent loans (B)	138.6	211.2
Subtotal (A)+(B)	¥ 145.8	¥ 219.4
Ratio to total loans and bills discounted	3.4%	5.2%
Loans past due for three months or more (C)	¥ 0.9	¥ 1.1
Restructured loans (D)	3.8	4.5
Total risk-monitored loans (A)+(B)+(C)+(D)	¥ 150.7	¥ 225.0
Ratio to total loans and bills discounted	3.6%	5.3%
Reserve for credit losses	¥ 83.5	¥ 106.5

TABLE 29. RISK-MONITORED LOANS BY BORROWER INDUSTRY (NONCONSOLIDATED)

As of March 31	Billions of yen 2014	2013
Domestic offices (excluding Japan offshore market account):		
Manufacturing	¥ 5.6	¥ 7.5
Agriculture and forestry	—	—
Fishery	—	—
Mining, quarrying and gravel extraction	—	—
Construction	—	—
Electric power, gas, heat supply and water supply	—	—
Information and communications	0.5	2.1
Transportation and postal service	2.9	2.9
Wholesale and retail	0.3	—
Finance and insurance	21.9	41.9
Real estate	74.6	128.4
Services	25.4	28.2
Local government	—	—
Individual	3.5	4.1
Overseas yen loan and overseas loans booked domestically	15.6	9.4
Total domestic (A)	¥ 150.7	¥ 225.0
Overseas offices (including Japan offshore market accounts):		
Governments	¥ —	¥ —
Financial institutions	—	—
Commerce and industry	—	—
Others	—	—
Total overseas (B)	¥ —	¥ —
Total (A+B)	¥ 150.7	¥ 225.0

TABLE 30. RISK-MONITORED OVERSEAS AND OFFSHORE LOANS BY REGION (NONCONSOLIDATED)

As of March 31	Billions of yen 2014	2013
United States	¥ —	¥ —
Asset-backed investments in the U.S.	—	—
Europe	12.5	5.9
Asset-backed investments in Europe	12.5	5.9
Others	3.0	3.5
Total overseas and offshore loans	¥ 15.6	¥ 9.4
Total asset-backed investments[1]	¥ 12.5	¥ 5.9

1 As of March 31, 2014, reserve for loan losses and collateral/guarantees for risk monitored loans related to asset-backed investments were ¥3.4 billion and ¥7.1 billion, respectively, and the coverage ratio was 84.8%.

FINANCIAL CONDITION (continued)

ASSET QUALITY OF SHINSEI FINANCIAL, APLUS FINANCIAL, SHOWA LEASING AND SHINKI

Shinsei Financial, APLUS FINANCIAL, Showa Leasing and SHINKI classify their obligors and assess their asset quality based on the self-assessment guidelines developed in accordance with guidelines published by the FSA. They generally perform their self-assessment quarterly and at least semi-annually. Shinsei Financial's, APLUS FINANCIAL's, Showa Leasing's and SHINKI's assessments, where applicable, include, among other things, an assessment of credit extended to credit card customers as well as lease obligors, unsecured personal loans and customer guarantees.

The following tables set forth information concerning consolidated risk-monitored loans and risk-monitored installment receivables held by Shinsei, Shinsei Financial, APLUS FINANCIAL, Showa Leasing, SHINKI and other subsidiaries as of the dates indicated:

TABLE 31. RISK-MONITORED LOANS BREAKDOWN FOR LARGE ENTITIES (CONSOLIDATED)

	Billions of yen					
	Shinsei	Shinsei Financial	APLUS FINANCIAL	SHINKI	Other subsidiaries	Total
As of March 31, 2014:						
Loans to bankrupt obligors	**¥ 7.2**	**¥ 1.5**	**¥ 0.1**	**¥ 0.0**	**¥ 1.1**	**¥ 10.0**
Nonaccrual delinquent loans	**138.6**	**7.0**	**13.9**	**0.8**	**17.4**	**177.7**
Loans past due for three months or more	**0.9**	**0.0**	**0.1**	**—**	**0.0**	**1.1**
Restructured loans	**3.8**	**17.1**	**9.2**	**1.4**	**—**	**31.7**
Total	**¥ 150.7**	**¥ 25.7**	**¥ 23.3**	**¥ 2.3**	**¥ 18.6**	**¥ 220.7**
As of March 31, 2013:						
Loans to bankrupt obligors	¥ 8.1	¥ 1.1	¥ 0.0	¥ 0.0	¥ 11.1	¥ 20.5
Nonaccrual delinquent loans	211.2	6.4	15.1	0.7	19.3	252.9
Loans past due for three months or more	1.1	0.0	0.0	—	0.0	1.2
Restructured loans	4.5	21.6	9.9	1.9	—	38.1
Total	¥ 225.0	¥ 29.2	¥ 25.1	¥ 2.7	¥ 30.5	¥ 312.8

TABLE 32. RISK-MONITORED INSTALLMENT RECEIVABLES INCLUDED IN OTHER ASSETS (CONSOLIDATED)[1]

	Billions of yen				
	Shinsei Financial	APLUS FINANCIAL	Showa Leasing	Other subsidiaries	Total
As of March 31, 2014:					
Credits to bankrupt obligors	**¥ 0.0**	**¥ 0.0**	**¥ 0.3**	**¥ 0.1**	**¥ 0.4**
Nonaccrual delinquent credits	**0.0**	**5.2**	**3.8**	**0.0**	**9.1**
Credits past due for three months or more	**—**	**0.2**	**0.0**	**—**	**0.2**
Restructured credits	**0.0**	**0.7**	**—**	**—**	**0.7**
Total	**¥ 0.0**	**¥ 6.2**	**¥ 4.2**	**¥ 0.1**	**¥ 10.6**
As of March 31, 2013:					
Credits to bankrupt obligors	¥ 0.0	¥ 0.1	¥ 0.0	¥ 0.1	¥ 0.2
Nonaccrual delinquent credits	0.0	4.8	4.3	0.2	9.3
Credits past due for three months or more	—	0.2	0.0	—	0.2
Restructured credits	0.0	1.0	0.0	—	1.1
Total	¥ 0.0	¥ 6.2	¥ 4.4	¥ 0.3	¥ 11.0

1 Neither Shinsei nor SHINKI had any such installment receivables.

FUNDING AND LIQUIDITY

We continues to optimize its funding base through deposits from retail customers. Total deposits and negotiable certificates of deposit increased from ¥5,457.5 billion as of March 31, 2013 to ¥5,850.4 billion as of March 31, 2014. The retail deposits balance totaled ¥5,091.7 billion as of March 31, 2014, an increase of ¥396.7 billion compared to March 31, 2013. Retail Banking constitutes 87.1% of our total funding through customer deposits and debentures. The following table shows changes in the proportion of our overall funding represented by funds raised from deposits and debentures in our Retail and Institutional Banking businesses.

FINANCIAL CONDITION (continued)

TABLE 33. DIVERSIFICATION BY FUNDING TYPE (CONSOLIDATED)

As of March 31	Billions of yen 2014	2013
Retail deposits	**¥ 5,091.7**	¥ 4,694.9
Retail debentures[1]	**39.9**	253.8
Institutional deposits	**758.7**	762.5
Institutional debentures	**1.8**	8.4
Total	**¥ 5,892.1**	¥ 5,719.8

1 Excludes unclaimed matured debentures.

DEPOSITS

The following table sets forth the composition of our time deposits by remaining maturity as of the dates indicated:

TABLE 34. MATURITY SCHEDULE OF TIME DEPOSITS (CONSOLIDATED)

As of March 31	Billions of yen 2014	2013
Less than three months[1]	**¥ 1,658.3**	¥ 1,487.0
Three months or more, but less than six months	**197.6**	184.9
Six months or more, but less than one year	**572.9**	548.3
One year or more, but less than two years	**249.4**	521.5
Two years or more, but less than three years	**159.9**	209.3
Three years or more	**738.5**	299.3
Total	**¥ 3,576.9**	¥ 3,250.5

1 Less than three months includes time deposits that have matured but have not yet been paid.

DEBENTURES AND CORPORATE BONDS

The following table sets forth the composition of our debentures and corporate bonds by remaining maturity as of the dates indicated:

TABLE 35. MATURITY SCHEDULE OF DEBENTURES AND CORPORATE BONDS (CONSOLIDATED)

Debentures

Fiscal year ending March 31	Billions of yen
2015	¥ 7.3
2016	15.3
2017	10.9
2018	7.5
2019 and thereafter	0.5
Total	¥ 41.7

Corporate Bonds

Fiscal year ending March 31	Billions of yen
2015	¥ 34.5
2016	36.8
2017	10.5
2018	2.9
2019 and thereafter	92.3
Total	¥ 177.2

FINANCIAL CONDITION (continued)

OTHER

The securitization of loans and other assets is another component of our funding strategy. We will continue to explore additional issuance opportunities subject to market conditions.

TABLE 36. SHINSEI'S CREDIT RATINGS AS OF JULY 2014

Rating agency	Long-term (Outlook)	Short-term
Moody's	Baa3 (Stable)	Prime-3
Standard & Poor's (S&P)	BBB+ (Stable)	A-2
Japan Credit Rating Agency (JCR)	BBB+ (Stable)	J-2
Rating and Investment Information, Inc. (R&I)	BBB+ (Positive)	a-2

OTHER CONTRACTUAL CASH OBLIGATIONS

We use other contractual cash obligations for funding purposes. The following table sets forth a summary of our primary consolidated other contractual cash obligations as of March 31, 2014 and 2013:

TABLE 37. OTHER CONTRACTUAL CASH OBLIGATIONS (CONSOLIDATED)

	Billions of yen		
Payments due by period as of March 31, 2014	**1 year or less**	**Over 1 year**	**Total**
Borrowed money	**¥ 311.8**	**¥ 331.6**	**¥ 643.4**
Obligations under finance leases	**0.6**	**2.6**	**3.3**
Total	**¥ 312.4**	**¥ 334.3**	**¥ 646.7**

	Billions of yen		
Payments due by period as of March 31, 2013	1 year or less	Over 1 year	Total
Borrowed money	¥ 390.0	¥ 329.2	¥ 719.2
Obligations under finance leases	0.6	3.3	4.0
Total	¥ 390.7	¥ 332.5	¥ 723.2

TAXATION

SCHEDULE OF TAX LOSS CARRYFORWARDS

As of March 31, 2014, Shinsei had ¥181.9 billion of tax loss carryforwards based on the consolidated corporate tax system.

TABLE 38. SCHEDULE OF TAX LOSS CARRY-FORWARDS

	Billions of yen	
Year tax loss carry-forwards generated/renewed	Amount	Date of expiry
Shinsei Bank		
March 31, 2009	¥ 107.4	March 31, 2018
March 31, 2011	20.0	March 31, 2020
March 31, 2012	16.7	March 31, 2021
March 31, 2013	23.2	March 31, 2022
March 31, 2014	14.5	March 31, 2023
Total	¥ 181.9	
APLUS FINANCIAL		
March 31, 2008	¥ 11.8	March 31, 2015
March 31, 2009	0.0	March 31, 2018
March 31, 2010	0.0	March 31, 2019
March 31, 2012	5.8	March 31, 2021
March 31, 2013	0.4	March 31, 2022
March 31, 2014	7.5	March 31, 2023
Total	¥ 25.7	
Shinsei Financial		
March 31, 2010	¥ 72.2	March 31, 2019
March 31, 2011	22.8	March 31, 2020
March 31, 2012	26.1	March 31, 2021
Total	¥ 121.2	
SHINKI		
March 31, 2008	¥ 19.0	March 31, 2015
March 31, 2009	9.2	March 31, 2018
March 31, 2010	5.6	March 31, 2019
March 31, 2011	14.0	March 31, 2020
March 31, 2012	5.3	March 31, 2021
March 31, 2013	5.5	March 31, 2022
March 31, 2014	0.0	March 31, 2023
Total	¥ 58.9	

The table above sets forth a schedule of tax loss carryforwards of Shinsei Bank, APLUS FINANCIAL, Shinsei Financial and SHINKI as of March 31, 2014. Because APLUS FINANCIAL, Shinsei Financial and SHINKI are not wholly-owned subsidiaries, we are unable to include their results in our consolidated tax returns.

In the event that Shinsei, APLUS FINANCIAL, Shinsei Financial or SHINKI, as the case may be, generates less taxable income in a given fiscal year than the tax loss carryforward that will expire at year-end, the benefit of the unused portion of the expiring tax loss carryforward will be lost.

We record deferred tax assets for tax loss carryforwards and evaluate them in accordance with the JICPA guidelines. See "—Critical Accounting Policies— Valuation of Deferred Tax Assets" on page 90.

CONSOLIDATED CORPORATE TAX SYSTEM

Shinsei has filed its corporate tax returns under the consolidated corporate tax system since the fiscal year ended March 31, 2004. Under the consolidated corporate tax system, we base corporate tax payments on the combined profits or losses of Shinsei and its wholly-owned domestic subsidiaries.

Showa Leasing and APLUS FINANCIAL have also adopted the consolidated corporate tax system beginning with the fiscal year ended March 31, 2007 and March 31, 2011, respectively.

FINANCIAL CONDITION (continued)

CAPITAL RESOURCES AND ADEQUACY

EQUITY

The following table sets forth a summary of our equity as of March 31, 2014 and 2013:

TABLE 39. EQUITY (CONSOLIDATED)

As of March 31	Billions of yen (except percentages) 2014	2013
Common stock	**¥ 512.2**	¥ 512.2
Capital surplus	**79.4**	79.4
Stock acquisition rights	**1.2**	1.2
Retained earnings	**146.0**	107.2
Treasury stock, at cost	**(72.5)**	(72.5)
Accumulated other comprehensive income:		
Unrealized gain (loss) on available-for-sale securities	**6.2**	3.8
Deferred gain (loss) on derivatives under hedge accounting	**(8.7)**	(11.6)
Foreign currency translation adjustments	**0.2**	1.4
Defined retirement benefit plans	**(5.1)**	—
Total	**¥ 658.9**	¥ 621.3
Minority interests	**63.6**	62.3
Total equity	**¥ 722.5**	¥ 683.6
Ratio of total equity to total assets	**7.8%**	7.6%

CAPITAL RATIOS

From the fiscal year ended March 31, 2014, the Basel III methodology has been adopted to calculate capital ratios. For credit risk, the Foundation Internal Ratings Based Approach (FIRB) has been applied. For operational risk, the Standardized Approach (TSA) has been adopted and the Internal Model Method has been used for market risk.

Our total capital adequacy ratio (Basel II) as of March 31, 2014 was 13.8%, compared with 12.2% as of March 31, 2013. Our Tier I capital ratio, or the ratio of Tier I capital to risk assets, increased from 10.4% as of March 31, 2013 to 12.2% as of March 31, 2014.

Our total capital adequacy ratio (Basel III) as of March 31, 2014 was 13.6%.

FINANCIAL CONDITION (continued)

There is no concept of Tier of capital in Basel III Domestic standard regulation. Most of capital items are same as Basel II regulation.

TABLE 40. CAPITAL RATIOS (BASEL III, DOMESTIC STANDARD[1]) (CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2014	Amounts excluded under transitional arrangements
Core capital: instruments and reserves		
Directly issued qualifying common share capital or preferred share capital with a compulsory conversion clause plus related capital surplus and retained earnings	**¥ 662.4**	
of which: capital and capital surplus	**591.6**	
of which: retained earnings	**146.0**	
of which: treasury stock (-)	**(72.5)**	
of which: earning to be distributed (-)	**(2.6)**	
of which: other than above	**—**	
Accumulated other comprehensive income (amount allowed to be included in Core capital)	**0.2**	¥ (5.1)
of which: foreign currency translation adjustment	**0.2**	
of which: amount related defined benefit	**—**	(5.1)
Stock acquisition right to common shares and preferred shares with a compulsory conversion clause	**1.2**	
Adjusted minority interests (amount allowed to be included in Core capital)	**—**	
Total of reserves included in Core capital: instruments and reserves	**2.9**	
of which: general reserve for loan losses included in Core capital	**2.9**	
of which: eligible provision included in Core capital	**—**	
Eligible non-cumulative perpetual preferred shares subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	**—**	
Eligible capital instruments subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	**219.2**	
Capital instruments issued through measures for capital enhancement by public institutions (amount allowed to be included in Core capital: instruments and reserves)	**—**	
Land revaluation excess after 55% discount (amount allowed to be included in Core capital: instruments and reserves)	**—**	
Minority interests subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	**3.4**	
Core capital: instruments and reserves	**¥ 889.5**	
Core capital: regulatory adjustments		
Total amount of intangible assets (excluding those relating to mortgage servicing rights)	**¥ 34.9**	¥ 12.6
of which: goodwill (including those equivalent)	**28.9**	—
of which: other intangibles other than goodwill and mortgage servicing rights	**5.9**	12.6
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	**—**	6.1
Shortfall of eligible provisions to expected losses	**27.5**	—
Gain on sale of securitization	**9.4**	—
Gains and losses due to changes in own credit risk on fair valued liabilities	**—**	—
Net defined benefit asset	**—**	1.0
Investments in own shares (excluding those reported in the net assets section)	**—**	—
Reciprocal cross-holdings in common equity	**—**	—
Investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation ("Other Financial Institutions"), net of eligible short positions, where the bank does not own more than 10% of the issued share capital	**0.0**	1.9
Amount exceeding the 10% threshold on specific items	**—**	—
of which: significant investments in the common stock of Other Financial Institutions, net of eligible short positions	**—**	—
of which: mortgage servicing rights	**—**	—
of which: deferred tax assets arising from temporary differences (net of related tax liability)	**—**	—
Amount exceeding the 15% threshold on specific items	**—**	—
of which: significant investments in the common stock of Other Financial Institutions, net of eligible short positions	**—**	—
of which: mortgage servicing rights	**—**	—
of which: deferred tax assets arising from temporary differences (net of related tax liability)	**—**	—
Core capital: regulatory adjustments	**¥ 71.9**	
Capital (consolidated)	**¥ 817.6**	
Risk-weighted assets		
Total amount of credit risk-weighted assets	**¥ 5,546.7**	
of which: total amount included in risk-weighted assets by transitional arrangements	**(20.6)**	
of which: intangible assets (excluding those relating to goodwill and mortgage servicing rights)	**12.6**	
of which: deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	**6.1**	
of which: net defined benefit asset	**1.0**	
of which: significant investments in the common stock of Other Financial Institutions (net of eligible short positions)	**(49.1)**	
of which: other than above	**8.7**	
Market risk (divided by multiplying the capital requirement by 12.5)	**125.5**	
Operational risk (divided by multiplying the capital requirement by 12.5)	**344.4**	
Credit risk adjustments	**—**	
Operational risk adjustments	**—**	
Total amount of Risk-weighted assets	**¥ 6,016.7**	
Capital ratio (consolidated)	**13.6%**	

1 Calculated according to F-IRB.

FINANCIAL CONDITION (continued)

TABLE 41. CAPITAL RATIOS (BASEL II) (CONSOLIDATED)

	Billions of yen (except percentages)	
As of March 31	2014	2013
Basic items (Tier I):		
Common stock	**¥ 512.2**	¥ 512.2
Capital surplus	**79.4**	79.4
Retained earnings	**146.0**	107.2
Treasury stock, at cost	**(72.5)**	(72.5)
Expected income distribution	**(2.6)**	(2.6)
Unrealized loss on available-for-sale securities[1]	**—**	—
Foreign currency translation adjustments	**0.2**	1.4
Stock acquisition rights	**1.2**	1.2
Minority interests in subsidiaries	**61.5**	60.1
Preferred securities issued by foreign SPC	**58.0**	57.5
Goodwill	**(28.9)**	(35.3)
Intangible assets acquired in business combinations	**(9.1)**	(12.4)
Gain on sale of securitization	**(9.4)**	(9.5)
50% of expected loss provision shortfall	**(12.6)**	(20.3)
Total Tier I (A)	**665.2**	608.8
Step-up preferred securities	**24.4**	24.0
Supplementary items (Tier II):		
General reserve for loan losses	**2.9**	8.9
Perpetual preferred stocks	**—**	—
Perpetual subordinated debt and bonds	**19.5**	29.3
Non perpetual preferred stocks	**—**	—
Non perpetual subordinated debt and bonds	**128.7**	140.4
Total	**¥ 151.1**	¥ 178.7
Amount eligible for inclusion in capital (B)	**151.1**	178.7
Deduction (C)	**¥ 64.9**	¥ 71.7
Intentional capital investment to other financial institutions	**1.7**	5.8
Capital investment to affiliate companies	**43.5**	39.1
50% of expected loss provision shortfall	**12.6**	20.3
Expected losses on exposures under PD/LGD measures such as equities	**1.1**	0.8
Unrated securitization exposure	**5.8**	5.5
Exclusion from deductions	**—**	—
Total capital (D) [(A)+(B)-(C)]	**¥ 751.4**	¥ 715.8
Risk assets:		
On-balance sheet items	**¥ 4,165.3**	¥ 4,443.3
Off-balance sheet items	**806.7**	807.5
Market Risk[2]	**125.5**	228.2
Operational Risk[2]	**344.4**	368.5
Total (E)	**¥ 5,442.1**	¥ 5,847.7
Consolidated capital adequacy ratio (D) / (E)	**13.8%**	12.2%
Consolidated Tier I capital ratio (A) / (E)	**12.2%**	10.4%

1 In accordance with Japanese FSA Notification Number 79 (issued in 2008 as a special treatment of the FSA Notification Number 19 issued in 2006), unrealized losses on available-for-sale securities were not included in the Tier I capital of Japanese banks that use a domestic standard for calculating capital adequacy ratios.
2 Derived by multiplying the capital requirement by 12.5 (i.e., the reciprocal of the minimum capital ratio of 8%).

Subordinated debt and preferred securities are included in eligible capital instruments subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves). In the grand fathering rule, eligible capital instruments can be calculated as capital but the value will decrease due to the amortization and redemption.

Basel III additional capital items which are capital deduction are the following items. The capital deduction will increase gradually in the grandfathering rule.

- Other intangibles other than goodwill and mortgage servicing rights.
- Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability).
- Net defined benefit asset.

Some of capital items (Gain on sale of securitization, expected losses on equity exposures under PD/LGD measures) are capital deductions in basel II, and are calculated as risk assets (Riskweight:1,250%) in basel III.

FINANCIAL CONDITION (continued)

OFF-BALANCE SHEET ARRANGEMENTS

We use off-balance sheet arrangements, including investments through special purpose entities, securitizations, lines and letters of credit, loan commitments and loan participations, in the ordinary course of business, including in our securitization and financing businesses, as well as to manage our own liquidity risk. The main purposes of such off-balance sheet arrangements are to develop our institutional banking business as well as to diversify our sources of liquidity. The following is a discussion of the principal off-balance sheet arrangements we use.

SECURITIZATION

We structure, arrange, distribute and service mortgage-backed securities and asset-backed securities both for third-parties and ourselves. Our securitization services utilize special purpose entities, which may be organized in the form of trusts, partnerships or corporations, mainly to protect the securitized assets from creditors of transferors even in bankruptcy. Assets securitized include commercial loans, residential mortgage loans, installment receivables and lease receivables.

REPACKAGING

One aspect of our securitization business involves our repackaging of assets purchased by special purpose entities that we establish into new financial instruments that represent undivided interests in the underlying assets. Repackaging the assets generally entails analyzing the cash flows from the underlying assets, using various means to rearrange the timing and order of cash flows, and then combining them with other cash flows to create new financial instruments that can be tailored to meet the demands of a broad range of investors.

Often the assets are repackaged into residual or subordinated interests, mezzanine interests and senior interests. The residual interests are the first to suffer any losses as a result of any decline in the value of the underlying financial assets, while the senior interests are structured to be the last to absorb such losses. In instances where we repackage assets on our own initiative, rather than for our customers, we generally retain the residual interests and either sell the senior or mezzanine interests immediately to third-parties or hold them temporarily before placing them with investors. Revenues on these transactions consist of gains on sales of the repackaged senior and mezzanine interests, transaction arrangement fees received from the originators of the assets, fees for underwriting the senior instruments, and returns on the residual interests.

The principal risk inherent in these repackagings is credit risk on the securitized financial instruments that is absorbed by the retained residual interests. We may record losses on the residual interests due to declines in the value of the underlying financial assets. We manage this credit risk through quarterly assessing our retained interests and providing valuation allowances for them based on those assessments, taking into consideration how much we believe we will be able to collect on the underlying assets. We generally transfer financial assets to special purpose entities on a "true sale" basis, which means that we would neither be entitled nor required to reacquire the financial assets so transferred.

ARRANGEMENT

We also securitize customers' assets on their behalf, drawing on our expertise and experience in establishing securitization vehicles tailored to accommodate clients' needs, analyzing cash flows from the financial assets, structuring them into classes of securitized interests, arranging credit enhancements and locating investors for the securities to be issued. We generally place the securities representing the senior interests from these transactions with third-party investors. We may choose, however, to acquire temporarily a portion of these senior securities for later sale and often structure financial arrangements, including repackaging, that enhance the liquidity of these senior securities in order to attract third-party investors. These securities are recorded in other monetary claims purchased and recorded at fair value.

Our revenue on these transactions consists of fees, generally fixed, for arranging the transaction and for underwriting the sale of the financial instruments. We typically record those fees as having been received at the completion of all arrangements for the customer.

On these transactions, we act as an arranger, an underwriter, a servicer, a trustee or an administrator, or combination of some of these roles, for our corporate customers. As our customers usually retain the residual interests and the related risk of loss on them, we are not exposed to risks of incurring losses inherent in such residual interests.

As of March 31, 2014 and 2013, we held ¥38.5 billion and ¥51.5 billion, respectively, of debt securities and residual interests from securitization transactions.

FINANCIAL CONDITION (continued)

LOAN PARTICIPATIONS

We have sold or transferred participation interests in certain of our loans. Loan participation involves the original lender transferring economic interests in the loan to others, while the original lender retains title to the loan itself.

Under Japanese GAAP, where substantially all of the economic interest in and risks of the loans are transferred to the participants, the original lenders are not deemed to bear recourse obligations for the participating interests or to have any rights to repurchase such interests. As a result, the original lender may remove the loans from its balance sheet as if the loans were sold to the participants. Because substantially all of the economic interest and risks have been transferred to the participants, we believe that we are not taking any substantial economic risk on the portions of loans in which we have sold participating interests.

As of March 31, 2014 and 2013, the total principal amount of participation interests in loans transferred to third-parties removed from the loan account was ¥14.4 billion and ¥16.2 billion, respectively.

OFF-BALANCE SHEET ARRANGEMENTS TO EXTEND CREDIT, ACCEPTANCES AND GUARANTEES

We have off-balance sheet commitments to extend credit to customers up to certain predetermined amounts at current market rates, in consideration of which we receive fee income that is recorded on an accrual basis for the period of the commitments. The unfunded amounts of these commitments and established credit line of overdrafts were ¥3,746.8 billion and ¥3,802.0 billion as of March 31, 2014 and 2013, out of which the amounts with original agreement terms of less than one year or which were cancelable, were ¥3,539.9 billion and ¥3,636.3 billion as of March 31, 2014 and 2013, respectively.

In addition, we provide acceptances and guarantees, which include lines and letters of credit and guarantees on customers' borrowings from other creditors. These acceptances and guarantees require us to satisfy our customers' obligations in the event they fail to do so, although we would have a claim for reimbursement against them. Under Japanese GAAP for banks, these acceptances and guarantees are deemed to be both contingent assets and liabilities, and are recorded as both assets and liabilities in the principal amount of the acceptances and guarantees. We record the fees we earn from providing acceptances and guarantees on an accrual basis over the period of the acceptance or guarantee. As of March 31, 2014 and 2013, we had ¥358.4 billion and ¥511.0 billion, respectively, of outstanding acceptances and guarantees.

APLUS FINANCIAL extends credit in the form of guarantees. The most significant component of its guarantee business is providing guarantees on installment shopping credit provided by other lenders to customers of its partner merchants. APLUS FINANCIAL also offers collection guarantees for foreign automobile dealers. As of March 31, 2014 and 2013, ¥341.5 billion and ¥495.0 billion of our outstanding acceptances or guarantees, respectively, were attributable to its guarantee business.

CONSOLIDATED BALANCE SHEETS

Shinsei Bank, Limited, and its Consolidated Subsidiaries
As of March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
ASSETS			
Cash and due from banks (Notes 3, 22, 23 and 37)	**¥ 1,451,492**	¥ 648,897	**$ 14,116,834**
Call loans (Note 37)	**36,451**	18,806	**354,515**
Receivables under resale agreements (Note 37)	**53,216**	78,507	**517,572**
Receivables under securities borrowing transactions (Note 37)	**23,651**	19,083	**230,032**
Other monetary claims purchased (Notes 4, 22, 23 and 37)	**105,857**	112,318	**1,029,543**
Trading assets (Notes 5, 22, 37 and 38)	**249,115**	287,907	**2,422,835**
Monetary assets held in trust (Notes 6, 22 and 37)	**199,117**	233,847	**1,936,566**
Securities (Notes 7, 22, 23 and 37)	**1,557,020**	1,842,344	**15,143,168**
Loans and bills discounted (Notes 8, 22, 23 and 37)	**4,319,830**	4,292,464	**42,013,526**
Foreign exchanges (Note 9)	**25,656**	33,857	**249,533**
Lease receivables and leased investment assets (Notes 22, 34 and 37)	**227,764**	203,590	**2,215,176**
Other assets (Notes 10, 22, 23, 37 and 38)	**724,963**	766,313	**7,050,804**
Premises and equipment (Notes 11, 22 and 34)	**50,143**	52,716	**487,681**
Intangible assets (Notes 12 and 34)	**57,643**	68,429	**560,625**
Asset for retirement benefits (Note 20)	**1,567**	4,591	**15,250**
Deferred issuance expenses for debentures	**32**	95	**314**
Deferred tax assets (Note 31)	**16,519**	16,339	**160,666**
Customers' liabilities for acceptances and guarantees (Note 21)	**358,414**	511,032	**3,485,849**
Reserve for credit losses (Note 13)	**(137,358)**	(161,810)	**(1,335,915)**
Total assets	**¥ 9,321,103**	¥ 9,029,335	**$ 90,654,574**
LIABILITIES AND EQUITY			
Liabilities:			
Deposits, including negotiable certificates of deposit (Notes 14, 22 and 37)	**¥ 5,850,447**	¥ 5,457,535	**$ 56,899,894**
Debentures (Notes 15 and 37)	**41,747**	262,342	**406,021**
Call money (Notes 22 and 37)	**180,000**	170,094	**1,750,632**
Payables under securities lending transactions (Notes 22 and 37)	**317,599**	47,069	**3,088,892**
Trading liabilities (Notes 16, 37 and 38)	**218,585**	240,099	**2,125,902**
Borrowed money (Notes 17, 22, 23 and 37)	**643,431**	719,292	**6,257,847**
Foreign exchanges (Note 9)	**37**	174	**362**
Short-term corporate bonds (Note 37)	**86,900**	82,800	**845,166**
Corporate bonds (Notes 18, 22, 23 and 37)	**177,248**	174,286	**1,723,869**
Other liabilities (Notes 19, 22, 37 and 38)	**497,804**	630,759	**4,841,516**
Accrued employees' bonuses	**7,782**	7,604	**75,689**
Accrued directors' bonuses	**67**	54	**661**
Liability for retirement benefits (Note 20)	**10,116**	7,309	**98,387**
Reserve for directors' retirement benefits	**119**	245	**1,165**
Reserve for losses on interest repayments	**208,201**	34,983	**2,024,908**
Deferred tax liabilities (Note 31)	**9**	7	**89**
Acceptances and guarantees (Notes 21, 22 and 37)	**358,414**	511,032	**3,485,849**
Total liabilities	**8,598,512**	8,345,690	**83,626,849**
Equity:			
Common stock (Note 25)	**512,204**	512,204	**4,981,565**
Capital surplus	**79,461**	79,461	**772,825**
Stock acquisition rights (Note 26)	**1,221**	1,238	**11,881**
Retained earnings	**146,002**	107,288	**1,419,986**
Treasury stock, at cost (Note 25)	**(72,558)**	(72,558)	**(705,687)**
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities (Note 7)	**6,288**	3,825	**61,165**
Deferred gain (loss) on derivatives under hedge accounting	**(8,769)**	(11,605)	**(85,294)**
Foreign currency translation adjustments	**267**	1,475	**2,602**
Defined retirement benefit plans (Note 20)	**(5,195)**	—	**(50,533)**
Total	**658,923**	621,329	**6,408,510**
Minority interests (Note 24)	**63,667**	62,315	**619,215**
Total equity	**722,590**	683,644	**7,027,725**
Total liabilities and equity	**¥ 9,321,103**	¥ 9,029,335	**$ 90,654,574**

See accompanying "Notes to Consolidated Financial Statements," which are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Interest income:			
Interest on loans and bills discounted	**¥ 124,531**	¥ 128,636	**$ 1,211,162**
Interest and dividends on securities	**15,694**	17,028	**152,638**
Interest on deposits with banks	**1,052**	334	**10,238**
Other interest income	**1,991**	1,835	**19,373**
Total interest income	**143,270**	147,834	**1,393,411**
Interest expenses:			
Interest on deposits, including negotiable certificates of deposit	**20,606**	23,440	**200,411**
Interest and discounts on debentures	**155**	979	**1,510**
Interest on other borrowings	**5,090**	5,417	**49,506**
Interest on corporate bonds	**5,940**	5,467	**57,780**
Other interest expenses	**959**	845	**9,333**
Total interest expenses	**32,752**	36,149	**318,540**
Net interest income	**110,518**	111,685	**1,074,871**
Fees and commissions income	**43,603**	40,309	**424,074**
Fees and commissions expenses	**21,165**	21,134	**205,854**
Net fees and commissions	**22,437**	19,175	**218,220**
Net trading income (loss) (Note 27)	**13,975**	20,029	**135,919**
Other business income (loss), net:			
Income on lease transactions and installment receivables, net	**36,536**	35,604	**355,342**
Net gain (loss) on monetary assets held in trust	**6,796**	8,259	**66,104**
Net gain (loss) on foreign exchanges	**5,024**	(195)	**48,866**
Net gain (loss) on securities	**952**	4,317	**9,268**
Net gain (loss) on other monetary claims purchased	**822**	1,117	**7,998**
Other, net (Note 28)	**5,972**	(985)	**58,090**
Net other business income (loss)	**56,105**	48,118	**545,668**
Total revenue	**203,036**	199,009	**1,974,678**
General and administrative expenses:			
Personnel expenses	**55,231**	53,957	**537,167**
Premises expenses	**20,022**	19,481	**194,734**
Technology and data processing expenses	**18,178**	17,638	**176,796**
Advertising expenses	**10,099**	9,229	**98,224**
Consumption and property taxes	**6,147**	6,504	**59,787**
Deposit insurance premium	**3,434**	3,573	**33,407**
Other general and administrative expenses	**21,953**	20,602	**213,517**
General and administrative expenses	**135,067**	130,987	**1,313,632**
Amortization of goodwill and intangible assets acquired in business combinations	**9,746**	10,811	**94,796**
Total general and administrative expenses	**144,814**	141,798	**1,408,428**
Net business profit (loss)	**58,221**	57,210	**566,250**
Net credit costs (Note 29)	**279**	5,522	**2,715**
Other gains (losses), net (Note 30)	**(11,922)**	2,187	**(115,953)**
Income (loss) before income taxes and minority interests	**46,020**	53,875	**447,582**
Income taxes (benefit) (Note 31):			
Current	**2,464**	595	**23,971**
Deferred	**(795)**	(1,334)	**(7,739)**
Net income (loss) before minority interests	**44,351**	54,614	**431,350**
Minority interests in net income of subsidiaries	**2,976**	3,534	**28,949**
Net income (loss)	**¥ 41,374**	¥ 51,079	**$ 402,401**

	Yen		U.S. dollars (Note 1)
Basic net income (loss) per common share (Note 32)	**¥ 15.59**	¥ 19.24	**$ 0.15**
Diluted net income (loss) per common share (Note 32)	**¥ 15.59**	¥ —	**$ 0.15**

See accompanying "Notes to Consolidated Financial Statements," which are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Net income (loss) before minority interests	**¥ 44,351**	¥ 54,614	**$ 431,350**
Other comprehensive income (Note 33):			
Unrealized gain (loss) on available-for-sale securities	**2,803**	4,266	**27,270**
Deferred gain (loss) on derivatives under hedge accounting	**2,835**	148	**27,582**
Foreign currency translation adjustments	**(655)**	2,889	**(6,379)**
Share of other comprehensive income in affiliates	**(153)**	794	**(1,493)**
Total other comprehensive income	**4,830**	8,098	**46,980**
Comprehensive income	**¥ 49,181**	¥ 62,713	**$ 478,330**
Total comprehensive income attributable to:			
Owners of the parent	**¥ 45,466**	¥ 58,319	**$ 442,197**
Minority interests	**3,715**	4,393	**36,133**

See accompanying "Notes to Consolidated Financial Statements," which are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Common stock:			
Balance at beginning of the year	**¥ 512,204**	¥ 512,204	**$ 4,981,565**
Balance at end of the year	**512,204**	512,204	**4,981,565**
Capital surplus:			
Balance at beginning of the year	**79,461**	79,461	**772,825**
Balance at end of the year	**79,461**	79,461	**772,825**
Stock acquisition rights:			
Balance at beginning of the year	**1,238**	1,354	**12,047**
Net change during the year	**(17)**	(115)	**(166)**
Balance at end of the year	**1,221**	1,238	**11,881**
Retained earnings:			
Balance at beginning of the year	**107,288**	58,863	**1,043,456**
Dividends	**(2,653)**	(2,653)	**(25,811)**
Net income (loss)	**41,374**	51,079	**402,401**
Changes by inclusion of subsidiaries (former nonconsolidated subsidiaries)	**(5)**	(0)	**(51)**
Changes by exclusion of consolidated subsidiaries	**(0)**	(0)	**(9)**
Balance at end of the year	**146,002**	107,288	**1,419,986**
Treasury stock, at cost:			
Balance at beginning of the year	**(72,558)**	(72,558)	**(705,687)**
Balance at end of the year	**(72,558)**	(72,558)	**(705,687)**
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities:			
Balance at beginning of the year	**3,825**	(674)	**37,204**
Net change during the year	**2,463**	4,499	**23,961**
Balance at end of the year	**6,288**	3,825	**61,165**
Deferred gain (loss) on derivatives under hedge accounting:			
Balance at beginning of the year	**(11,605)**	(11,754)	**(112,876)**
Net change during the year	**2,835**	148	**27,582**
Balance at end of the year	**(8,769)**	(11,605)	**(85,294)**
Foreign currency translation adjustments:			
Balance at beginning of the year	**1,475**	(1,117)	**14,349**
Net change during the year	**(1,207)**	2,592	**(11,747)**
Balance at end of the year	**267**	1,475	**2,602**
Defined retirement benefit plans:			
Balance at beginning of the year	**—**	—	**—**
Net change during the year	**(5,195)**	—	**(50,533)**
Balance at end of the year	**(5,195)**	—	**(50,533)**
Minority interests:			
Balance at beginning of the year	**62,315**	61,877	**606,066**
Net change during the year	**1,351**	438	**13,149**
Balance at end of the year	**63,667**	62,315	**619,215**
Total equity:			
Balance at beginning of the year	**683,644**	627,657	**6,648,949**
Net change in stock acquisition rights during the year	**(17)**	(115)	**(166)**
Dividends	**(2,653)**	(2,653)	**(25,811)**
Net income (loss)	**41,374**	51,079	**402,401**
Changes by inclusion of subsidiaries (former nonconsolidated subsidiaries)	**(5)**	(0)	**(51)**
Changes by exclusion of consolidated subsidiaries	**(0)**	(0)	**(9)**
Net change in accumulated other comprehensive income during the year	**(1,103)**	7,240	**(10,737)**
Net change in minority interests during the year	**1,351**	438	**13,149**
Balance at end of the year	**¥ 722,590**	¥ 683,644	**$ 7,027,725**

See accompanying "Notes to Consolidated Financial Statements," which are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥ 46,020	¥ 53,875	$ 447,582
Adjustments for:			
Income taxes paid	(1,281)	(696)	(12,462)
Depreciation (other than leased assets as lessor)	10,274	10,502	99,929
Amortization of goodwill and intangible assets acquired in business combinations	9,746	10,811	94,796
Impairment losses on long-lived assets	1,558	916	15,156
Net change in reserve for credit losses	(24,459)	(18,942)	(237,882)
Net change in reserve for losses on interest repayments	173,217	(15,930)	1,684,671
Net change in other reserves	50	365	489
Interest income	(143,270)	(147,834)	(1,393,411)
Interest expenses	32,752	36,149	318,540
Investment (gains) losses	(5,293)	(10,351)	(51,479)
Net exchange (gain) loss	(20,741)	(31,199)	(201,731)
Net change in trading assets	38,791	(85,231)	377,272
Net change in trading liabilities	(21,514)	64,055	(209,243)
Net change in loans and bills discounted	(24,921)	(153,821)	(242,382)
Net change in deposits, including negotiable certificates of deposit	392,927	95,124	3,821,506
Net change in debentures	(220,594)	(31,797)	(2,145,448)
Net change in borrowed money (other than subordinated debt)	(54,298)	243,287	(528,096)
Net change in corporate bonds (other than subordinated corporate bonds)	2,667	(2,510)	25,946
Net change in interest-bearing deposits with banks	(8,818)	8,776	(85,763)
Net change in call loans, receivables under resale agreements, receivables under securities borrowing transactions and other monetary claims purchased	15,552	54,104	151,256
Net change in call money, payables under securities lending transactions, and short-term corporate bonds (liabilities)	284,536	(109,491)	2,767,329
Net change in foreign exchange assets and liabilities	8,063	(14,798)	78,428
Interest received	141,507	149,077	1,376,267
Interest paid	(59,034)	(26,279)	(574,153)
Net change in securities for trading purposes	530	(49)	5,160
Net change in monetary assets held in trust for trading purposes	30,327	33,743	294,961
Net change in lease receivables and leased investment assets	(24,084)	(5,499)	(234,242)
Other, net	(55,395)	53,708	(538,757)
Total adjustments	478,797	106,189	4,656,657
Net cash provided by (used in) operating activities	524,817	160,065	5,104,239
Cash flows from investing activities:			
Purchase of investments	(777,805)	(8,634,681)	(7,564,726)
Proceeds from sales of investments	874,442	8,291,274	8,504,596
Proceeds from maturity of investments	217,897	423,914	2,119,211
Purchase of premises and equipment (other than leased assets as lessor)	(4,808)	(3,209)	(46,770)
Purchase of intangible assets (other than leased assets as lessor)	(5,638)	(4,249)	(54,837)
Proceeds from sale of subsidiary's stocks	—	14,588	—
Other, net	3,344	133	32,524
Net cash provided by (used in) investing activities	307,431	87,769	2,989,998
Cash flows from financing activities:			
Proceeds from issuance of subordinated debt	2,400	—	23,342
Repayment of subordinated debt	(25,000)	(1,000)	(243,144)
Proceeds from issuance of subordinated corporate bonds	24,787	6,349	241,074
Payment for redemption of subordinated corporate bonds	(37,288)	(5,000)	(362,653)
Proceeds from minority shareholders of subsidiaries	851	262	8,278
Payment for capital returned to minority shareholders of subsidiaries	(41)	(1,043)	(404)
Dividends paid	(2,653)	(2,653)	(25,811)
Dividends paid to minority shareholders of subsidiaries	(3,173)	(3,145)	(30,862)
Net cash provided by (used in) financing activities	(40,118)	(6,230)	(390,180)
Foreign currency translation adjustments on cash and cash equivalents	108	68	1,059
Net change in cash and cash equivalents	792,239	241,672	7,705,116
Cash and cash equivalents at beginning of year	574,470	332,798	5,587,149
Cash and cash equivalents at end of year (Note 3)	¥ 1,366,710	¥ 574,470	$ 13,292,265

Note: Investments consist of securities and monetary assets held in trust for other than trading purposes.
See accompanying "Notes to Consolidated Financial Statements," which are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal years ended March 31, 2014 and 2013

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS CONSOLIDATED

The accompanying consolidated financial statements of Shinsei Bank, Limited (the "Bank") and its consolidated subsidiaries (collectively, the "Group"), stated in Japanese yen, have been prepared on the basis of generally accepted accounting principles in Japan ("Japanese GAAP") and in accordance with the Banking Act of Japan (the "Banking Act"), and compiled from the consolidated financial statements prepared under the provisions set forth in the Financial Instruments and Exchange Act of Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

Certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, the accompanying notes include information that is not required under Japanese GAAP, but is presented herein for the convenience of readers.

The preparation of consolidated financial statements in conformity with Japanese GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

As permitted by the Financial Instruments and Exchange Act of Japan, yen amounts, except for per share amounts, are presented in millions of yen and are rounded down to the nearest million. As a result, the totals do not necessarily conform with the sum of the individual amounts.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥102.82 to U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2014. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONSOLIDATED

(A) PRINCIPLES OF CONSOLIDATION

The Group applies its consolidation scope using the control and influence concepts. Under the control and influence concepts, those companies in which the Bank, directly or indirectly, is able to exercise control over operations are fully consolidated and those companies in which the Bank, directly or indirectly, is able to exercise significant influence over operations are accounted for by the equity method.

The numbers of subsidiaries and affiliates as of March 31, 2014 and 2013 were as follows:

	2014	2013
Consolidated subsidiaries	**184**	186
Unconsolidated subsidiaries	**93**	83
Affiliates accounted for by the equity method	**19**	15
Affiliates accounted for not applying the equity method	**0**	0

Unconsolidated subsidiaries are primarily operating companies that undertake leasing business based on the Tokumei Kumiai system (silent partnerships). Tokumei Kumiai's assets, profit and loss virtually belong to each silent partner but not to the operation companies, and the Group does not have any material transactions with these subsidiaries. Therefore, these subsidiaries are excluded from consolidation in order to avoid any material misunderstanding by the Bank's stakeholders.

Other unconsolidated subsidiaries are excluded from consolidation because they are immaterial to the financial condition or results of operations of the Group.

Major consolidated subsidiaries as of March 31, 2014 were as listed below:

Name	Location	Percentage ownership
APLUS FINANCIAL Co., Ltd.	Japan	95.0%
Showa Leasing Co., Ltd.	Japan	97.8%
Shinsei Financial Co., Ltd.	Japan	100.0%
SHINKI Co., Ltd.	Japan	100.0%
Shinsei Trust & Banking Co., Ltd.	Japan	100.0%
Shinsei Securities Co., Ltd.	Japan	100.0%

All significant inter-company transactions, related account balances and unrealized gains have been eliminated in consolidation. As of March 31, 2014, the fiscal year ending dates were March 31 for 138 subsidiaries, July 31 for 3 subsidiaries, September 30 for 3 subsidiaries, November 30 for 1 subsidiary, December 31 for 36 subsidiaries, January 31 for 1 subsidiary and February 28 for 2 subsidiaries. Except for 9 subsidiaries which were consolidated as of March 31 rather than their fiscal year ends, those consolidated subsidiaries whose fiscal years end at dates other than March 31 were consolidated using their fiscal year end financial statements with appropriate adjustments made for significant transactions that occurred during the period from the ending dates of their fiscal years to the date of the Group's consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

Major affiliates accounted for by the equity method as of March 31, 2014 were as listed below:

Name	Location	Percentage ownership
Comox Holdings Ltd.	Bermuda	49.9%
Jih Sun Financial Holding Co., Ltd.	Taiwan	35.4%

(B) BUSINESS COMBINATIONS

In October 2003, the Business Accounting Council (the "BAC") issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Statement No.7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No.10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." The accounting standard for business combinations allowed companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (i) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling of interests method of accounting is no longer allowed. (ii) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

Under the previous standard, the Group accounted for the acquisitions of APLUS FINANCIAL Co., Ltd. ("APLUS FINANCIAL"), Showa Leasing Co., Ltd. ("Showa Leasing"), SHINKI Co., Ltd. ("SHINKI"), Shinsei Financial Co., Ltd. ("Shinsei Financial") and their consolidated subsidiaries by the purchase method of accounting.

(C) GOODWILL AND INTANGIBLE ASSETS ACQUIRED IN BUSINESS COMBINATIONS

The Bank recognized certain identifiable intangible assets in connection with the acquisition of Showa Leasing, Shinsei Financial and their consolidated subsidiaries, because they were separable such as contractual or other legal rights.

The identified intangible assets with amortization method and period are as listed below:

Showa Leasing

Identified intangible assets	Amortization method	Amortization period
Trade name and trademark	Straight-line	10 years
Customer relationship	Sum-of-the-years digits	20 years
Sublease contracts	Straight-line	Subject to the remaining contract years

Shinsei Financial

Identified intangible assets	Amortization method	Amortization period
Trade names and trademarks	Straight-line	10 years
Customer relationship	Sum-of-the-years digits	10 years

The excess of the purchase price over the fair value of the net assets acquired, including identified intangible assets, was recorded as goodwill and is being amortized on a consistent basis primarily over 20 years. The amortization period of 20 years is the maximum period allowed under Japanese GAAP and was determined based upon the Bank's business strategy.

With regard to the acquisitions undertaken before April 1, 2010, accounted for under the previous accounting standard, when the purchase price was lower than the fair value of the net assets acquired, including identified intangible assets, the difference is recorded as negative goodwill and primarily amortized on a straight-line basis over 20 years, which is the maximum period allowed under the previous accounting standard.

(D) IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS ACQUIRED IN BUSINESS COMBINATIONS

The Bank conducts impairment testing for goodwill and intangible assets acquired in business combinations as a result of certain triggering events including:

- An expectation of an operating loss or negative cash flow for two consecutive years;
- Impairment of underlying investment securities is recognized;
- A significant adverse change in the environment surrounding the business operations of the subsidiary, such as a change in law which significantly impacts the business in a negative way;
- Management decisions that could have an adverse effect on the value of goodwill and intangible assets acquired in business combinations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

As the first step of the impairment test, we estimate the undiscounted future cash flows of the business. If the value of the undiscounted future cash flows is less than the book value of the net assets, including goodwill and intangible assets acquired in business combinations, of the business, it is determined that impairment exists and the next step of the impairment test is performed to measure the amount of the impairment loss.

The next step of the impairment test compares the "value in use," which is calculated as the discounted value of future cash flows of the business, and the net asset book value which includes unamortized balances of goodwill and intangible assets acquired in business combinations. (i) Impairment loss for the total of goodwill and intangible assets acquired in business combinations, is recognized as an amount by which the net asset book value exceeds the "value in use." The recoverable amount of intangible assets acquired in business combinations is determined in the same manner used to apply purchase accounting at the time of the initial acquisition, and (ii) the impairment loss of intangible assets acquired in business combinations, is determined as the difference between the recoverable amount and book value. Finally, the impairment loss on goodwill is calculated as the residual calculated as (i) less (ii) above.

(E) TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS AND TRANSACTIONS

(a) The financial statements of consolidated foreign subsidiaries are translated into Japanese yen at exchange rates as of their respective balance sheet dates, except for equity, which is translated at historical exchange rates. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity in the accompanying consolidated balance sheets.

(b) Foreign currency accounts held by consolidated foreign subsidiaries are translated into the currency of the subsidiary at exchange rates as of their respective balance sheet dates.

(c) Foreign currency-denominated assets and liabilities of the Bank and consolidated domestic subsidiaries are translated into Japanese yen at exchange rates as of their respective balance sheet dates, except for investments in unconsolidated subsidiaries and affiliates which are translated at the relevant historical exchange rates.

(F) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, due from the Bank of Japan and non-interest-bearing deposits.

(G) OTHER MONETARY CLAIMS PURCHASED

Other monetary claims purchased held for trading purposes are recorded at fair value and unrealized gains and losses are recorded in other business income (loss), net.

(H) VALUATION OF TRADING ACCOUNT ACTIVITIES

Trading account positions entered into to generate gains arising from short-term changes in interest rates, currency exchange rates or market prices of financial instruments and other market-related indices, or from price differences among markets, are included in trading assets and trading liabilities on a trade-date basis.

Trading securities and monetary claims purchased for trading purposes are stated at market value and derivative financial instruments related to trading positions are stated at fair value based on estimated amounts that would be settled in cash if such positions were terminated at the end of the fiscal year, which reflects liquidity and credit risks.

Trading income and trading losses include interest received and paid during the fiscal year and unrealized gains and losses resulting from the change in the value of securities, monetary claims purchased, and derivatives between the beginning and the end of the fiscal year.

(I) MONETARY ASSETS HELD IN TRUST

The components of trust assets are accounted for based on the accounting standards appropriate for each asset type. Instruments held in trust for trading purposes are recorded at fair value and unrealized gains and losses are recorded in other business income (loss), net. Instruments held in trust classified as available-for-sale are recorded at fair value with the corresponding unrealized gains and losses recorded directly in a separate component of equity.

Instruments held in trust classified as available-for-sale for which fair value cannot be reliably determined are carried at cost.

(J) SECURITIES

Securities other than investments in unconsolidated subsidiaries and affiliates are classified into three categories, based principally on the Group's intent, as follows:

Trading securities are securities held in anticipation of gains arising from short-term changes in market value and/or held for resale to customers. Trading securities are carried at fair value with corresponding unrealized gains and losses recorded in income (loss).

Securities being held to maturity are debt securities for which the Group has both a positive intent and ability to hold until maturity. Securities being held to maturity are carried at amortized cost determined by the moving average method.

Securities available for sale are securities other than trading securities and securities being held to maturity. Securities available for sale are carried at fair value with the corresponding unrealized gains and losses, net of applicable taxes, recorded directly in a separate component of equity. The cost of these securities upon sale is determined by the moving average method. Securities available for sale for which fair value cannot be reliably determined are carried at cost determined by the moving average method.

In addition, investments in unconsolidated subsidiaries and affiliates that are not accounted for by the equity method are carried at cost determined by the moving average method.

Individual securities, other than trading securities, are written down when a decline in fair value below the cost of such securities is deemed to be other than temporary.

(K) PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation.

Depreciation of the Group's buildings and the Bank's computer equipment (including ATMs) other than personal computers is computed principally using the straight-line method, and depreciation of other equipment is computed principally using the declining-balance method. Principal estimated useful lives of buildings and equipment as of March 31, 2014 were as follows:

Buildings .... 3 years to 50 years
Equipment ..... 2 years to 20 years

(L) SOFTWARE

Capitalized software for internal use is depreciated using the straight-line method based on the Group's estimated useful lives (primarily 5 years).

(M) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss is 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 an asset or asset group. The impairment loss is 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.

(N) DEFERRED CHARGES

Deferred issuance expenses for debentures and corporate bonds are amortized using the straight-line method over the term of the debentures and corporate bonds.

(O) RESERVE FOR CREDIT LOSSES

The reserve for credit losses of the Bank and the consolidated domestic trust and banking subsidiary has been established as described below based on the Bank's internal rules for establishing the reserve.

For claims to obligors who are legally bankrupt due to bankruptcy, special liquidation proceedings or similar legal proceedings ("legally bankrupt obligors") or to obligors who are effectively in similar conditions ("virtually bankrupt obligors"), a specific reserve is provided based on the amount of claims, after the charge-off stated below, net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

For claims to obligors who are not yet bankrupt but are experiencing financial difficulties and are very likely to go bankrupt in the future ("possibly bankrupt obligors"), except for claims to obligors with larger claims than a predetermined amount, a specific reserve is provided for the amount considered to be necessary based on an overall solvency assessment performed for the amount of claims net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

With regard to claims to possibly bankrupt obligors, restructured loans and certain claims for which the reserve has been provided based on the discounted cash flow method (as mentioned below) in previous fiscal years, provided that obligors' cash flows for debt service are reasonably estimable and the balance of claims to such obligors is at or larger than a predetermined amount, the reserve for credit losses is determined as the difference between (i) relevant estimated cash flows discounted by the original contractual interest rate and (ii) the book value of the claim (discounted cash flow method). In case where it is difficult to reasonably estimate future cash flows, the reserve is provided based on expected loss amount for the remaining term of respective claims.

For other claims, a general reserve is provided based on historical loan loss experience.

For specific foreign claims, there is a reserve for loans to restructuring countries which has been provided based on losses estimated by considering the political and economic conditions in those countries.

All claims are assessed by business divisions based on the predetermined internal rules for self-assessment of asset quality. The Credit Assessment Division, which is independent from business divisions, conducts verifications of these assessments, and additional reserves may be provided based on the verification results.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

The consolidated subsidiaries other than the domestic trust and banking subsidiary calculate the general reserve for general claims based on the actual historical loss ratio, and the specific reserve for claims to possibly bankrupt obligors, virtually bankrupt obligors and legally bankrupt obligors based on estimated losses, considering the recoverable value.

For collateralized or guaranteed claims of the Bank and certain consolidated subsidiaries to legally bankrupt obligors or virtually bankrupt obligors, the amount of claims exceeding the estimated value of collateral or guarantees, which is deemed uncollectible, has been charged off and totaled ¥155,632 million (U.S.$1,513,636 thousand) and ¥155,879 million as of March 31, 2014 and 2013, respectively.

(P) ACCRUED BONUSES FOR EMPLOYEES AND DIRECTORS

Accrued bonuses for employees and directors are provided in the amount of the estimated bonuses which are attributable to each fiscal year.

(Q) EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN ASSETS

The Bank, APLUS FINANCIAL and Showa Leasing each have a noncontributory defined benefit pension plan, and Shinsei Financial and certain of the other consolidated domestic subsidiaries have unfunded severance indemnity plans, which cover substantially all of the Group's employees. The liability for employees' retirement benefits is provided for the payment of employees' retirement benefits based on the estimated amounts of the projected benefit obligation and the estimated value of pension plan assets at the end of the fiscal year. Net actuarial gains and losses and past service costs are amortized using the straight-line method over the average remaining service period primarily from the fiscal year of occurrence.

Effective April 1, 2000, the Bank adopted an accounting standard for employees' retirement benefits and accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The transitional unrecognized net retirement benefit obligation for the Bank of ¥9,081 million is being amortized using the straight-line method over 15 years.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

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

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

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

This accounting standard and the guidance for (a) and (b) above are effective for the end of the fiscal year beginning on or after April 1, 2013, and for (c) above are effective for the beginning of the fiscal year beginning on or after April 1, 2014, or for the beginning of fiscal year beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of the fiscal year beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Group applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014. As a result, asset for retirement benefits of ¥1,567 million (U.S.$15,250 thousand), which was previously included in other assets as prepaid pension cost, and liability for retirement benefits of ¥10,116 million (U.S.$ 98,387 thousand), which was previously presented under the title of reserve for employees' retirement benefits, were recorded as of March 31, 2014, and accumulated other comprehensive income for the fiscal year ended March 31, 2014, decreased by ¥5,195 million (U.S.$50,553 thousand).

(R) RESERVE FOR DIRECTORS' RETIREMENT BENEFITS

Retirement allowances for directors and audit & supervisory board members are recorded to state the liability at the amount that would be required if all directors and audit & supervisory board members retired at each balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

(S) RESERVE FOR LOSSES ON INTEREST REPAYMENTS

The reserve for losses on interest repayments is provided for estimated losses on reimbursements of excess interest payments and loan losses related to consumer finance loans extended at interest rates in excess of the maximum interest rate prescribed in the Interest Rate Restriction Act of Japan. The reserve is established in the amount of the estimated future reimbursement requests based on past experience.

In addition, a reserve for losses on interest repayments of Shinsei Financial had been calculated considering the terms stipulated in the share transfer agreement entered into by and between the Bank and the seller, GE Japan Holdings Co., Ltd. ("GE Japan"), for the acquisition of Shinsei Financial, under which the sharing of interest repayment costs between the Bank and GE Japan is determined. The agreement also provided GE Japan with a buyout option to end such obligation as of March 31, 2014, whereby GE Japan would make a one-time payment to Shinsei Financial in the amount that the Bank had determined to cover expected future losses on interest repayments. In accordance with the agreement, GE Japan exercised its option to conclude the indemnity for losses on interest repayments and Shinsei Financial received a cash payment for expected future losses on interest repayments of ¥175,000 million (U.S.$1,702,004 thousand) and recorded a reserve of the same amount as of March 31, 2014.

(T) ASSET RETIREMENT OBLIGATIONS

In March 2008, the ASBJ issued ASBJ Statement No.18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations."

Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability.

The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

(U) STOCK OPTIONS

In December 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006. This standard requires companies to measure the cost of employee stock options based on the fair value at the date of grant and recognize compensation expense over the vesting period as consideration for receiving goods or services. In the consolidated balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.

(V) LEASE TRANSACTIONS

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

Effective April 1, 2008, the Bank and its consolidated subsidiaries applied the revised accounting standard for lease transactions.

(As lessee)

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the consolidated balance sheets.

Depreciation of lease assets from finance lease transactions that deem to transfer ownership of the leased property to the lessee, is computed using the same method as the one applied to owned assets. Depreciation of lease assets from finance lease transactions that do not deem to transfer ownership of the leased property to the lessee is computed using the straight-line method over the leasing period. Residual values of lease assets are the guaranteed value determined in the lease contracts or zero for assets without such guaranteed value.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

(As lessor)
Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were treated as sales. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if sold" information was disclosed in the note 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 be recognized as lease receivables, and that all finance leases that are not deemed to transfer ownership of the leased property to the lessee be recognized as leased investment assets.

In addition, depreciation of tangible leased assets as lessor for operating lease transactions is computed using the straight-line method over the leasing period assuming that residual values are the disposal price estimable at the end of the estimated leasing period.

Net income on each finance lease transaction is calculated on the basis of the internal rate of return of each transaction.

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

As a result of this transitional treatment, income before income taxes and minority interests increased by ¥364 million (U.S.$3,544 thousand) and ¥1,009 million for the fiscal years ended March 31, 2014 and 2013, respectively, as compared to what would have been reported if the revised accounting standard was applied retroactively to all finance lease transactions as lessor.

(W) INSTALLMENT SALES FINANCE AND CREDIT GUARANTEES

Fees from installment sales finance have principally been prorated over the respective installment periods by using the sum-of-the-months digits method, or by using the credit-balance method.

Fees from credit guarantees have been recognized either by the sum-of-the-months digits method, the straight-line method or the credit-balance method over the contract terms.

(X) REVENUE RECOGNITION FOR INTEREST ON CONSUMER LENDING BUSINESS

Consolidated subsidiaries specialized in the consumer lending business accrued interest income at the balance sheet date at the lower of the amount determined using a rate permissible under the Interest Rate Restriction Act of Japan or the amount determined using rates on contracts with customers.

(Y) INCOME TAXES

Deferred income taxes relating to temporary differences between financial reporting and tax bases of assets and liabilities and tax loss carryforwards have been recognized. The asset and liability approach is used to recognize deferred income taxes.

The Bank files its corporate income tax return under the consolidated corporate tax system, which allows companies to base tax payments on the combined profits and losses of the Bank and its wholly-owned domestic subsidiaries.

A valuation allowance is recognized for any portion of the deferred tax assets where it is considered more likely than not that it will not be realized.

(Z) DERIVATIVES AND HEDGE ACCOUNTING

Derivatives are stated at fair value. Derivative transactions that meet the hedge accounting criteria are primarily accounted for using the deferral method whereby unrealized gains and losses are deferred in a separate component of equity until the gains and losses on the hedged items are realized.

(a) Hedge of interest rate risks

Derivative transactions that meet the hedge accounting criteria for mitigating interest rate risks of the Bank's financial assets and liabilities are accounted for using the deferral method. The Bank adopted portfolio hedging to determine the effectiveness of its hedging instruments in accordance with Industry Audit Committee Report No. 24 of the Japanese Institute of Certified Public Accountants (JICPA). Under portfolio hedging activities to mitigate the change in fair value, a portfolio of hedged items with common maturities such as deposits or loans is designated and matched with a group of hedging instruments such as interest rate swaps, which offset the effect of fair value fluctuations of the hedged items by identified maturities. The effectiveness of the portfolio hedging is assessed by each group.

As for portfolio hedging activities to fix cash flows, the effectiveness is assessed based on the correlation between the base interest rate index of the hedged cash flow and that of the hedging instrument.

The interest rate swaps of certain consolidated subsidiaries which qualify for hedge accounting and meet specific matching criteria are not measured at fair value, but the net payments or receipts under the swap agreements are recognized and included in interest expenses or income.

(b) Hedge of foreign exchange fluctuation risks

The Bank applies either deferral hedge accounting or fair value hedge accounting in accordance with Industry Audit Committee Report No. 25 of the JICPA to the derivative transactions that meet the hedge accounting criteria for mitigating foreign currency fluctuation risks of its financial assets and liabilities.

Fund swap transactions are foreign exchange swaps, and consist of spot foreign exchange contracts bought or sold and forward foreign exchange contracts bought or sold. Such transactions are contracted for the purpose of lending or borrowing in a different currency and converting the corresponding principal equivalents and foreign currency equivalents to pay and receive, whose amounts and due dates are predetermined at the time of the transactions, into forward foreign exchange contracts bought or sold.

Under deferral hedge accounting, hedged items are identified by grouping the foreign currency-denominated financial assets and liabilities by currency and designating derivative transactions such as currency swap transactions, fund swap transactions and forward exchange contracts as hedging instruments. Hedge effectiveness is reviewed by comparing the total foreign currency position of the hedged items and hedging instruments by currency.

The Bank also applies deferral hedge accounting and fair value hedge accounting to translation gains or losses from foreign currency assets of net investments in foreign unconsolidated subsidiaries, affiliates and securities available for sale (other than bonds denominated in foreign currencies) when such foreign currency exposures recorded as assets are hedged with offsetting foreign currency liabilities and the liabilities equal or exceed the acquisition cost of such foreign currency assets.

(c) Inter-company and intra-company derivative transactions

Gains and losses on inter-company and intra-company derivative hedging transactions between the trading book and the banking book are not eliminated since offsetting transactions with third parties are appropriately entered into in conformity with the nonarbitrary and strict hedging policy in accordance with Industry Audit Committee Reports No. 24 and No. 25 of the JICPA. As a result, in the banking book, realized gains and losses on such inter-company and intra-company transactions are reported in current earnings and valuation gains and losses which meet the hedge accounting criteria are deferred. On the other hand, in the trading book, realized gains and losses and valuation gains and losses on such inter-company and intra-company transactions are substantially offset with covering contracts entered into with third parties.

(AA) PER SHARE INFORMATION

Basic net income (loss) per common share calculations represent net income (loss) available to common shareholders, divided by the weighted average number of outstanding shares of common stock during the respective fiscal year, retroactively adjusted for stock splits and reverse stock splits.

Diluted net income per common share calculations consider the dilutive effect of common stock equivalents, which include stock acquisition rights, assuming that stock acquisition rights were fully exercised at the time of issuance for those issued during the fiscal year and at the beginning of the fiscal year for those previously issued and outstanding at the beginning of the fiscal year.

(AB) ACCOUNTING CHANGES AND ERROR CORRECTIONS

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

(a) Changes in accounting policies

When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(b) Changes in presentation

When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(c) Changes in accounting estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(d) Corrections of prior-period errors

When an error in prior-period financial statements is discovered, those statements are restated.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) CONSOLIDATED

(AC) NEW ACCOUNTING PRONOUNCEMENTS

Accounting Standard for Retirement Benefits

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by BAC in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009. Major changes are as follows:

(a) Treatment in the balance sheet

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

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

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

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

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

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

This accounting standard and the guidance for (a) and (b) above are effective for the end of the fiscal year beginning on or after April 1, 2013, and for (c) above are effective for the beginning of the fiscal year beginning on or after April 1, 2014, or for the beginning of fiscal year beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of the fiscal year beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Group applied the revised accounting standard for (a) and (b) above effective March 31, 2014, and expects to apply (c) above from April 1, 2014. As a result of the application of (c) on April 1, 2014, asset for retirement benefits of ¥1,223 million (U.S.$11,899 thousand) and liability for retirement benefits of ¥3,671 million (U.S.$35,706 thousand) will increase and retained earnings of ¥1,799 million (U.S.$17,501 thousand) and accumulated other comprehensive income of ¥648 million (U.S.$6,306 thousand) will decrease. The effect of this application on net income will be immaterial.

Accounting Standards for Business Combinations and Consolidated Financial Statements

In September 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements." Major accounting changes are as follows:

(a) Transactions with noncontrolling interest

A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of minority interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the current accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the minority interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference shall be accounted for as capital surplus as long as the parent retains control over its subsidiary.

(b) Presentation of the consolidated balance sheet

In the consolidated balance sheet, "minority interest" under the current accounting standard will be changed to "noncontrolling interest" under the revised accounting standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

(c) Presentation of the consolidated statement of income
In the consolidated statement of income, "income before minority interest" under the current accounting standard will be changed to "net income" under the revised accounting standard, and "net income" under the current accounting standard will be changed to "net income attributable to owners of the parent" under the revised accounting standard.

(d) Provisional accounting treatments for a business combination
If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisioned amounts for the items for which the accounting is incomplete. Under the current accounting standard guidance, the effect of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

(e) Acquisition-related costs
Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the current accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for "transactions with noncontrolling interest," "acquisition-related costs" and presentation changes in the consolidated financial statements are effective for the beginning of the fiscal year beginning on or after April 1, 2015. Earlier application is permitted from the beginning of the fiscal year beginning on or after April 1, 2014, except for the presentation changes in the consolidated statement of income. In case of earlier application, all accounting standards and guidance above, except for the presentation changes, should be applied simultaneously. Either retrospective or prospective application of the revised accounting standards and guidance for "transactions with noncontrolling interest" and "acquisition-related costs" is permitted. In retrospective application of the revised standards and guidance for "transactions with noncontrolling interest" and "acquisition-related costs," accumulated effects of retrospective adjustments for all "transactions with noncontrolling interest" and "acquisition-related costs" which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application.

In prospective application, the new standards and guidance for "transactions with noncontrolling interest" and "acquisition-related costs" shall be applied prospectively from the beginning of the year of the first-time application. The changes in presentation shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for "provisional accounting treatments for a business combination" are effective for a business combination which will occur on or after the beginning of the fiscal year beginning on or after April 1, 2015. Earlier application is permitted for a business combination which will occur on or after the beginning of the fiscal year beginning on or after April 1, 2014.

The Group expects to apply the revised accounting standards and guidance from the beginning of the fiscal year beginning on April 1, 2015, and is in the process of measuring the effects of applying the revised accounting standards and guidance in future applicable periods.

3. CASH AND CASH EQUIVALENTS

CONSOLIDATED

The reconciliation of cash and cash equivalents and cash and due from banks in the consolidated balance sheets as of March 31, 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Cash and due from banks	**¥ 1,451,492**	¥ 648,897	**$ 14,116,834**
Interest-bearing deposits included in due from banks (except for due from the Bank of Japan)	**(84,782)**	(74,426)	**(824,569)**
Cash and cash equivalents	**¥ 1,366,710**	¥ 574,470	**$ 13,292,265**

4. OTHER MONETARY CLAIMS PURCHASED

CONSOLIDATED

(a) Other monetary claims purchased as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Trading purposes	**¥ 51,259**	¥ 66,965	**$ 498,538**
Other	**54,597**	45,352	**531,005**
Total	**¥ 105,857**	¥ 112,318	**$ 1,029,543**

(b) The fair value and the unrealized loss which is included in net gain (loss) on other monetary claims purchased for trading purposes as of March 31, 2014 and 2013 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2014		2013		**2014**	
	Fair value	**Unrealized loss**	Fair value	Unrealized loss	**Fair value**	**Unrealized loss**
Trading purposes	**¥ 51,259**	**¥ 32,485**	¥ 66,965	¥ 27,514	**$ 498,538**	**$ 315,943**

5. TRADING ASSETS

CONSOLIDATED

Trading assets as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Trading securities	**¥ 13,642**	¥ 25,786	**$ 132,687**
Derivatives for trading securities	**1,515**	2,060	**14,739**
Securities held to hedge trading transactions	**—**	1,901	**—**
Derivatives for securities held to hedge trading transactions	**59,599**	46,940	**579,651**
Trading-related financial derivatives	**173,637**	207,014	**1,688,755**
Other	**720**	4,202	**7,003**
Total	**¥ 249,115**	¥ 287,907	**$ 2,422,835**

6. MONETARY ASSETS HELD IN TRUST

CONSOLIDATED

(a) Monetary assets held in trust as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Trading purposes	**¥ 67,954**	¥ 98,282	**$ 660,906**
Other	**131,163**	135,565	**1,275,660**
Total	**¥ 199,117**	¥ 233,847	**$ 1,936,566**

(b) The fair value and the unrealized loss which is included in net gain (loss) on monetary assets held in trust for trading purposes as of March 31, 2014 and 2013 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2014		2013		**2014**	
	Fair value	**Unrealized loss**	Fair value	Unrealized loss	**Fair value**	**Unrealized loss**
Trading purposes	**¥ 67,954**	**¥ 3,012**	¥ 98,282	¥ 4,258	**$ 660,906**	**$ 29,299**

(c) The carrying amount of monetary assets held in trust for other than trading purposes is the same as the acquisition cost as of March 31, 2014 and 2013.

7. SECURITIES

CONSOLIDATED

(a) Securities as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Trading securities	**¥ 131**	¥ 662	**$ 1,280**
Securities being held to maturity	**545,675**	639,809	**5,307,097**
Securities available for sale:			
Securities carried at fair value	**895,444**	1,094,814	**8,708,857**
Securities carried at cost whose fair value cannot be reliably determined	**69,757**	65,959	**678,445**
Investments in unconsolidated subsidiaries and affiliates	**46,010**	41,099	**447,489**
Total	**¥ 1,557,020**	¥ 1,842,344	**$ 15,143,168**

The above balances do not include securities held in connection with securities borrowing transactions with or without cash collateral, securities purchased under resale agreements or securities accepted as collateral for derivative transactions, where the Group has the right to sell or pledge such securities without restrictions. The balances of those securities as of March 31, 2014 and 2013 were ¥28,302 million (U.S.$275,260 thousand) and ¥51,172 million, respectively. In addition, ¥38,571 million (U.S.$375,134 thousand) and ¥47,380 million of those securities were further pledged as of March 31, 2014 and 2013, respectively.

The amount of guarantee obligations for privately-placed bonds (Paragraph 3 of Article 2 of the Financial Instruments and Exchange Act) included in securities as of March 31, 2014 and 2013 were ¥23,433 million (U.S.$227,909 thousand) and ¥31,675 million, respectively.

7. SECURITIES (CONTINUED)

CONSOLIDATED

(b) The amortized/acquisition cost and the fair values of securities (other than trading securities) as of March 31, 2014 and 2013 were as follows:

	Millions of yen							
	2014				2013			
	Amortized/ Acquisition cost	**Gross unrealized gain**	**Gross unrealized loss**	**Fair value**	Amortized/ Acquisition cost	Gross unrealized gain	Gross unrealized loss	Fair value
Securities being held to maturity:								
Japanese national government bonds	**¥ 497,405**	**¥ 1,771**	**¥ —**	**¥ 499,177**	¥ 584,863	¥ 4,542	¥ —	¥ 589,406
Other	**48,269**	**4,101**	**—**	**52,371**	54,945	4,822	0	59,768
Total	**¥ 545,675**	**¥ 5,872**	**¥ —**	**¥ 551,548**	¥ 639,809	¥ 9,365	¥ 0	¥ 649,174
Securities available for sale:								
Equity securities	**¥ 13,511**	**¥ 6,877**	**¥ 442**	**¥ 19,947**	¥ 13,713	¥ 6,446	¥ 697	¥ 19,462
Japanese national government bonds	**630,133**	**—**	**735**	**629,398**	752,012	1,482	995	752,498
Japanese local government bonds	**502**	**21**	**—**	**523**	503	29	—	532
Japanese corporate bonds	**115,794**	**782**	**413**	**116,162**	184,967	778	2,072	183,673
Other, primarily foreign debt securities	**132,347**	**4,505**	**318**	**136,533**	136,713	4,437	522	140,628
Total	**¥ 892,289**	**¥ 12,186**	**¥ 1,909**	**¥ 902,565**	¥ 1,087,909	¥ 13,173	¥ 4,288	¥ 1,096,795

	Thousands of U.S. dollars			
	2014			
	Amortized/ Acquisition cost	**Gross unrealized gain**	**Gross unrealized loss**	**Fair value**
Securities being held to maturity:				
Japanese national government bonds	**$ 4,837,638**	**$ 17,225**	**$ —**	**$ 4,854,863**
Other	**469,459**	**39,893**	**—**	**509,352**
Total	**$ 5,307,097**	**$ 57,118**	**$ —**	**$ 5,364,215**
Securities available for sale:				
Equity securities	**$ 131,409**	**$ 66,891**	**$ 4,299**	**$ 194,001**
Japanese national government bonds	**6,128,513**	**—**	**7,151**	**6,121,362**
Japanese local government bonds	**4,887**	**205**	**—**	**5,092**
Japanese corporate bonds	**1,126,188**	**7,606**	**4,026**	**1,129,768**
Other, primarily foreign debt securities	**1,287,173**	**43,820**	**3,100**	**1,327,893**
Total	**$ 8,678,170**	**$ 118,522**	**$ 18,576**	**$ 8,778,116**

Note: "Other, primarily foreign debt securities" includes other monetary claims purchased whose fair value can be reliably determined.

Individual securities (except for those whose fair value cannot be reliably determined), other than trading securities, are written down when a decline in fair value below the cost of such securities is deemed to be other than temporary. The amount written down is accounted for as an impairment loss. Impairment loss on such securities for the fiscal year ended March 31, 2014 was ¥1,716 million (U.S.$16,699 thousand), which consisted of ¥0 million (U.S.$3 thousand) for equity securities, ¥1,699 million (U.S.$16,532 thousand) for Japanese corporate bonds and ¥16 million (U.S.$164 thousand) for other securities.

Impairment loss on such securities for the fiscal year ended March 31, 2013 was ¥2,748 million, which consisted of ¥211 million for equity securities, ¥2,506 million for Japanese corporate bonds and ¥30 million for other securities.

To determine whether an other-than-temporary impairment has occurred, the Group applies the following rule, by the obligor classification of the security issuer based on the Group's self-assessment guidelines:

Securities issued by "legally bankrupt," "virtually bankrupt" and "possibly bankrupt" obligors	The fair value of securities is lower than the amortized/acquisition cost
Securities issued by "need caution" obligors	The fair value of securities is 30% or more lower than the amortized/acquisition cost
Securities issued by "normal" obligors	The fair value of securities is 50% or more lower than the amortized/acquisition cost

7. SECURITIES (CONTINUED)

CONSOLIDATED

"Legally bankrupt" obligors are those who have already gone bankrupt from a legal and/or formal perspective.
"Virtually bankrupt" obligors are those who have not yet gone legally or formally bankrupt but who are substantially bankrupt because they are in serious financial difficulties and are not deemed to be capable of restructuring.
"Possibly bankrupt" obligors are those who are not yet bankrupt but are in financial difficulties and are very likely to go bankrupt in the future.
"Need caution" obligors are those who require close attention because there are problems with their borrowings.
"Normal" obligors are those whose business conditions are favorable and who are deemed not to have any particular problems in terms of their financial position.

(c) Unrealized gain (loss) on available-for-sale securities as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Unrealized gain (loss) before deferred tax on:			
Available-for-sale securities	**¥ 10,276**	¥ 8,885	**$ 99,946**
The Group's interests in available-for-sale securities held by partnerships recorded as securities whose fair value cannot be reliably determined and other adjustments	**1,580**	81	**15,371**
Securities being held to maturity, reclassified from available-for-sale in the past, under extremely illiquid market conditions	**(3,581)**	(4,976)	**(34,831)**
Deferred tax liabilities	**(1,966)**	(485)	**(19,130)**
Unrealized gain (loss) on available-for-sale securities before interest adjustments	**6,308**	3,504	**61,356**
Minority interests	**(99)**	(15)	**(972)**
The Group's interests in unrealized gain (loss) on available-for-sale securities held by affiliates to which the equity method is applied	**80**	335	**781**
Unrealized gain (loss) on available-for-sale securities	**¥ 6,288**	¥ 3,825	**$ 61,165**

(d) Available-for-sale securities sold during the fiscal year ended March 31, 2014 and 2013 were as follows:

	Millions of yen					
	2014			2013		
	Proceeds from sales	**Gains on sales**	**Losses on sales**	Proceeds from sales	Gains on sales	Losses on sales
Available-for-sale securities sold:						
Equity securities	**¥ 6,806**	**¥ 4,194**	**¥ 17**	¥ 2,495	¥ 1,180	¥ 1
Japanese national government bonds	**512,949**	**530**	**1,935**	7,785,819	5,813	884
Japanese local government bonds	**31,583**	**0**	**70**	25,245	10	24
Japanese corporate bonds	**76,817**	**1,110**	**17**	34,422	203	8
Other	**109,100**	**743**	**1,601**	398,387	3,388	419
Total	**¥ 737,258**	**¥ 6,580**	**¥ 3,642**	¥ 8,246,370	¥ 10,596	¥ 1,338

	Thousands of U.S. dollars		
	2014		
	Proceeds from sales	**Gains on sales**	**Losses on sales**
Available-for-sale securities sold:			
Equity securities	**$ 66,197**	**$ 40,799**	**$ 168**
Japanese national government bonds	**4,988,814**	**5,155**	**18,821**
Japanese local government bonds	**307,174**	**6**	**686**
Japanese corporate bonds	**747,111**	**10,805**	**170**
Other	**1,061,081**	**7,231**	**15,580**
Total	**$ 7,170,377**	**$ 63,996**	**$ 35,425**

8. LOANS AND BILLS DISCOUNTED

CONSOLIDATED

Loans and bills discounted as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Loans on deeds	¥ 3,625,948	¥ 3,650,171	$ 35,265,012
Loans on bills	30,649	26,301	298,092
Bills discounted	5,684	8,942	55,291
Overdrafts	657,547	607,049	6,395,131
Total	¥ 4,319,830	¥ 4,292,464	$ 42,013,526

(a) Risk-monitored loans

Loans and bills discounted include loans to bankrupt obligors of ¥10,049 million (U.S.$97,740 thousand) and ¥20,577 million as of March 31, 2014 and 2013, respectively, as well as nonaccrual delinquent loans of ¥177,786 million (U.S.$1,729,101 thousand) and ¥252,916 million as of March 31, 2014 and 2013, respectively.

Nonaccrual delinquent loans include loans classified as "possibly bankrupt" and "virtually bankrupt" under the Group's self-assessment guidelines.

In addition to nonaccrual delinquent loans as defined, certain other loans classified as "substandard" under the Group's self-assessment guidelines include loans past due for three months or more.

Loans past due for three months or more consist of loans for which the principal and/or interest is three months or more past due but exclude loans to bankrupt obligors and nonaccrual delinquent loans. The balances of loans past due for three months or more as of March 31, 2014 and 2013 were ¥1,177 million (U.S.$11,451 thousand) and ¥1,258 million, respectively.

Restructured loans are loans where the Group relaxes lending conditions, such as by reducing the original interest rate, or by forbearing interest payments or principal repayments to support the borrower's reorganization, but exclude loans to bankrupt obligors, nonaccrual delinquent loans or loans past due for three months or more. The outstanding balances of restructured loans as of March 31, 2014 and 2013 were ¥31,719 million (U.S.$308,492 thousand) and ¥38,117 million, respectively.

(b) Loan participations

The total outstanding amounts deducted from the loan account for loan participations as of March 31, 2014 and 2013 were ¥14,439 million (U.S.$140,432 thousand) and ¥16,219 million, respectively. This "off-balance sheet" treatment is in accordance with guidelines issued by the JICPA. The total amounts of such loans in which the Bank participated were ¥21,864 million (U.S.$212,652 thousand) and ¥8,125 million as of March 31, 2014 and 2013, respectively.

(c) Bills discounted

Bills discounted, such as bank acceptances bought, commercial bills discounted, documentary bills and foreign exchange contracts bought, are accounted for as financing transactions in accordance with Industry Audit Committee Report No. 24 issued by the JICPA, although the Group has the right to sell or pledge them without restrictions. The face amounts of such bills discounted held as of March 31, 2014 and 2013 were ¥5,875 million (U.S.$57,143 thousand) and ¥9,092 million, respectively.

(d) Loan commitments

The Bank and certain of its consolidated subsidiaries establish credit lines for overdrafts and issue commitments to extend credit to meet the financing needs of customers. The unfunded amounts of these commitments were ¥3,746,826 million (U.S.$36,440,637 thousand) and ¥3,802,064 million as of March 31, 2014 and 2013, out of which the amounts with original agreement terms of within one year or which were cancelable were ¥3,539,902 million (U.S.$34,428,146 thousand) and ¥3,636,321 million as of March 31, 2014 and 2013, respectively. Since a large majority of these commitments expire without being drawn upon, the unfunded amounts do not necessarily represent future cash requirements. Many such agreements include conditions granting the Bank and its consolidated subsidiaries the right to reject the drawdown or to reduce the amount on the basis of changes in the financial circumstances of the borrower or other reasonable grounds.

In addition, the Bank obtains collateral when necessary to reduce credit risk related to these commitments.

9. FOREIGN EXCHANGES
CONSOLIDATED

Foreign exchange assets and liabilities as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Foreign exchange assets:			
Foreign bills bought	¥ 190	¥ 150	$ 1,853
Foreign bills receivable	9,441	5,234	91,826
Due from foreign banks	16,024	28,473	155,854
Total	¥ 25,656	¥ 33,857	$ 249,533
Foreign exchange liabilities:			
Foreign bills sold	¥ —	¥ 146	$ —
Foreign bills payable	34	25	339
Due to foreign banks	2	2	23
Total	¥ 37	¥ 174	$ 362

10. OTHER ASSETS
CONSOLIDATED

Other assets as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Accrued income	¥ 14,875	¥ 15,728	$ 144,675
Prepaid expenses	3,704	3,007	36,030
Fair value of derivatives	123,488	159,534	1,201,012
Accounts receivable	46,560	89,344	452,831
Installment receivables	421,920	365,817	4,103,487
Security deposits	14,072	13,478	136,866
Suspense payments	21,434	21,312	208,461
Margin deposits for futures transactions	1,481	5,103	14,411
Cash collateral paid for financial instruments	4,633	16,718	45,067
Other	72,792	76,267	707,964
Total	¥ 724,963	¥ 766,313	$ 7,050,804

Installment receivables in other assets as of March 31, 2014 and 2013 include credits to bankrupt obligors of ¥496 million (U.S.$4,831 thousand) and ¥263 million, nonaccrual delinquent credits of ¥9,154 million (U.S.$89,030 thousand) and ¥9,372 million, credits past due for three months or more of ¥271 million (U.S.$2,636 thousand) and ¥261 million, and restructured credits of ¥731 million (U.S.$7,113 thousand) and ¥1,155 million, respectively.

11. PREMISES AND EQUIPMENT
CONSOLIDATED

Premises and equipment as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Buildings	¥ 29,996	¥ 30,406	$ 291,738
Land	5,914	7,286	57,520
Tangible leased assets as lessor	43,919	47,490	427,147
Other	22,890	20,410	222,628
Subtotal	102,720	105,595	999,033
Accumulated depreciation	(52,577)	(52,878)	(511,352)
Net book value	¥ 50,143	¥ 52,716	$ 487,681

12. INTANGIBLE ASSETS CONSOLIDATED

Intangible assets as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Software	**¥ 18,693**	¥ 20,491	**$ 181,805**
Goodwill, net:			
Goodwill	**33,847**	40,655	**329,188**
Negative goodwill	**(4,897)**	(5,260)	**(47,632)**
Intangible assets acquired in business combinations	**9,182**	12,487	**89,303**
Intangible leased assets as lessor	**3**	3	**30**
Other	**815**	51	**7,931**
Total	**¥ 57,643**	¥ 68,429	**$ 560,625**

13. RESERVE FOR CREDIT LOSSES CONSOLIDATED

Reserve for credit losses as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Reserve for loan losses:			
General reserve for loan losses	**¥ 59,809**	¥ 67,707	**$ 581,691**
Specific reserve for loan losses	**73,641**	90,195	**716,219**
Reserve for loan losses to restructuring countries	**0**	0	**8**
Subtotal	**133,451**	157,903	**1,297,918**
Specific reserve for other credit losses	**3,906**	3,906	**37,997**
Total	**¥ 137,358**	¥ 161,810	**$ 1,335,915**

14. DEPOSITS, INCLUDING NEGOTIABLE CERTIFICATES OF DEPOSIT CONSOLIDATED

Deposits, including negotiable certificates of deposit, as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Current	**¥ 13,207**	¥ 12,734	**$ 128,452**
Ordinary	**1,721,190**	1,561,923	**16,739,845**
Notice	**7,435**	9,852	**72,317**
Time	**3,576,937**	3,250,536	**34,788,348**
Negotiable certificates of deposit	**117,223**	204,600	**1,140,083**
Other	**414,451**	417,888	**4,030,849**
Total	**¥ 5,850,447**	¥ 5,457,535	**$ 56,899,894**

15. DEBENTURES

CONSOLIDATED

(a) Debentures as of March 31, 2014 and 2013 consisted of the following:

Issuer	Description	Issue	Maturity	Interest Rate (%)	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars 2014
Shinsei Bank, Limited	Five-year coupon debentures[1]	Apr. 2008 to Apr. 2013	Apr. 2013 to Apr. 2018	0.08 to 1.70	**¥ 39,947**	¥ 260,442	**$ 388,514**
	Coupon debentures, payable in Euroyen[2]	Sept. 2004 to Aug. 2005	Sept. 2014 to Aug. 2020	0.00 to 3.00[3]	**1,800**	1,900	**17,507**
	Total				**¥ 41,747**	¥ 262,342	**$ 406,021**

1 This includes a series of five-year Long-Term Credit Debentures.
2 This includes a series of Long-Term Credit Debentures issued under Euro Note Programme.
3 The maximum and minimum rates under contracts are presented if the interest rates are not decided as of March 31, 2014 and 2013.

(b) Annual maturities of debentures as of March 31, 2014 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	**¥ 7,350**	**$ 71,493**
2016	**15,327**	**149,070**
2017	**10,978**	**106,776**
2018	**7,513**	**73,079**
2019 and thereafter	**576**	**5,603**
Total	**¥ 41,747**	**$ 406,021**

16. TRADING LIABILITIES

CONSOLIDATED

Trading liabilities as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars 2014
Derivatives for trading securities	**¥ 1,162**	¥ 1,584	**$ 11,308**
Derivatives for securities held to hedge trading transactions	**52,239**	44,378	**508,066**
Trading-related financial derivatives	**150,892**	178,211	**1,467,543**
Trading securities sold for short sales	**14,290**	15,925	**138,985**
Total	**¥ 218,585**	¥ 240,099	**$ 2,125,902**

17. BORROWED MONEY

CONSOLIDATED

(a) Borrowed money as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars 2014
Subordinated debt	**¥ 69,400**	¥ 92,000	**$ 674,966**
Other	**574,031**	627,292	**5,582,881**
Total	**¥ 643,431**	¥ 719,292	**$ 6,257,847**

(b) The weighted average interest rate applicable to the total balance of borrowed money as of March 31, 2014 was 0.98%.

(c) Annual maturities of borrowed money as of March 31, 2014 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	**¥ 311,823**	**$ 3,032,713**
2016	**69,735**	**678,232**
2017	**64,183**	**624,232**
2018	**76,025**	**739,408**
2019 and thereafter	**121,662**	**1,183,262**
Total	**¥ 643,431**	**$ 6,257,847**

18. CORPORATE BONDS

CONSOLIDATED

(a) Corporate bonds as of March 31, 2014 and 2013 consisted of the following:

Issuer	Description	Issue	Maturity	Interest Rate (%)	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars 2014
Shinsei Bank, Limited	Unsecured straight bonds, payable in Euroyen[1]	Aug. 2006 to Aug. 2009	Sep. 2014 to Sept. 2037	0.00 to 10.00[5]	¥ 4,551	¥ 4,951	$ 44,262
	Unsecured subordinated bonds, payable in Yen[2]	Mar. 2005 to Dec. 2013	Mar. 2015 to Dec. 2023	1.96 to 4.00	100,400	75,400	976,464
	Unsecured subordinated notes, payable in Euro[3]	Feb. 2006 and Sept. 2010	Feb. 2016 and Sept. 2020	2.171 and 7.375	49,070	65,895	477,243
	Unsecured perpetual subordinated notes, payable in Euroyen[4]	Oct. 2005	—	2.35 and 2.435	4,500	4,500	43,766
	Unsecured perpetual subordinated note, payable in Pounds Sterling	Dec. 2006	—	5.625	—	7,380	—
Hotaka GK	Unsecured straight bond, payable in Yen	Dec. 2011	Dec. 2016	1.635	3,000	3,000	29,177
Marusei GK	Unsecured straight bond, payable in Yen	Jan. 2012	Dec. 2016	2.965	500	500	4,863
Tsumagoi GK	Unsecured straight bond, payable in Yen	Apr. 2012	Jun. 2017	2.25	2,000	2,000	19,451
AMOne GK	Unsecured straight bond, payable in Yen	Jan. 2009	Nov. 2021	2.18	7,227	10,159	70,289
Showa Leasing Co., Ltd.	Unsecured straight bond, payable in Yen	Feb. 2014	Feb. 2017	0.70	6,000	—	58,354
Shinsei Bank Finance N.V.	Unsecured perpetual subordinated bond, payable in Yen	Dec.1996	—	1.83229	—	500	—
	Total				¥ 177,248	¥174,286	$ 1,723,869

1 This includes a series of straight bonds issued under Euro Note Programme.
2 This includes a series of subordinated bonds, payable in Yen.
3 This includes a series of subordinated notes, payable in Euro.
4 This includes a series of perpetual subordinated notes issued under Euro Note Programme.
5 The maximum and minimum rates under contracts are presented if the interest rates are not decided as of March 31, 2014 and 2013.

(b) Annual maturities of corporate bonds as of March 31, 2014 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥ 34,527	$ 335,804
2016	36,884	358,734
2017	10,516	102,283
2018	2,952	28,716
2019 and thereafter	92,366	898,332
Total	¥ 177,248	$ 1,723,869

19. OTHER LIABILITIES

CONSOLIDATED

Other liabilities as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Accrued expenses	**¥ 44,490**	¥ 70,732	**$ 432,703**
Unearned income	**1,495**	1,419	**14,547**
Income taxes payable	**2,880**	1,870	**28,013**
Fair value of derivatives	**179,890**	225,631	**1,749,564**
Matured debentures, including interest	**9,623**	12,085	**93,598**
Trust account	**334**	379	**3,256**
Accounts payable	**78,997**	137,113	**768,311**
Deferred gains on installment receivables and credit guarantees	**32,008**	29,865	**311,304**
Asset retirement obligations	**8,526**	8,001	**82,928**
Deposits payable	**90,468**	89,511	**879,871**
Cash collateral received for financial instruments	**12,653**	6,084	**123,065**
Other	**36,434**	48,064	**354,356**
Total	**¥ 497,804**	¥ 630,759	**$ 4,841,516**

20. EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN ASSETS

CONSOLIDATED

(A) Disclosure of employees' retirement benefits and pension plan assets for the fiscal year ended March 31, 2014

(a) The changes in defined benefit obligation for the fiscal year ended March 31, 2014, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Balance at beginning of the year	**¥ 78,730**	**$ 765,709**
Current service cost	**3,488**	**33,926**
Interest cost	**953**	**9,277**
Actuarial (gains) losses	**1,729**	**16,825**
Benefits paid	**(4,102)**	**(39,897)**
Others	**7**	**69**
Balance at end of the year	**¥ 80,807**	**$ 785,909**

(b) The changes in plan assets for the fiscal year ended March 31, 2014, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Balance at beginning of the year	**¥ 66,455**	**$ 646,333**
Expected return on plan assets	**1,554**	**15,117**
Actuarial gains (losses)	**3,045**	**29,616**
Contributions from the employer	**5,050**	**49,116**
Benefits paid	**(3,846)**	**(37,410)**
Balance at end of the year	**¥ 72,258**	**$ 702,772**

20. EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN ASSETS (CONTINUED)

CONSOLIDATED

(c) A reconciliation between the liability and the asset recorded in the consolidated balance sheet and balances of defined benefit obligation and plan assets as of March 31, 2014:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded defined benefit obligation	¥ 74,633	$ 725,865
Plan assets	(72,258)	(702,772)
Subtotal	2,374	23,093
Unfunded defined benefit obligation	6,173	60,044
Net liability (asset) arising from benefit obligation	¥ 8,548	$ 83,137

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Liability for retirement benefits	¥ 10,116	$ 98,387
Asset for retirement benefits	(1,567)	(15,250)
Net liability (asset) arising from benefit obligation	¥ 8,548	$ 83,137

(d) The components of net periodic retirement benefit cost for the fiscal years ended March 31, 2014, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Current service cost	¥ 3,488	$ 33,926
Interest cost	953	9,277
Expected return on plan assets	(1,554)	(15,117)
Amortization of past service cost	(517)	(5,030)
Recognized actuarial (gains) losses	2,322	22,586
Amortization of obligation at transition	605	5,888
Other (primarily consists of extraordinary severance benefit)	138	1,344
Net periodic retirement benefit cost	¥ 5,436	$ 52,874

(e) The components of defined retirement benefit plans (before adjusting for tax effects) as of March 31, 2014, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized past service cost	¥ 1,977	$ 19,237
Unrecognized actuarial gains (losses)	(7,203)	(70,060)
Unrecognized obligation at transition	(605)	(5,888)
Total	¥ (5,830)	$ (56,711)

(f) Plan assets as of March 31, 2014:

(i) Components of plan assets

Plan assets consisted of the following:

	2014
Domestic bonds	27.3%
Foreign bonds	11.0
Domestic equity securities	17.3
Foreign equity securities	17.3
Life insurance company accounts (general accounts)	19.3
Other	7.8
Total	100.0%

20. EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN ASSETS (CONTINUED)

CONSOLIDATED

(ii) Method of determining the long-term expected rate of return on plan assets

The Bank, which dominates a large share of plan assets in the Group, determined 2.20% of long-term expected rate of return on plan assets for the fiscal year ended March 31, 2014, considering the financial condition, policy for asset investment and the asset portfolios of the Bank besides current economic environment and market trend. For major consolidated subsidiaries, the long-term expected rates of return on plan assets were determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(g) Assumptions used for the fiscal year ended March 31, 2014, were set forth as follows:

	2014
Discount rate	**1.00-1.75%**
Long-term expected rate of return on plan assets	**2.00-3.50%**

(B) Disclosure of employees' retirement benefits and pension plan assets for the fiscal year ended March 31, 2013

(a) The funded status of the plans as of March 31, 2013 was as follows:

	Millions of yen
	2013
Projected benefit obligation	¥ 78,730
Fair value of plan assets	(66,455)
Funded status (projected benefit obligation in excess of plan assets)	12,274
Unrecognized prior service cost	2,495
Unrecognized net actuarial gains (losses)	(10,840)
Unrecognized obligation at transition	(1,210)
Net amount accrued on the balance sheets	2,717
Asset for retirement benefits	(4,591)
Liability for retirement benefits	¥ 7,309

The table includes benefit obligations of certain consolidated subsidiaries that calculate their obligations based on the full amount due to eligible employees as of the fiscal year end.

(b) The components of net periodic retirement benefit cost for the fiscal year ended March 31, 2013 were as follows:

	Millions of yen
	2013
Service cost	¥ 3,135
Interest cost	1,467
Expected return on plan assets	(1,395)
Amortization of prior service cost	(520)
Amortization of net actuarial (gains) losses	2,448
Amortization of obligation at transition	605
Other (primarily consists of extraordinary severance benefit)	225
Net periodic retirement benefit cost	¥ 5,966

(c) Assumptions used in calculation of the above information were as follows:

	2013
Discount rate	0.98-1.75%
Expected rate of return on plan assets	2.00-3.50%
Method of attributing the projected benefits to periods of service	Straight-line basis
Period of amortization of prior service cost	5.00-14.74 years
Period of amortization of net actuarial gains and losses	5.00-14.74 years
Period of amortization of unrecognized obligation at transition	15 years

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21. ACCEPTANCES AND GUARANTEES CONSOLIDATED

Acceptances and guarantees as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Guarantees	**¥ 358,414**	¥ 511,032	**$ 3,485,849**

22. ASSETS PLEDGED AS COLLATERAL CONSOLIDATED

Assets pledged as collateral and liabilities collateralized as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Assets pledged as collateral:			
Cash and due from banks	**¥ 2,433**	¥ 2,727	**$ 23,668**
Other monetary claims purchased	**—**	3,318	**—**
Trading assets	**8,814**	15,484	**85,728**
Monetary assets held in trust	**1,767**	4,171	**17,190**
Securities	**808,841**	892,437	**7,866,575**
Loans and bills discounted	**97,593**	134,590	**949,172**
Lease receivables and leased investment assets	**71,676**	84,140	**697,108**
Other assets	**48,212**	46,965	**468,899**
Premises and equipment	**2,285**	2,558	**22,225**
Liabilities collateralized:			
Deposits, including negotiable certificates of deposit	**¥ 692**	¥ 418	**$ 6,737**
Call money	**180,000**	170,000	**1,750,632**
Payables under securities lending transactions	**306,843**	43,945	**2,984,277**
Borrowed money	**353,030**	446,563	**3,433,482**
Corporate bonds	**12,727**	15,659	**123,780**
Other liabilities	**58**	2,483	**567**
Acceptances and guarantees	**961**	914	**9,354**

In addition, ¥170,124 million (U.S.$1,654,586 thousand) and ¥173,655 million of securities as of March 31, 2014 and 2013, were pledged as collateral for transactions, including exchange settlements, swap transactions and replacement of margin for futures transactions.

Also, ¥1,481 million (U.S.$14,411 thousand) and ¥5,103 million of margin deposits for futures transactions outstanding, ¥14,072 million (U.S.$136,866 thousand) and ¥13,478 million of security deposits, ¥4,633 million (U.S.$45,067 thousand) and ¥16,718 million of cash collateral paid for financial instruments, and ¥2,619 (U.S.$25,473 thousand) million and ¥4,473 million of guarantee deposits under resale agreements were included in other assets as of March 31, 2014 and 2013, respectively.

23. NONRECOURSE DEBTS CONSOLIDATED

Nonrecourse debts in consolidated special purpose companies as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Nonrecourse debts:			
Borrowed money	**¥ 95,335**	¥ 86,953	**$ 927,209**
Corporate bonds	**12,727**	15,659	**123,780**
Assets corresponding to nonrecourse debts:			
Cash and due from banks	**¥ 2,208**	¥ 2,561	**$ 21,484**
Other monetary claims purchased	**—**	3,318	**—**
Securities	**121,026**	119,296	**1,177,068**
Loans and bills discounted	**44,955**	73,789	**437,220**
Other assets	**14,374**	4,666	**139,806**

The above balances included certain amount of "Assets pledged as collateral" in Note 22.

24. PREFERRED SECURITIES ISSUED BY SUBSIDIARIES OUTSIDE JAPAN

CONSOLIDATED

The noncumulative perpetual preferred securities issued by the Bank's wholly owned subsidiaries outside Japan as of March 31, 2014 and 2013 were as follows:

Issuer	Issued date	Issue amount (in millions)	Dividend rate[1]	Floating dividend start date	Type	Redemption date at the issuer's option	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars 2014
Shinsei Finance (Cayman) Limited	Feb. 2006	U.S.$775	6.418%	Jul. 2016	step-up	Jul. 2016[2]	**¥ 3,110**	¥ 2,844	**$ 30,250**
Shinsei Finance II (Cayman) Limited	Mar. 2006	U.S.$700	7.16%	Jul. 2016	non step-up	Jul. 2016[3]	**1,767**	1,616	**17,187**
Shinsei Finance III (Cayman) Limited	Mar. 2009	¥19,000	5.5%	Jul. 2014	non step-up	Jul. 2014[2]	**15,600**	15,600	**151,721**
	Mar. 2009	¥20,100	5.0%	Jul. 2019	step-up	Jul. 2014[2]	**18,000**	18,000	**175,063**
Shinsei Finance IV (Cayman) Limited	Mar. 2009	¥2,500	5.0%	Jul. 2019	step-up	Jul. 2014[2]	**2,500**	2,500	**24,314**
	Mar. 2009	¥6,600	5.5%	Jul. 2014	non step-up	Jul. 2014[2]	**6,600**	6,600	**64,190**
Shinsei Finance V (Cayman) Limited	Oct. 2009	¥4,000	5.5%	Jul. 2015	non step-up	Jul. 2015[2]	**4,000**	4,000	**38,903**
	Oct. 2009	¥5,000	floating	—	non step-up	Jul. 2015[2]	**5,000**	5,000	**48,629**
Total							**¥ 56,577**	¥ 56,160	**$ 550,257**

1 Fixed dividend rates shown in this column are to be changed to floating dividend rates on the dividend payment date shown in "Floating dividend start date" column.
2 These preferred securities are redeemable on any dividend payment date shown in this column or thereafter, at a price equal to the liquidation preference together with any dividends otherwise payable, subject to the prior approval of the Financial Services Agency of Japan ("FSA").
3 The preferred securities issued by Shinsei Finance II (Cayman) Limited are redeemable on dividend payment date shown in this column or on each dividend payment date falling at ten year intervals thereafter, at a price equal to the liquidation preference together with any dividends otherwise payable, subject to the prior approval of the FSA.

These preferred securities are accounted for as minority interests in the consolidated balance sheets.

25. EQUITY

CONSOLIDATED

The authorized number of shares of common stock as of March 31, 2014 was 4,000,000 thousand shares.

The following table shows changes in the number of shares of common stock.

	Thousands: Issued number of shares	Thousands: Number of treasury stock
Fiscal year ended March 31, 2013:		
Beginning of year	2,750,346	96,427
Increase	—	—
Decrease	—	—
End of year	2,750,346	96,427
Fiscal year ended March 31, 2014:		
Beginning of year	**2,750,346**	**96,427**
Increase	**—**	**—**
Decrease	**—**	**—**
End of year	**2,750,346**	**96,427**

25. EQUITY (CONTINUED) CONSOLIDATED

Japanese banks are subject to the Companies Act of Japan (the "Companies Act") and the Banking Act. The significant provisions in the Companies Act and the Banking 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 including: (1) having a Board of Directors, (2) having independent auditors, (3) having the 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.

The Bank meets all of the above criteria and its articles of incorporation prescribe the authority for dividend declaration by the Board of Directors.

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

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 and the Banking Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock.

(b) Increases/decreases and transfer of common stock, reserve and surplus
The Banking Act requires that an amount equal to 20% 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 100% of the common stock.

The Companies Act provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights
The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by 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.

26. STOCK ACQUISITION RIGHTS CONSOLIDATED

The Bank issues stock acquisition rights as a stock option plan to directors, executive officers and employees of the Bank and its subsidiaries.

Stock acquisition rights provide eligible individuals (the "holders") with the right to purchase common stock of the Bank without any cash consideration at an exchange rate of one thousand common shares to one stock acquisition right. The amount of money to be paid upon exercising stock acquisition rights is the amount calculated by multiplying the payment amount per share (the "exercise price") by the number of common shares that can be purchased through the exercise of one stock acquisition right. Conditions are stipulated in the "Agreement on the Grant of Stock Acquisition Rights" entered into between the Bank and the holders to whom stock acquisition rights were allotted based on the resolution of the annual general meeting of shareholders and the meetings of the Board of Directors which resolves the issuance of stock acquisition rights subsequent to the shareholders' meeting.

In December 2005, the ASBJ issued "Accounting Standard for Stock Options" and related guidance, which requires companies to recognize compensation expense for stock acquisition rights based on the fair value at the date of grant and over the vesting periods for stock acquisition rights newly granted on and after May 1, 2006.

26. STOCK ACQUISITION RIGHTS (CONTINUED)

CONSOLIDATED

(a) Stock-based compensation expenses for the fiscal year ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
General and administrative expenses	**¥ —**	¥ (10)	**$ —**

(b) Amount of profit by non-exercise of stock options for the fiscal year ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Other gains (losses), net	**¥ 17**	¥ 105	**$ 166**

There were no stock acquisition rights issued for the fiscal year ended March 31, 2014 and 2013.

(c) Details of stock options

Stock options outstanding as of March 31, 2014 were as follows:

	Date of issuance	Total number of stock options (shares) at the issuance	Total number of holders at the issuance	Exercise period	Exercise price (Yen)	Fair value at the grant date (Yen)
1st	July 1, 2004	9,455,000	2,196	July 1, 2006-June 23, 2014	684	—
4th	June 1, 2005	250,000	1	July 1, 2006-June 23, 2014	551	—
5th	June 27, 2005	4,922,000	462	July 1, 2007-June 23, 2015	601	—
6th	June 27, 2005	2,856,000	40	July 1, 2007-June 23, 2015	601	—
7th	June 27, 2005	1,287,000	135	July 1, 2008-June 23, 2015	601	—
8th	June 27, 2005	561,000	35	July 1, 2008-June 23, 2015	601	—
9th	September 28, 2005	157,000	2	July 1, 2007-June 23, 2015	697	—
10th	September 28, 2005	53,000	2	July 1, 2008-June 23, 2015	697	—
13th	May 25, 2006	5,342,000	588	June 1, 2008-June 23, 2015	825	163 or 173
14th	May 25, 2006	3,027,000	31	June 1, 2008-June 23, 2015	825	163 or 173
15th	May 25, 2006	1,439,000	171	June 1, 2009-June 23, 2015	825	173 or 192
16th	May 25, 2006	331,000	19	June 1, 2009-June 23, 2015	825	173 or 192
17th	May 25, 2007	3,306,000	135	June 1, 2009-May 8, 2017	555	131 or 143
18th	May 25, 2007	1,480,000	26	June 1, 2009-May 8, 2017	555	131 or 143
19th	July 2, 2007	140,000	32	July 1, 2009-June 19, 2017	527	121 or 132
20th	May 30, 2008	2,830,000	124	June 1, 2010-May 13, 2018	416	158 or 169
21st	May 30, 2008	2,081,000	30	June 1, 2010-May 13, 2018	416	158 or 169
22nd	July 10, 2008	203,000	43	July 1, 2010-June 24, 2018	407	127 or 137
23rd	December 1, 2008	97,000	17	December 1, 2010-November 11, 2018	221	53 or 57

26. STOCK ACQUISITION RIGHTS (CONTINUED)

CONSOLIDATED

(d) Number of stock options and movement therein

Numbers of stock options and price information are as follows:

	1st	4th	5th	6th
Fiscal year ended March 31, 2013				
Nonvested (share)				
Outstanding at the beginning of the year	—	—	—	—
Granted during the year	—	—	—	—
Forfeited during the year	—	—	—	—
Vested during the year	—	—	—	—
Outstanding at the end of the year	—	—	—	—
Vested (share)				
Outstanding at the beginning of the year	4,913,000	250,000	2,219,000	1,544,000
Vested during the year	—	—	—	—
Exercised during the year	—	—	—	—
Forfeited during the year	115,000	—	111,000	48,000
Exercisable at the end of the year	4,798,000	250,000	2,108,000	1,496,000
Exercise price (Yen)	684	551	601	601
Weighted average stock price at the date of exercise (Yen)	—	—	—	—
Fiscal year ended March 31, 2014				
Nonvested (share)				
Outstanding at the beginning of the year	**—**	**—**	**—**	**—**
Granted during the year	**—**	**—**	**—**	**—**
Forfeited during the year	**—**	**—**	**—**	**—**
Vested during the year	**—**	**—**	**—**	**—**
Outstanding at the end of the year	**—**	**—**	**—**	**—**
Vested (share)				
Outstanding at the beginning of the year	**4,798,000**	**250,000**	**2,108,000**	**1,496,000**
Vested during the year	**—**	**—**	**—**	**—**
Exercised during the year	**—**	**—**	**—**	**—**
Forfeited during the year	**133,000**	**—**	**72,000**	**—**
Exercisable at the end of the year	**4,665,000**	**250,000**	**2,036,000**	**1,496,000**
Exercise price (Yen)	**684**	**551**	**601**	**601**
Weighted average stock price at the date of exercise (Yen)	**—**	**—**	**—**	**—**

	7th	8th	9th	10th
Fiscal year ended March 31, 2013				
Nonvested (share)				
Outstanding at the beginning of the year	—	—	—	—
Granted during the year	—	—	—	—
Forfeited during the year	—	—	—	—
Vested during the year	—	—	—	—
Outstanding at the end of the year	—	—	—	—
Vested (share)				
Outstanding at the beginning of the year	474,000	187,000	108,000	36,000
Vested during the year	—	—	—	—
Exercised during the year	—	—	—	—
Forfeited during the year	23,000	17,000	—	—
Exercisable at the end of the year	451,000	170,000	108,000	36,000
Exercise price (Yen)	601	601	697	697
Weighted average stock price at the date of exercise (Yen)	—	—	—	—
Fiscal year ended March 31, 2014				
Nonvested (share)				
Outstanding at the beginning of the year	**—**	**—**	**—**	**—**
Granted during the year	**—**	**—**	**—**	**—**
Forfeited during the year	**—**	**—**	**—**	**—**
Vested during the year	**—**	**—**	**—**	**—**
Outstanding at the end of the year	**—**	**—**	**—**	**—**
Vested (share)				
Outstanding at the beginning of the year	**451,000**	**170,000**	**108,000**	**36,000**
Vested during the year	**—**	**—**	**—**	**—**
Exercised during the year	**—**	**—**	**—**	**—**
Forfeited during the year	**17,000**	**—**	**—**	**—**
Exercisable at the end of the year	**434,000**	**170,000**	**108,000**	**36,000**
Exercise price (Yen)	**601**	**601**	**697**	**697**
Weighted average stock price at the date of exercise (Yen)	**—**	**—**	**—**	**—**

26. STOCK ACQUISITION RIGHTS (CONTINUED)

CONSOLIDATED

	13th	14th	15th	16th
Fiscal year ended March 31, 2013				
Nonvested (share)				
Outstanding at the beginning of the year	—	—	—	—
Granted during the year	—	—	—	—
Forfeited during the year	—	—	—	—
Vested during the year	—	—	—	—
Outstanding at the end of the year	—	—	—	—
Vested (share)				
Outstanding at the beginning of the year	2,236,000	1,797,000	512,000	37,000
Vested during the year	—	—	—	—
Exercised during the year	—	—	—	—
Forfeited during the year	183,000	80,000	63,000	18,000
Exercisable at the end of the year	2,053,000	1,717,000	449,000	19,000
Exercise price (Yen)	825	825	825	825
Weighted average stock price at the date of exercise (Yen)	—	—	—	—
Fiscal year ended March 31, 2014				
Nonvested (share)				
Outstanding at the beginning of the year	**—**	**—**	**—**	**—**
Granted during the year	**—**	**—**	**—**	**—**
Forfeited during the year	**—**	**—**	**—**	**—**
Vested during the year	**—**	**—**	**—**	**—**
Outstanding at the end of the year	**—**	**—**	**—**	**—**
Vested (share)				
Outstanding at the beginning of the year	**2,053,000**	**1,717,000**	**449,000**	**19,000**
Vested during the year	**—**	**—**	**—**	**—**
Exercised during the year	**—**	**—**	**—**	**—**
Forfeited during the year	**78,000**	**—**	**19,000**	**—**
Exercisable at the end of the year	**1,975,000**	**1,717,000**	**430,000**	**19,000**
Exercise price (Yen)	**825**	**825**	**825**	**825**
Weighted average stock price at the date of exercise (Yen)	**—**	**—**	**—**	**—**

	17th	18th	19th	20th
Fiscal year ended March 31, 2013				
Nonvested (share)				
Outstanding at the beginning of the year	—	—	—	241,000
Granted during the year	—	—	—	—
Forfeited during the year	—	—	—	—
Vested during the year	—	—	—	241,000
Outstanding at the end of the year	—	—	—	—
Vested (share)				
Outstanding at the beginning of the year	1,339,000	875,000	140,000	987,000
Vested during the year	—	—	—	241,000
Exercised during the year	—	—	—	—
Forfeited during the year	115,000	70,000	—	54,000
Exercisable at the end of the year	1,224,000	805,000	140,000	1,174,000
Exercise price (Yen)	555	555	527	416
Weighted average stock price at the date of exercise (Yen)	—	—	—	—
Fiscal year ended March 31, 2014				
Nonvested (share)				
Outstanding at the beginning of the year	**—**	**—**	**—**	**—**
Granted during the year	**—**	**—**	**—**	**—**
Forfeited during the year	**—**	**—**	**—**	**—**
Vested during the year	**—**	**—**	**—**	**—**
Outstanding at the end of the year	**—**	**—**	**—**	**—**
Vested (share)				
Outstanding at the beginning of the year	**1,224,000**	**805,000**	**140,000**	**1,174,000**
Vested during the year	**—**	**—**	**—**	**—**
Exercised during the year	**—**	**—**	**—**	**—**
Forfeited during the year	**—**	**—**	**—**	**3,000**
Exercisable at the end of the year	**1,224,000**	**805,000**	**140,000**	**1,171,000**
Exercise price (Yen)	**555**	**555**	**527**	**416**
Weighted average stock price at the date of exercise (Yen)	**—**	**—**	**—**	**—**

26. STOCK ACQUISITION RIGHTS (CONTINUED) CONSOLIDATED

	21st	22nd	23rd
Fiscal year ended March 31, 2013			
Nonvested (share)			
Outstanding at the beginning of the year	81,000	72,000	22,000
Granted during the year	—	—	—
Forfeited during the year	78,000	—	—
Vested during the year	3,000	72,000	22,000
Outstanding at the end of the year	—	—	—
Vested (share)			
Outstanding at the beginning of the year	121,000	116,000	32,000
Vested during the year	3,000	72,000	22,000
Exercised during the year	—	—	—
Forfeited during the year	82,000	—	—
Exercisable at the end of the year	42,000	188,000	54,000
Exercise price (Yen)	416	407	221
Weighted average stock price at the date of exercise (Yen)	—	—	—
Fiscal year ended March 31, 2014			
Nonvested (share)			
Outstanding at the beginning of the year	**—**	**—**	**—**
Granted during the year	**—**	**—**	**—**
Forfeited during the year	**—**	**—**	**—**
Vested during the year	**—**	**—**	**—**
Outstanding at the end of the year	**—**	**—**	**—**
Vested (share)			
Outstanding at the beginning of the year	**42,000**	**188,000**	**54,000**
Vested during the year	**—**	**—**	**—**
Exercised during the year	**—**	**—**	**—**
Forfeited during the year	**—**	**—**	**—**
Exercisable at the end of the year	**42,000**	**188,000**	**54,000**
Exercise price (Yen)	**416**	**407**	**221**
Weighted average stock price at the date of exercise (Yen)	**—**	**—**	**—**

(e) Measurement of the fair value of stock options

There were no stock options granted or whose fair value was changed due to the modification to the terms and conditions during the fiscal years ended March 31, 2014 and 2013.

(f) Method of determining the vested number of stock options

Incorporated only the actual forfeited options, as the reasonable estimate of future forfeitures is not determinable.

27. NET TRADING INCOME (LOSS) CONSOLIDATED

Net trading income (loss) for the fiscal years ended March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Income (loss) from trading securities	**¥ 6,336**	¥ 4,007	**$ 61,624**
Income (loss) from securities held to hedge trading transactions	**(2,347)**	(2,569)	**(22,830)**
Income (loss) from trading-related financial derivatives	**10,181**	18,691	**99,022**
Other, net	**(195)**	(99)	**(1,897)**
Total	**¥ 13,975**	¥ 20,029	**$ 135,919**

28. OTHER BUSINESS INCOME (LOSS), NET

CONSOLIDATED

"Other, net" in other business income (loss), net, for the fiscal years ended March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Income (loss) from derivatives entered into for banking purposes, net	**¥ 653**	¥ (1,288)	**$ 6,359**
Equity in net income (loss) of affiliates	**2,623**	(1,309)	**25,513**
Gain on lease cancellation and other lease income (loss), net	**1,796**	1,020	**17,470**
Other, net	**899**	592	**8,748**
Total	**¥ 5,972**	¥ (985)	**$ 58,090**

29. NET CREDIT COSTS

CONSOLIDATED

Net credit costs for the fiscal years ended March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Losses on write-off or sales of loans	**¥ 3,172**	¥ 8,468	**$ 30,854**
Net provision (reversal) of reserve for loan losses:			
Net provision (reversal) of general reserve for loan losses	**2,868**	(5,330)	**27,897**
Net provision (reversal) of specific reserve for loan losses	**3,410**	19,124	**33,173**
Subtotal	**6,279**	13,793	**61,070**
Net provision (reversal) of specific reserve for other credit losses	**—**	(8)	**—**
Other credit costs (recoveries) relating to leasing business	**(233)**	(498)	**(2,275)**
Recoveries of written-off claims	**(8,938)**	(16,233)	**(86,934)**
Total	**¥ 279**	¥ 5,522	**$ 2,715**

30. OTHER GAINS (LOSSES), NET

CONSOLIDATED

Other gains (losses), net for the fiscal years ended March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Net gain (loss) on disposal of premises and equipment	**¥ 1,417**	¥ 183	**$ 13,784**
Pension-related costs	**(35)**	(47)	**(344)**
Gains on write-off of unclaimed debentures	**1,279**	859	**12,449**
Gains on write-off unclaimed payables on derivatives	**—**	957	**—**
Provision of reserve for losses on interest repayments	**(15,640)**	—	**(152,118)**
Impairment losses on long-lived assets	**(1,558)**	(916)	**(15,156)**
Gain on liquidation of subsidiaries	**2,230**	204	**21,692**
Gain on sale of subsidiary's stock	**—**	452	**—**
Other, net	**384**	495	**3,740**
Total	**¥ (11,922)**	¥ 2,187	**$ (115,953)**

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30. OTHER GAINS (LOSSES), NET (CONTINUED)

CONSOLIDATED

(a) Gain on liquidation of subsidiaries
For the fiscal years ended March 31, 2014 and 2013, respectively, gain on liquidation of subsidiaries of ¥2,230 million (U.S.$21,692 thousand) and ¥204 million were recognized in relation to the liquidation of overseas subsidiaries.

(b) Impairment losses on long-lived assets
For the fiscal years ended March 31, 2014 and 2013, respectively, impairment losses on long-lived assets of ¥1,557 million (U.S.$15,151 thousand) and ¥714 million were recognized by the Bank on the properties of the branches which were decided to be closed and the unused IT related properties, assuming their recoverable amount to be zero.

31. INCOME TAXES

CONSOLIDATED

The Group is subject to a number of taxes based on income, such as corporate tax, inhabitant tax and enterprise tax, which, in the aggregate, resulted in normal effective statutory tax rates of approximately 38.0% for each of the fiscal years ended March 31, 2014 and 2013.

(a) A reconciliation of the normal effective statutory tax rate with the actual effective tax rate for the fiscal years ended March 31, 2014 and 2013 was as follows:

	2014	2013
Normal effective statutory tax rate	**38.0%**	38.0%
Increase (decrease) in taxes resulting from:		
Permanently tax-exempt income	**(2.8)**	(0.3)
Amortization and impairment of goodwill	**5.3**	5.0
Equity in net income/loss of affiliates	**(2.2)**	0.9
Other nondeductible expenses	**0.6**	0.7
Foreign tax	**0.1**	0.1
Change in valuation allowance	**(57.3)**	(51.5)
Effect of tax rate reduction	**2.4**	—
Expiration of tax loss carryforwards	**24.2**	8.8
Other	**(4.7)**	(3.1)
Actual effective tax rate	**3.6%**	(1.4%)

"Act for Partial Reform of the Income Tax Act, etc." (Law No. 10 for 2014) was promulgated in March 31, 2014 and the special corporate tax for reconstruction will be abolished from the fiscal year beginning on or after April 1, 2014. In connection with this change, the effective statutory tax rate for calculating deferred tax assets and deferred tax liabilities will be changed from the existing 38.0% to 35.6% for temporary differences and tax loss carryforwards that are expected to be realized in the fiscal year beginning on April 1, 2014. With these tax rate changes, the deferred tax assets have decreased by ¥1,096 million (U.S.$10,659 thousand), the unrealized gain (loss) on available-for-sale securities have increased by ¥3 million (U.S.$29 thousand) and the income taxes (benefit)—deferred have increased by ¥1,099 million (U.S.$10,688 thousand).

31. INCOME TAXES (CONTINUED)

CONSOLIDATED

(b) The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities, as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Deferred tax assets:			
Tax loss carryforwards	**¥ 147,663**	¥ 215,070	**$ 1,436,140**
Reserve for credit losses	**123,773**	135,343	**1,203,789**
Reserve for losses on interest repayments	**76,957**	12,467	**748,465**
Securities	**27,679**	32,339	**269,207**
Monetary assets held in trust	**17,218**	15,545	**167,467**
Deferred loss on derivatives under hedge accounting	**4,085**	5,285	**39,737**
Other	**34,096**	43,656	**331,611**
Subtotal	**431,475**	459,709	**4,196,416**
Valuation allowance	**(406,004)**	(433,848)	**(3,948,690)**
Total deferred tax assets	**25,471**	25,861	**247,726**
Offset with deferred tax liabilities	**(8,951)**	(9,522)	**(87,060)**
Net deferred tax assets	**¥ 16,519**	¥ 16,339	**$ 160,666**
Deferred tax liabilities:			
Temporary differences due to business combination (primarily related to identified intangible assets)	**¥ 3,508**	¥ 4,861	**$ 34,128**
Deferred gain on derivatives under hedge accounting	**1,464**	1,759	**14,245**
Asset retirement costs included in premises and equipment	**1,180**	1,285	**11,479**
Unrealized gain on available-for-sale securities	**1,966**	485	**19,130**
Other	**839**	1,137	**8,167**
Total deferred tax liabilities	**8,960**	9,529	**87,149**
Offset with deferred tax assets	**(8,951)**	(9,522)	**(87,060)**
Net deferred tax liabilities	**¥ 9**	¥ 7	**$ 89**

(c) The Bank has ¥181,960 million (U.S.$1,769,698 thousand) of tax loss carryforward related to corporate tax as of March 31, 2014. The schedule of tax loss carryforward and its expiration date are as follows:

	Amount		
Fiscal year ended March 31	Millions of yen	Thousands of U.S. dollars	Date of expiry
2009	¥ 107,458	$ 1,045,113	March 31, 2018
2011	20,019	194,707	March 31, 2020
2012	16,732	162,732	March 31, 2021
2013	23,214	225,783	March 31, 2022
2014	14,534	141,363	March 31, 2023
Total	¥ 181,960	$ 1,769,698	

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31. INCOME TAXES (CONTINUED) CONSOLIDATED

In addition, other significant tax loss carryforwards of major subsidiaries as of March 31, 2014 are as follows:

Subsidiary	Fiscal period ended	Millions of yen	Thousands of U.S. dollars	Date of expiry
APLUS FINANCIAL	March 31, 2008	¥ 11,826	$ 115,026	March 31, 2015
	March 31, 2009	2	29	March 31, 2018
	March 31, 2010	10	97	March 31, 2019
	March 31, 2012	5,855	56,947	March 31, 2021
	March 31, 2013	421	4,101	March 31, 2022
	March 31, 2014	7,596	73,883	March 31, 2023
	Total	¥ 25,713	$ 250,083	
Shinsei Financial	March 31, 2010	¥ 72,292	$ 703,102	March 31, 2019
	March 31, 2011	22,894	222,670	March 31, 2020
	March 31, 2012	26,107	253,911	March 31, 2021
	Total	¥ 121,295	$ 1,179,683	
SHINKI	March 31, 2008	¥ 19,037	$ 185,156	March 31, 2015
	March 31, 2009	9,280	90,259	March 31, 2018
	March 31, 2010	5,605	54,514	March 31, 2019
	March 31, 2011	14,064	136,783	March 31, 2020
	March 31, 2012	5,345	51,993	March 31, 2021
	March 31, 2013	5,558	54,058	March 31, 2022
	March 31, 2014	18	184	March 31, 2023
	Total	¥ 58,910	$ 572,947	

32. NET INCOME (LOSS) PER COMMON SHARE CONSOLIDATED

A reconciliation of the difference between basic and diluted net income (loss) per commons share ("EPS") for the fiscal year ended March 31, 2014 was as follows:

	Net income (loss) (Millions of yen)	Weighted average shares (Thousands)	EPS (Yen)	EPS (U.S. dollars)
For the fiscal year ended March 31, 2014:				
Basic EPS				
Net income (loss) available to common shareholders	**¥ 41,374**	**2,653,919**	**¥ 15.59**	**$ 0.15**
Effect of dilutive securities				
Stock acquisition rights	**—**	**2**		
Diluted EPS				
Net income (loss) for computation	**¥ 41,374**	**2,653,921**	**¥ 15.59**	**$ 0.15**

Basic EPS for the fiscal year ended March 31, 2013 was as follows:

	Net income (loss) (Millions of yen)	Weighted average shares (Thousands)	EPS (Yen)
For the fiscal year ended March 31, 2013:			
Basic EPS			
Net income (loss) available to common shareholders	¥ 51,079	2,653,919	¥ 19.24

Diluted EPS for the fiscal year ended March 31, 2013 was not disclosed because there was no effect from dilutive securities.

33. OTHER COMPREHENSIVE INCOME

CONSOLIDATED

The components of other comprehensive income for the fiscal years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the fiscal year	**¥ 2,378**	¥ 9,140	**$ 23,137**
Reclassification adjustment to profit or loss	**1,906**	(4,567)	**18,541**
Amount before income tax effect	**4,285**	4,573	**41,678**
Income tax effect	**(1,481)**	(307)	**(14,408)**
Total	**2,803**	4,266	**27,270**
Deferred gain (loss) on derivatives under hedge accounting:			
Gains (losses) arising during the fiscal year	**1,109**	(2,947)	**10,790**
Reclassification adjustment to profit or loss	**1,501**	3,142	**14,603**
Amount before income tax effect	**2,610**	195	**25,393**
Income tax effect	**225**	(47)	**2,189**
Total	**2,835**	148	**27,582**
Foreign currency translation adjustments:			
Gains (losses) arising during the fiscal year	**3,934**	3,344	**38,264**
Reclassification adjustment to profit or loss	**(4,580)**	(454)	**(44,550)**
Amount before income tax effect	**(646)**	2,889	**(6,286)**
Income tax effect	**(9)**	—	**(93)**
Total	**(655)**	2,889	**(6,379)**
Share of other comprehensive income in affiliates:			
Gains (losses) arising during the fiscal year	**180**	737	**1,752**
Reclassification adjustment to profit or loss	**(333)**	57	**(3,245)**
Amount before income tax effect	**(153)**	794	**(1,493)**
Income tax effect	**—**	—	**—**
Total	**(153)**	794	**(1,493)**
Total other comprehensive income	**¥ 4,830**	¥ 8,098	**$ 46,980**

34. LEASE TRANSACTIONS

CONSOLIDATED

(A) FINANCE LEASE TRANSACTIONS

AS LESSEE

(a) For finance lease transactions, where the ownership of the property is deemed to transfer to the lessee, lease assets are software included in "Intangible assets."

(b) For finance lease transactions, where the ownership of the property is not deemed to transfer to the lessee, lease assets are primarily buildings, tools, equipment and fixtures included in "Premises and equipment," and software included in "Intangible assets."

(c) Depreciation method is described in "(V) LEASE TRANSACTIONS" in Note 2 "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

AS LESSOR

(a) Breakdown of "Lease receivables and leased investment assets" as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Lease receivables	**¥ 62,456**	¥ 44,705	**$ 607,439**
Leased investment assets:			
Lease payment receivables	**180,008**	172,465	**1,750,719**
Estimated residual value	**6,570**	6,976	**63,899**
Interest equivalent	**(21,587)**	(20,817)	**(209,954)**
Other	**315**	259	**3,073**
Subtotal	**165,307**	158,884	**1,607,737**
Total	**¥ 227,764**	¥ 203,590	**$ 2,215,176**

34. LEASE TRANSACTIONS (CONTINUED)

CONSOLIDATED

(b) Lease payment receivables for "Lease receivables and leased investment assets" as of March 31, 2014 were as follows:

	Lease receivables		Leased investment assets	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Due within one year	**¥ 18,867**	**$ 183,503**	**¥ 55,100**	**$ 535,897**
Due after one year within two years	**15,758**	**153,265**	**42,285**	**411,255**
Due after two years within three years	**12,056**	**117,260**	**31,490**	**306,265**
Due after three years within four years	**8,762**	**85,222**	**21,163**	**205,826**
Due after four years within five years	**5,968**	**58,049**	**11,742**	**114,204**
Due after five years	**4,926**	**47,912**	**18,227**	**177,272**
Total	**¥ 66,340**	**$ 645,211**	**¥ 180,008**	**$ 1,750,719**

(B) OPERATING LEASE TRANSACTIONS

Noncancelable operating lease obligations as lessee and lease payment receivables as lessor as of March 31, 2014 and 2013 were as follows:

AS LESSEE

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Lease obligations:			
Due within one year	**¥ 4,062**	¥ 4,011	**$ 39,511**
Due after one year	**16,253**	17,684	**158,078**
Total	**¥ 20,316**	¥ 21,695	**$ 197,589**

AS LESSOR

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Lease payment receivables:			
Due within one year	**¥ 4,252**	¥ 4,497	**$ 41,357**
Due after one year	**19,885**	19,099	**193,402**
Total	**¥ 24,137**	¥ 23,597	**$ 234,759**

35. SEGMENT INFORMATION

CONSOLIDATED

(A) SEGMENT INFORMATION

(a) DESCRIPTION OF REPORTABLE SEGMENTS

Our reportable segments are components of the Group about which separate financial information is available and such information is evaluated regularly by the Executive Committee in deciding how to allocate resources and in assessing performance.

The Group provides a wide variety of financial products and services to institutional and individual customers through our Institutional Group, Global Markets Group and Individual Group, respectively. These groups consist of operating segments which provide their respective financial products and services. The Institutional Group consists of the "Institutional Business Sub-Group," "Principal Transactions Sub-Group," "Showa Leasing" and "Other Institutional Group," and the Global Markets Group consists of the "Financial Institutions Sub-Group," "Markets Sub-Group," and "Other Global Markets Group" as reportable segments. The Individual Group consists of "Retail Banking Sub-Group," "Shinsei Financial" and "APLUS FINANCIAL." Also, the business and operations excluding any of the Institutional Group, the Global Markets Group, and the Individual Group are classified as the Corporate/Other. The "Treasury Sub-Group" in the Corporate/Other is a reportable segment.

In the Institutional Group, the "Institutional Business Sub-Group" provides financial products, financial services and advisory services for corporate banking business and public sector finance, real estate finance, such as nonrecourse loans, financial products and services for the real estate and construction industries, specialty finance such as M&A finance, and trust business. The "Principal Transactions Sub-Group" provides financial products and services related to credit trading. "Showa Leasing" primarily provides leasing related financial products and services. The "Other Institutional Group" consists of asset-backed investment and other products and services in the Institutional Group.

In the Global Markets Group, the "Financial Institutions Sub-Group" provides financial products and services for financial institutions business. The "Markets Sub-Group" is engaged in foreign exchanges, derivatives, equity-related transactions and other capital markets transactions. The "Other Global Markets Group" consists of Shinsei Securities' businesses, asset management, wealth management, and other products and services in the Global Markets Group.

In the Individual Group, the "Retail Banking Sub-Group" provides financial products and services for retail customers, "Shinsei Financial" which consists of the business of Shinsei Financial Co., Ltd., SHINKI Co., Ltd. and "Shinsei Bank Card Loan—Lake" in the bank provides consumer finance, and "APLUS FINANCIAL" provides installment sales credit, credit cards, guarantees and settlement services. The "Other" consists of profit and loss attributable to the Consumer Finance Sub-Group and other subsidiaries. The profit and loss related to "Go Remit Overseas Remittance Service" that was transferred from Lloyds TSB Bank plc on March 1, 2013, is included in the "Retail Banking Sub-Group."

In the Corporate/Other, the "Treasury Sub-Group" is engaged in operations ALM and capital fund raising.

On April 1, 2013, we implemented organizational changes. The former "Structured Finance Sub-Group" in the Institutional Group was integrated into the "Institutional Business Sub-Group." As a result of this organizational change, classification of reportable segments was changed, and "REVENUE, PROFIT (LOSS), ASSETS, LIABILITIES AND OTHER ITEMS BY REPORTABLE SEGMENTS" for the fiscal year ended March 31, 2013 is presented based on the new classification of reportable segments.

(b) METHODS OF MEASUREMENT FOR THE AMOUNTS OF REVENUE, PROFIT (LOSS), ASSETS, LIABILITIES AND OTHER ITEMS BY REPORTABLE SEGMENTS

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES," except for interest on inter-segment transactions and indirect expense.

Interest on inter-segment transactions is calculated using an inter-office rate. Indirect expense is allocated, based on the predetermined internal rule, to each reportable segment according to the budget which is set at the beginning of the fiscal year.

35. SEGMENT INFORMATION (CONTINUED) CONSOLIDATED

(c) REVENUE, PROFIT (LOSS), ASSETS, LIABILITIES AND OTHER ITEMS BY REPORTABLE SEGMENTS

Millions of yen

	Institutional Group				Global Markets Group		
Fiscal year ended March 31, 2014	Institutional Business Sub-Group	Principal Transactions Sub-Group	Showa Leasing	Other Institutional Group	Financial Institutions Sub-Group	Markets Sub-Group	Other Global Markets Group
Revenue:	¥ 36,522	¥ 17,948	¥ 15,190	¥ (106)	¥ 3,251	¥ 4,902	¥ 3,142
Net Interest Income	25,098	5,297	(2,468)	(250)	1,571	2,246	129
Noninterest Income[1]	11,424	12,651	17,658	143	1,679	2,655	3,013
Expenses	11,013	4,224	8,275	1,344	2,136	3,252	3,563
Net Credit Costs (Recoveries)	(10,106)	(246)	(2,662)	4,418	(440)	97	(118)
Segment Profit (loss)	¥ 35,616	¥ 13,969	¥ 9,577	¥ (5,869)	¥ 1,555	¥ 1,552	¥ (302)
Segment Assets[2]	¥ 2,474,481	¥ 291,447	¥ 452,221	¥ 71,452	¥ 174,128	¥ 391,462	¥ 48,443
Segment Liabilities	¥ 365,080	¥ 5,552	¥ —	¥ 1,740	¥ 360,353	¥ 202,614	¥ 52,867
Includes:							
1. Equity in net income (loss) of affiliates	¥ —	¥ 1,450	¥ —	¥ 1,291	¥ (106)	¥ (11)	¥ —
2. Investment in affiliates	—	43,746	—	—	—	2,111	—
Other:							
Goodwill (Negative Goodwill):							
Amortization	¥ —	¥ —	¥ 2,176	¥ —	¥ —	¥ —	¥ —
Unamortized balance	—	—	23,610	—	—	—	—
Intangible assets acquired in business combinations:							
Amortization	¥ —	¥ —	¥ 597	¥ —	¥ —	¥ —	¥ —
Unamortized balance	—	—	2,391	—	—	—	—
Impairment losses on long-lived assets	¥ 86	¥ —	¥ —	¥ —	¥ 39	¥ 5	¥ —

Millions of yen

	Individual Group				Corporate/Other		
		Consumer Finance Sub-Group					
Fiscal year ended March 31, 2014	Retail Banking Sub-Group	Shinsei Financial	APLUS FINANCIAL	Other	Treasury Sub-Group	Other	Total
Revenue:	¥ 32,420	¥ 47,072	¥ 48,152	¥ 1,720	¥ (4,424)	¥ (2,756)	¥ 203,036
Net Interest Income	25,391	50,971	7,501	1,478	(3,342)	(3,106)	110,518
Noninterest Income[1]	7,028	(3,899)	40,651	242	(1,081)	350	92,518
Expenses	31,792	30,108	34,726	757	1,540	139	132,875
Net Credit Costs (Recoveries)	(46)	2,782	6,830	(227)	—	(0)	279
Segment Profit (loss)	¥ 673	¥ 14,180	¥ 6,596	¥ 1,190	¥ (5,964)	¥ (2,894)	¥ 69,882
Segment Assets[2]	¥ 1,197,176	¥ 373,187	¥ 818,485	¥ 21,503	¥ 1,142,864	¥ —	¥ 7,456,855
Segment Liabilities	¥ 5,131,667	¥ 5,278	¥ 341,578	¥ 73	¥ 2,387	¥ —	¥ 6,469,194
Includes:							
1. Equity in net income (loss) of affiliates	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 2,623
2. Investment in affiliates	—	—	—	—	—	—	45,857
Other:							
Goodwill (Negative Goodwill):							
Amortization	¥ 140	¥ 3,266	¥ 859	¥ (0)	¥ —	¥ —	¥ 6,441
Unamortized balance	269	3,356	1,717	(5)	—	—	28,949
Intangible assets acquired in business combinations:							
Amortization	¥ —	¥ 2,708	¥ —	¥ —	¥ —	¥ —	¥ 3,305
Unamortized balance	—	6,790	—	—	—	—	9,182
Impairment losses on long-lived assets	¥ 936	¥ 25	¥ —	¥ —	¥ 5	¥ 460	¥ 1,558

35. SEGMENT INFORMATION (CONTINUED)

CONSOLIDATED

	Millions of yen						
	Institutional Group				Global Markets Group		
Fiscal year ended March 31, 2013	Institutional Business Sub-Group	Principal Transactions Sub-Group	Showa Leasing	Other Institutional Group	Financial Institutions Sub-Group	Markets Sub-Group	Other Global Markets Group
Revenue:	¥ 35,338	¥ 11,421	¥ 14,094	¥ (3,958)	¥ 4,571	¥ 7,213	¥ 2,458
Net Interest Income	26,476	5,022	(1,618)	(65)	1,603	1,256	135
Noninterest Income[1]	8,862	6,398	15,712	(3,893)	2,967	5,957	2,322
Expenses	11,015	3,844	7,860	1,536	2,310	3,197	3,520
Net Credit Costs (Recoveries)	2,789	(531)	(85)	4,151	(6,284)	(1,050)	(241)
Segment Profit (loss)	¥ 21,533	¥ 8,107	¥ 6,318	¥ (9,646)	¥ 8,545	¥ 5,066	¥ (820)
Segment Assets[2]	¥ 2,603,456	¥ 324,500	¥ 411,396	¥ 82,151	¥ 150,805	¥ 411,412	¥ 71,460
Segment Liabilities	¥ 440,859	¥ 7,347	¥ —	¥ 1,287	¥ 294,268	¥ 221,475	¥ 48,440
Includes:							
1. Equity in net income (loss) of affiliates	¥ —	¥ 1,024	¥ —	¥ (2,333)	¥ (0)	¥ (0)	¥ —
2. Investment in affiliates	—	38,914	—	—	—	2,038	—
Other:							
Goodwill (Negative Goodwill):							
Amortization	¥ —	¥ —	¥ 2,265	¥ —	¥ —	¥ —	¥ —
Unamortized balance	—	—	25,787	—	—	—	—
Intangible assets acquired in business combinations:							
Amortization	¥ —	¥ —	¥ 630	¥ —	¥ —	¥ —	¥ —
Unamortized balance	—	—	2,989	—	—	—	—
Impairment losses on long-lived assets	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 0	¥ 5

	Millions of yen						
	Individual Group				Corporate/Other		
		Consumer Finance Sub-Group					
Fiscal year ended March 31, 2013	Retail Banking Sub-Group	Shinsei Financial	APLUS FINANCIAL	Other	Treasury Sub-Group	Other	Total
Revenue:	¥ 33,104	¥ 43,955	¥ 47,820	¥ 1,611	¥ 4,496	¥ (3,117)	¥ 199,009
Net Interest Income	26,005	47,842	9,223	1,412	(2,710)	(2,897)	111,685
Noninterest Income[1]	7,099	(3,887)	38,597	199	7,207	(219)	87,324
Expenses	30,236	29,367	33,203	503	1,263	763	128,624
Net Credit Costs (Recoveries)	16	(165)	6,497	(89)	—	515	5,522
Segment Profit (loss)	¥ 2,851	¥ 14,753	¥ 8,119	¥ 1,197	¥ 3,233	¥ (4,397)	¥ 64,862
Segment Assets[2]	¥ 1,098,444	¥ 353,379	¥ 936,575	¥ 44,018	¥ 1,380,689	¥ —	¥ 7,868,289
Segment Liabilities	¥ 4,948,811	¥ 4,010	¥ 495,053	¥ 150	¥ 9,304	¥ —	¥ 6,471,010
Includes:							
1. Equity in net income (loss) of affiliates	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ (1,309)
2. Investment in affiliates	—	—	—	—	—	—	40,953
Other:							
Goodwill (Negative Goodwill):							
Amortization	¥ 11	¥ 3,919	¥ 840	¥ (0)	¥ —	¥ —	¥ 7,036
Unamortized balance	409	6,622	2,581	(5)	—	—	35,394
Intangible assets acquired in business combinations:							
Amortization	¥ —	¥ 3,144	¥ —	¥ —	¥ —	¥ —	¥ 3,774
Unamortized balance	—	9,498	—	—	—	—	12,487
Impairment losses on long-lived assets	¥ 665	¥ 45	¥ 162	¥ —	¥ —	¥ 37	¥ 916

35. SEGMENT INFORMATION (CONTINUED)

CONSOLIDATED

	Thousands of U.S. dollars						
	Institutional Group				Global Markets Group		
Fiscal year ended March 31, 2014	Institutional Business Sub-Group	Principal Transactions Sub-Group	Showa Leasing	Other Institutional Group	Financial Institutions Sub-Group	Markets Sub-Group	Other Global Markets Group
Revenue:	$ 355,212	$ 174,562	$ 147,734	$ (1,038)	$ 31,621	$ 47,676	$ 30,567
Net Interest Income	244,100	51,520	(24,005)	(2,433)	15,283	21,853	1,261
Noninterest Income[1]	111,112	123,042	171,739	1,395	16,338	25,823	29,306
Expenses	107,117	41,088	80,483	13,077	20,777	31,630	34,657
Net Credit Costs (Recoveries)	(98,297)	(2,394)	(25,898)	42,970	(4,288)	946	(1,152)
Segment Profit (loss)	$ 346,392	$ 135,868	$ 93,149	$ (57,085)	$ 15,132	$ 15,100	$ (2,938)
Segment Assets[2]	$ 24,066,153	$ 2,834,539	$ 4,398,182	$ 694,928	$ 1,693,530	$ 3,807,259	$ 471,151
Segment Liabilities	$ 3,550,671	$ 54,004	$ —	$ 16,929	$ 3,504,699	$ 1,970,574	$ 514,176
Includes:							
1. Equity in net income (loss) of affiliates	$ —	$ 14,103	$ —	$ 12,557	$ (1,032)	$ (115)	$ —
2. Investment in affiliates	—	425,462	—	—	—	20,535	—
Other:							
Goodwill (Negative Goodwill):							
Amortization	$ —	$ —	$ 21,164	$ —	$ —	$ —	$ —
Unamortized balance	—	—	229,634	—	—	—	—
Intangible assets acquired in business combinations:							
Amortization	$ —	$ —	$ 5,811	$ —	$ —	$ —	$ —
Unamortized balance	—	—	23,263	—	—	—	—
Impairment losses on long-lived assets	$ 845	$ —	$ —	$ —	$ 381	$ 49	$ —

	Thousands of U.S. dollars						
	Individual Group				Corporate/Other		
		Consumer Finance Sub-Group					
Fiscal year ended March 31, 2014	Retail Banking Sub-Group	Shinsei Financial	APLUS FINANCIAL	Other	Treasury Sub-Group	Other	Total
Revenue:	$ 315,312	$ 457,811	$ 468,322	$ 16,735	$ (43,031)	$ (26,805)	$ 1,974,678
Net Interest Income	246,952	495,732	72,954	14,377	(32,511)	(30,212)	1,074,871
Noninterest Income[1]	68,360	(37,921)	395,368	2,358	(10,520)	3,407	899,807
Expenses	309,210	292,832	337,741	7,365	14,978	1,353	1,292,308
Net Credit Costs (Recoveries)	(449)	27,062	66,429	(2,210)	—	(4)	2,715
Segment Profit (loss)	$ 6,551	$ 137,917	$ 64,152	$ 11,580	$ (58,009)	$ (28,154)	$ 679,655
Segment Assets[2]	$ 11,643,425	$ 3,629,527	$ 7,960,370	$ 209,142	$ 11,115,192	$ —	$ 72,523,398
Segment Liabilities	$ 49,909,236	$ 51,342	$ 3,322,103	$ 716	$ 23,216	$ —	$ 62,917,666
Includes:							
1. Equity in net income (loss) of affiliates	$ —	$ —	$ —	$ —	$ —	$ —	$ 25,513
2. Investment in affiliates	—	—	—	—	—	—	445,997
Other:							
Goodwill (Negative Goodwill):							
Amortization	$ 1,366	$ 31,765	$ 8,355	$ (5)	$ —	$ —	$ 62,645
Unamortized balance	2,620	32,644	16,707	(49)	—	—	281,556
Intangible assets acquired in business combinations:							
Amortization	$ —	$ 26,340	$ —	$ —	$ —	$ —	$ 32,151
Unamortized balance	—	66,040	—	—	—	—	89,303
Impairment losses on long-lived assets	$ 9,112	$ 245	$ —	$ —	$ 49	$ 4,475	$ 15,156

Notes: (1) "Revenue," which represents gross operating profit under our management reporting, is presented as a substitute for sales in other industries. "Revenue" is defined as the total of net interest income, net fees and commissions, net trading income and net other business income on the management reporting basis. "Revenue" represents income and related cost attributable to our core business.
(2) "Expenses" are general and administrative expenses deducting amortization of goodwill and intangible assets acquired in business combinations, amortization of net actuarial gains or losses of retirement benefit cost and lump-sum payments.
(3) "Net Credit Costs (Recoveries)" consists of provision/reversal of reserve for credit losses, losses on write-off/sales of loans and recoveries of written-off claims.
(4) "Segment Assets" consists of other monetary claims purchased, trading assets, monetary assets held in trust, securities, loans and bills discounted, lease receivables and leased investment assets, installment receivables, tangible leased assets, intangible leased assets and customer's liabilities for acceptances and guarantees.
(5) "Segment Liabilities" consists of deposits, including negotiable certificates of deposit, debentures, trading liabilities and acceptances and guarantees.
(6) Regarding assets and liabilities not allocated to each business segment, there are related revenue and expense items which are allocated to each business segment based on rational allocation method. For example, interest on other borrowings is considered a part of "Revenue" and included in segment income, although borrowed money is not allocated to each segment liabilities. In addition, depreciation is considered a part of "Expenses" and included in segment income, although premises and equipment excluding tangible leased assets and intangible assets excluding intangible leased assets are not allocated to each segment assets.
(7) "Other" under the Corporate/Other includes company-wide accounts which are not included in our reportable segments, allocation variance of indirect expense and elimination amount of inter-segment transactions.

35. SEGMENT INFORMATION (CONTINUED)

CONSOLIDATED

(d) RECONCILIATION BETWEEN THE SEGMENT INFORMATION AND THE CONSOLIDATED FINANCIAL STATEMENTS

(i) A reconciliation between total segment profit and income (loss) before income taxes and minority interests on the consolidated statements of income for the fiscal years ended March 31, 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars
Fiscal Year ended March 31	**2014**	2013	**2014**
Total segment profit	**¥ 69,882**	¥ 64,862	**$ 679,655**
Amortization of goodwill acquired in business combinations	**(6,300)**	(7,024)	**(61,279)**
Amortization of intangible assets acquired in business combinations	**(3,305)**	(3,774)	**(32,151)**
Lump-sum payments	**(2,332)**	(2,374)	**(22,690)**
Other gains (losses), net	**(11,922)**	2,187	**(115,953)**
Income (loss) before income taxes and minority interests	**¥ 46,020**	¥ 53,875	**$ 447,582**

(ii) A reconciliation between total segment assets and total assets on the consolidated balance sheets as of March 31, 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2014**	2013	**2014**
Total segment assets	**¥ 7,456,855**	¥ 7,868,289	**$ 72,523,398**
Cash and due from banks	**1,451,492**	648,897	**14,116,834**
Call loans	**36,451**	18,806	**354,515**
Receivables under resale agreements	**53,216**	78,507	**517,572**
Receivables under securities borrowing transactions	**23,651**	19,083	**230,032**
Foreign exchanges	**25,656**	33,857	**249,533**
Other assets excluding installment receivables	**303,043**	400,495	**2,947,318**
Premises and equipment excluding tangible leased assets	**32,333**	33,754	**314,462**
Intangible assets excluding intangible leased assets	**57,640**	68,426	**560,595**
Asset for retirement benefits	**1,567**	4,591	**15,250**
Deferred issuance expenses for debentures	**32**	95	**314**
Deferred tax assets	**16,519**	16,339	**160,666**
Reserve for credit losses	**(137,358)**	(161,810)	**(1,335,915)**
Total assets	**¥ 9,321,103**	¥ 9,029,335	**$ 90,654,574**

(iii) A reconciliation between total segment liabilities and total liabilities on the consolidated balance sheets as of March 31, 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2014**	2013	**2014**
Total segment liabilities	**¥ 6,469,194**	¥ 6,471,010	**$ 62,917,666**
Call money	**180,000**	170,094	**1,750,632**
Payables under securities lending transactions	**317,599**	47,069	**3,088,892**
Borrowed money	**643,431**	719,292	**6,257,847**
Foreign exchanges	**37**	174	**362**
Short-term corporate bonds	**86,900**	82,800	**845,166**
Corporate bonds	**177,248**	174,286	**1,723,869**
Other liabilities	**497,804**	630,759	**4,841,516**
Accrued employees' bonuses	**7,782**	7,604	**75,689**
Accrued directors' bonuses	**67**	54	**661**
Liability for retirement benefits	**10,116**	7,309	**98,387**
Reserve for directors' retirement benefits	**119**	245	**1,165**
Reserve for losses on interest repayments	**208,201**	34,983	**2,024,908**
Deferred tax liabilities	**9**	7	**89**
Total liabilities	**¥ 8,598,512**	¥ 8,345,690	**$ 83,626,849**

35. SEGMENT INFORMATION (CONTINUED) CONSOLIDATED

(B) RELATED INFORMATION

(a) INFORMATION BY SERVICES

Income regarding major services for the fiscal years ended March 31, 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars
Fiscal Year ended March 31	**2014**	2013	**2014**
Loan Businesses	**¥ 133,470**	¥ 144,869	**$ 1,298,096**
Lease Businesses	**9,228**	10,209	**89,750**
Securities Investment Businesses	**16,647**	21,345	**161,906**
Installment Sales and Guarantee Businesses	**42,709**	39,263	**415,379**

"Installment Sales and Guarantee Businesses" is presented from the fiscal year ended March 31, 2014, due to its increased materiality.

(b) GEOGRAPHICAL INFORMATION

(i) REVENUE

Revenue from external domestic customers exceeded 90% of total revenue on the consolidated statements of income for the fiscal years ended March 31, 2014 and 2013, therefore geographical revenue information is not presented.

(ii) PREMISES AND EQUIPMENT

The balance of domestic premises and equipment exceeded 90% of total balance of premises and equipment on the consolidated balance sheets as of March 31, 2014 and 2013, therefore geographical premises and equipment information is not presented.

(c) MAJOR CUSTOMER INFORMATION

Revenue to a specific customer did not reach 10% of total revenue on the consolidated statements of income for the fiscal years ended March 31, 2014 and 2013, therefore major customer information is not presented.

36. RELATED PARTY TRANSACTIONS

CONSOLIDATED

Related party transactions for the fiscal years ended March 31, 2014 and 2013 were as follows:

		Amount of the transaction			Balance at the end of fiscal year			
		Millions of yen		Thousands of U.S. dollars		Millions of yen		Thousands of U.S. dollars
Related party	Description of the transaction	**2014**	2013	**2014**	Account name	**2014**	2013	**2014**
Companies in which a majority of the voting rights is owned by directors (including their subsidiaries)								
J.C. Flowers II L.P.[1]	Receipt of management fee[2]	**¥ —**	¥ 89	**$ —**	—	**¥ —**	¥ —	**$ —**
	Investment[3]	**22**	161	**218**	—	**—**	—	**—**
	Dividend	**163**	878	**1,594**	—	**—**	—	**—**
J.C. Flowers III L.P.[1]	Investment[4]	**394**	426	**3,833**	—	**—**	—	**—**
	Dividend	**414**	362	**4,028**	—	**—**	—	**—**

1 The fund is operated by J.C. Flowers & Co. LLC, of which J. Christopher Flowers, a director of the Bank, serves as chairman.
2 The management fee for assisting J.C. Flowers & Co. LLC in its sponsoring and serving as an investment advisor is determined based on proportion of the investment amounts by limited partners.
3 The committed investment amounts are U.S.$200 million based on the limited partnership agreement.
4 The committed investment amounts are U.S.$34,975 thousand based on the limited partnership agreement.

37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

CONSOLIDATED

(A) GROUP POLICY FOR FINANCIAL INSTRUMENTS

The Group conducts total financial service, primarily basic banking business and other financial services such as securities business, trust business, consumer finance business, and commercial finance business.

For conducting these businesses, the Bank obtains retail customer deposits as a long-term and stable source of funding. In addition, the Bank diversifies sources of funding by securitization of loans or other assets. Subsidiaries and affiliates also use borrowings from other financial institutions as a source of funding.

(B) NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

(a) Financial assets

The financial assets held by the Group are exposed to the following risks:

Loans and bills discounted

Loans and bills discounted, which are primarily provided to domestic institutional and individual customers, are exposed to customer's credit risk and risk of fluctuation in interest rates.

Securities

Securities primarily consist of bonds and stocks and other investments such as foreign securities and investment in partnerships. They are exposed to the risk of fluctuation in interest rates, foreign exchange rates, and prices in the bond/stock markets and in addition, credit risk arising from downgrading of issuer's credit rating, default, etc.

Other monetary claims purchased,
Monetary assets held in trust

Other monetary claims purchased and Monetary assets held in trust consist of investments in various assets such as housing loans, nonperforming loans, and receivables in credit trading and securitization businesses, with a purpose of collection, sale, or securitization. There is a possibility that the Group's profits and losses and financial conditions will be badly affected if earnings from these assets are less than expected. These investments are exposed to risk of fluctuation in market size and price of these assets.

Lease receivables and leased investment assets,
Installment receivables

Lease receivables, leased investment assets, and installment receivables held by consolidated subsidiaries are exposed to customer's credit risk and risk of fluctuation in interest rates.

(b) Financial liabilities

Financial liabilities of the Group are mainly deposits. In case of deterioration in the Group's financial position, sufficient funding would become difficult or more expensive ("liquidity risk").

By utilizing time deposits as an important Asset Liability Management (ALM) measure, the Bank is striving to diversify funding maturities and to disperse refunding dates. Without solely relying on interbank funding, the Bank is aiming to cover its funding needs through core retail deposits and corporate deposits as well as capital.

(c) Derivative transactions

The Group enters into the following derivative transactions to provide products for customer needs, to maximize the profit of the Bank's own trading account and for asset and liability management, hedging transactions and other purposes.

(1) Interest rate related	Interest rate swap, Future contract, Interest rate option, and Interest rate swaption
(2) Currency related	Currency swap, Forward foreign exchange contract, and Currency option
(3) Equity related	Equity index futures, Equity index option, Equity option, and other
(4) Bond related	Bond futures, and Bond future option
(5) Credit derivative	Credit default option, and other

Among the risks associated with derivative transactions, market risk, credit risk and liquidity risk are to be specially noted for risk management.

(1) Market Risk	Risk that losses are incurred associated with changes in the value of financial instruments from fluctuation in market price, as well as volatilities inherent in derivative instruments
(2) Credit Risk	Risk that losses are incurred associated with the counterparty defaulting on contractual terms
(3) Liquidity Risk	Risk that additional costs are incurred associated with closing out the position of the financial instrument held

To appropriately reflect the risk mitigation effect of derivative transactions to the consolidated financial statements, the Group adopts hedge accounting where risks in assets and liabilities of the Group are hedged by interest rate swap, currency swap, etc.

In hedge accounting, effectiveness of hedging is assessed based on the conditions determined in the accounting standards such as "Accounting Standard for Financial Instruments."

(C) RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS

(a) Credit risk management

The Group's model for credit risk management focuses on securing adequate return on risk, avoiding excessive concentration in particular sectors or to particular customer groups, and managing the credit portfolio with an analysis of potential losses under a worst-case scenario.

Concrete policies and guidelines related to credit risk management of corporate business are clarified in the Group's detailed procedures, and credit risk management processes are roughly classified into credit risk management for individual transactions and portfolio-based credit risk management.

As for credit risk management for individual transactions, approval authority level is determined in accordance with transaction amount, aggregate credit exposure to obligor's group companies, credit rating and so on. The Group has an approval system in which the decisions are made jointly by the delegation holders of the business promotion division and the risk management divisions, and the final authority and decision rests with the risk management division.

On portfolio-based credit risk management, to diversify risks in terms of industries, ratings and customer groups, the Portfolio and Risk Management Division monitors the segment-specific risk diversification status and also rating fluctuations related to customers within the portfolios. The division uses this information to provide comprehensive reports to the Risk Policy Committee on a quarterly basis.

Credit risks in credit transactions are quantified based on the probability of default by obligor rating, loss given default, and unexpected loss ratio. In order to decrease credit risk of obligors, the Group secures collateral and guarantees for the protection of its claims, the values of which are checked more than once a year. Quasi credit risks involved in market transactions, such as derivative transactions, are controlled based on fair value and estimations of future value fluctuations.

As for credit risk management of the consumer finance business, risk management divisions of each subsidiary monitor leading indicators for quality of screening, quality of portfolio and performance of collection of claims monthly to recognize and tackle the aggravation of credit cost promptly. In case of any aggravation, the Group takes action to tackle it.

To take the risk strategy above, Individual Pillar Risk Management Division in the Bank holds monthly performance review, analyzes and monitors these leading indicators and advises the persons in charge of risk management of each subsidiary on their policies and strategies. The division does not merely avoid losses but also produces a balanced strategy with appropriate risk and return attributes and reports this business performance to the Risk Policy Committee quarterly.

(b) Market risk management

Market risks which are associated with changes in the value of financial assets and liabilities, including off-balance-sheet transactions, from fluctuations in interest rates, foreign exchange rates, stock prices and other market-related indices, have an effect on our financial performance.

The Group manages market risk by segregating the overall balance sheet, including off-balance-sheet transactions, into a trading book and a banking book. At the ALM Committee, the senior review and decisionmaking for the management mainly related to asset/liability management of the banking account are performed. At the Market Business Management Committee, the senior review and decisionmaking for the management of the trading account are performed.

The interest rate risk of the net asset and/or liability in the banking account which has interest rate sensitivity is managed by the ALM Committee based on "Asset Liability Management Policy for Banking Account."

The actual risk limits for asset/liability management of the trading account, such as the value-at-risk (VaR) method, are approved by the Executive Committee based on "Trading Business Risk Management Policy and Procedure." The Market Business Management Committee meets monthly to review reports from the Market Risk Management Division and front office. The Market Risk Management Division is responsible for timely recognition, monitoring and reporting of market risk in both the Group's trading and banking accounts. In addition to reporting risk information to management, administrative divisions and front office units, the Market Risk Management Division carries out regular risk analyses and makes recommendations. Market risk of the balance sheet involved in the ordinary banking business operation is managed by the Treasury Sub-Group, and market risk involved in the trading transactions is managed by the Markets Sub-Group.

Market risk is managed by quantifying on a daily basis and making risk adjustment in response to market conditions.

Quantitative information on market risk is as follows:

(i) Financial instruments for trading purposes

The Group uses VaR for quantitative analysis on market risk of the "Trading assets," "Trading liabilities," trading securities in "Securities," and the trading purpose instruments in "Derivative instruments." For calculating VaR, the historical simulation method (holding period of 10 days, confidence interval of 99%, and observation period of 250 business days) has been adopted.

The VaR in the Group's trading business as of March 31, 2014 and 2013 was ¥1,209 million (U.S.$11,760 thousand) and

37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED)

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¥1,642 million in the aggregate, respectively.

The Group conducts back testing to compare VaR calculated using the model with actual loss amounts. According to the results of back testing conducted, it is believed that the measurement model the Group uses is adequate enough accurately to capture market risk. It should be noted that VaR measures and calculates the amount of market risk at certain probability levels statistically based on historical market fluctuation, and therefore there may be cases where risk cannot be captured in such situations when market conditions are changing dramatically beyond what was experienced historically.

(ii) Financial instruments for other than trading purposes

The Group's main financial instruments which are impacted by interest rate risk, one of the major risk variables, includes "Call loans," "Receivables under resale agreements," "Receivables under securities borrowing transactions," "Other monetary claims purchased," "Monetary assets held in trust," bonds classified as securities being held to maturity or securities available for sale in "Securities," "Loans and bills discounted," "Lease receivables and leased investment assets," "Installment receivables," "Deposits, including negotiable certificates of deposit," "Debentures," "Call money," "Payables under securities lending transactions," "Borrowed money," "Short-term corporate bonds," "Corporate bonds" and interest rate swaps other than trading purposes in "Derivative instruments." As for these financial assets and liabilities, the Group uses the amount of impact on fair values which is calculated using a rationally expected fluctuation range of interest rates for one year from the fiscal year end for quantitative analysis to manage fluctuation risk of interest rates. The amount of such impact on fair values is calculated by categorizing the balance of these financial assets and liabilities according to the term of interest payments and using a certain fluctuation range of interest rates. Assuming all risk variables except for interest rate are constant, the Group estimated that the fair value would decrease by ¥2,645 million (U.S.$25,734 thousand) and ¥3,456 million in case of an increase of the index interest rates by 10 basis points (0.10%), and would increase by ¥1,519 million (U.S.$14,775 thousand) and ¥767 million in case of a decrease by 10 basis points (0.10%), as of March 31, 2014 and 2013, respectively. Such amount of impact on fair value is calculated based on the assumption that all risk variables except for interest rate are constant, and correlation between interest rate and other risk variables is not taken into consideration. There is a possibility that interest rate changes beyond the rationally expected fluctuation range may cause an impact greater than the calculated amount.

(c) Liquidity risk management

The ALM Committee, which is the senior review and decision-making body for the management of liquidity risk, manages liquidity risk by establishing short-term liquidity gap limits and minimum liquidity reserve levels.

In accordance with the "Cash Liquidity Risk Management Policy," the Bank has a structure to conduct two or more liquidity measurements and to secure available reserves over the net cumulative outflow forecasted in an emergency situation.

(D) CONCENTRATION OF CREDIT RISK

As of March 31, 2014, loans to the financial and insurance industry were approximately 15% of the total loans and bills discounted, and those to the real estate industry were approximately 13%, slightly less than 50% of which are nonrecourse loans for real estate.

As of March 31, 2013, loans to the financial and insurance industry were approximately 17% of the total loans and bills discounted, and those to the real estate industry were approximately 14%, slightly less than 60% of which are nonrecourse loans for real estate.

(E) FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values of financial instruments include the values calculated rationally in cases where no market price is available besides the value based on market price. Certain assumptions have been adopted for the calculation, so that the value calculated may not be the same when assumptions that differ from the Group's calculation are adopted.

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Fair values of financial instruments as of March 31, 2014 and 2013 were as follows:

	Millions of yen					
	2014			2013		
	Carrying amount	**Fair value**	**Unrealized gain (loss)**	Carrying amount	Fair value	Unrealized gain (loss)
Assets:						
(1) Cash and due from banks	**¥ 1,451,492**	**¥ 1,451,492**	**¥ —**	¥ 648,897	¥ 648,897	¥ —
(2) Call loans	**36,451**	**36,451**	**—**	18,806	18,806	—
(3) Receivables under resale agreements	**53,216**	**53,518**	**301**	78,507	78,948	440
(4) Receivables under securities borrowing transactions	**23,651**	**23,651**	**—**	19,083	19,083	—
(5) Other monetary claims purchased						
Trading purposes	**51,259**	**51,259**	**—**	66,965	66,965	—
Other[1]	**53,142**	**53,903**	**761**	44,338	44,640	301
(6) Trading assets						
Securities held for trading purposes	**14,362**	**14,362**	**—**	31,890	31,890	—
(7) Monetary assets held in trust[1]	**199,115**	**202,915**	**3,800**	233,714	238,291	4,577
(8) Securities						
Trading securities	**131**	**131**	**—**	662	662	—
Securities being held to maturity	**545,675**	**551,548**	**5,872**	639,809	649,174	9,365
Securities available for sale	**895,444**	**895,444**	**—**	1,094,814	1,094,814	—
Equity securities of affiliates	**40,975**	**31,163**	**(9,812)**	36,557	30,286	(6,271)
(9) Loans and bills discounted[2]	**4,319,830**			4,292,464		
Reserve for credit losses	**(92,484)**			(121,328)		
Net	**4,227,346**	**4,309,890**	**82,544**	4,171,136	4,248,691	77,555
(10) Lease receivables and leased investment assets[1]	**223,805**	**225,471**	**1,665**	199,177	200,125	947
(11) Other assets						
Installment receivables	**421,920**			365,817		
Deferred gains on installment receivables	**(13,672)**			(12,111)		
Reserve for credit losses	**(10,700)**			(10,819)		
Net	**397,547**	**411,144**	**13,597**	342,886	354,528	11,641
Total	**¥ 8,213,618**	**¥ 8,312,351**	**¥ 98,732**	¥ 7,627,249	¥ 7,725,806	¥ 98,557
Liabilities:						
(1) Deposits, including negotiable certificates of deposit	**¥ 5,850,447**	**¥ 5,855,332**	**¥ (4,885)**	¥ 5,457,535	¥ 5,472,305	¥ (14,769)
(2) Debentures	**41,747**	**41,782**	**(35)**	262,342	262,768	(426)
(3) Call money	**180,000**	**180,000**	**—**	170,094	170,094	—
(4) Payables under securities lending transactions	**317,599**	**317,599**	**—**	47,069	47,069	—
(5) Trading liabilities						
Trading securities sold for short sales	**14,290**	**14,290**	**—**	15,925	15,925	—
(6) Borrowed money	**643,431**	**645,895**	**(2,463)**	719,292	718,119	1,172
(7) Short-term corporate bonds	**86,900**	**86,900**	**—**	82,800	82,800	—
(8) Corporate bonds	**177,248**	**181,687**	**(4,439)**	174,286	171,091	3,194
Total	**¥ 7,311,664**	**¥ 7,323,488**	**¥ (11,824)**	¥ 6,929,344	¥ 6,940,172	¥ (10,829)
Derivative instruments[3]:						
Hedge accounting is not applied	**¥ (17,867)**	**¥ (17,867)**	**¥ —**	¥ (17,733)	¥ (17,733)	¥ —
Hedge accounting is applied	**(8,076)**	**(8,076)**	**—**	(16,521)	(16,521)	—
Total	**¥ (25,943)**	**¥ (25,943)**	**¥ —**	¥ (34,255)	¥ (34,255)	¥ —

	Contract amount	**Fair value**	Contract amount	Fair value
Other:				
Guarantee contracts[4]	**¥ 358,414**	**¥ (3,171)**	¥ 511,032	¥ (4,460)

37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED)

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	Thousands of U.S. dollars		
	2014		
	Carrying amount	Fair value	Unrealized gain (loss)
Assets:			
(1) Cash and due from banks	$ 14,116,834	$ 14,116,834	$ —
(2) Call loans	354,515	354,515	—
(3) Receivables under resale agreements	517,572	520,509	2,937
(4) Receivables under securities borrowing transactions	230,032	230,032	—
(5) Other monetary claims purchased			
Trading purposes	498,538	498,538	—
Other(1)	516,845	524,248	7,403
(6) Trading assets			
Securities held for trading purposes	139,690	139,690	—
(7) Monetary assets held in trust[1]	1,936,542	1,973,506	36,964
(8) Securities			
Trading securities	1,280	1,280	—
Securities being held to maturity	5,307,097	5,364,215	57,118
Securities available for sale	8,708,857	8,708,857	—
Equity securities of affiliates	398,515	303,084	(95,431)
(9) Loans and bills discounted[2]	42,013,526		
Reserve for credit losses	(899,481)		
Net	41,114,045	41,916,850	802,805
(10) Lease receivables and leased investment assets[1]	2,176,676	2,192,877	16,201
(11) Other assets			
Installment receivables	4,103,487		
Deferred gains on installment receivables	(132,977)		
Reserve for credit losses	(104,073)		
Net	3,866,437	3,998,682	132,245
Total	$ 79,883,475	$ 80,843,717	$ 960,242
Liabilities:			
(1) Deposits, including negotiable certificates of deposit	$ 56,899,894	$ 56,947,407	$ (47,513)
(2) Debentures	406,021	406,370	(349)
(3) Call money	1,750,632	1,750,632	—
(4) Payables under securities lending transactions	3,088,892	3,088,892	—
(5) Trading liabilities			
Trading securities sold for short sales	138,985	138,985	—
(6) Borrowed money	6,257,847	6,281,810	(23,963)
(7) Short-term corporate bonds	845,166	845,166	—
(8) Corporate bonds	1,723,869	1,767,044	(43,175)
Total	$ 71,111,306	$ 71,226,306	$ (115,000)
Derivative instruments[3]:			
Hedge accounting is not applied	$ (173,773)	$ (173,773)	$ —
Hedge accounting is applied	(78,551)	(78,551)	—
Total	$ (252,324)	$ (252,324)	$ —

	Contract amount	Fair value
Other:		
Guarantee contracts[4]	$ 3,485,849	$ (30,845)

1 Carrying amounts of Other monetary claims purchased, Monetary assets held in trust, and Lease receivables and leased investment assets are presented as the amount net of reserve for credit losses because they are immaterial.
2 For consumer loans held by consolidated subsidiaries included in Loans and bills discounted, reserve for losses on interest repayments of ¥208,201 million (U.S.$2,024,908 thousand) and ¥34,983 million was recognized for estimated losses on reimbursements of excess interest payments as of March 31, 2014 and 2013, respectively, which included the reserve for losses on interest repayments that have a possibility of being appropriated for loan principal in the future.
3 Derivative instruments include derivative transactions both in trading assets and liabilities, and in other assets and liabilities. Derivative instruments are presented as net of assets and liabilities and presented with ( ) when a liability stands on net basis.
4 Contract amount for guarantee contracts presents the amount of "Acceptances and guarantees" on the consolidated balance sheets.

37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) CONSOLIDATED

(Note 1) Valuation methodologies for financial instruments

Assets:

(1) Cash and due from banks

The fair values of due from banks with no maturities approximate carrying amounts. For due from banks with maturities, the fair values approximate carrying amounts because most of them are with short maturities of six months or less.

(2) Call loans and (4) Receivables under securities borrowing transactions

The fair values approximate carrying amounts because most of them are with short maturities of three months or less.

(3) Receivables under resale agreements

The fair values of the receivables under resale agreements with maturity of three months or less approximate carrying amounts because of their short-term maturity. The fair values of the receivables under resale agreements with maturity of more than three months are determined by discounting contractual cash flows in case of the transactions with fixed interest rate, or expected cash flows based on the forward rate in case of the transactions with floating interest rate, using the risk free rate adjusted to account for credit risk (after consideration of collateral) with credit default swap (CDS) spreads etc. corresponding to internal credit rating of each borrower.

(5) Other monetary claims purchased

The fair values are measured at quoted prices from third parties, or determined using the discounted cash flow method.

(6) Trading assets

The fair values are measured at market prices or quoted prices from third parties, or determined using the discounted cash flow method.

(7) Monetary assets held in trust

The fair values are determined using the discounted cash flow method based on the characteristics of the components of the entrusted assets.

(8) Securities

The fair values of marketable equity securities are measured at closing prices on exchanges. The fair values of bonds and mutual funds are measured at market prices or quoted prices from third parties, or determined using the discounted cash flow method.

(9) Loans and bills discounted

The fair values of loans and bills discounted with fixed interest rate are determined by discounting contractual cash flows, and the fair values of loans and bills discounted with floating interest rate are determined by discounting expected cash flows based on the forward rates, using the risk free rate adjusted to account for credit risk (after consideration of collateral) with CDS spreads etc. corresponding to internal credit rating of each borrower. The fair values of housing loans are determined by discounting expected cash flows at the rates that would be applied for the new housing loans with the same terms at the consolidated balance sheet date. The fair values of consumer loans are determined by discounting expected cash flows that reflect expected loss at the rates that consist of the risk free rate and certain costs, by a group of similar product types and customer segments.

For loans to obligors "legally bankrupt," "virtually bankrupt" and "possibly bankrupt," a reserve is provided based on the discounted cash flow method, or based on amounts expected to be collected through the disposal of collateral or execution of guarantees, so that the carrying amount net of the reserve is a reasonable estimate of the fair values of those loans.

(10) Lease receivables and leased investment assets

The fair values are primarily determined by discounting contractual cash flows at the rates that consist of the risk free rate, credit risk and certain costs, by a group of major product categories.

(11) Installment receivables

The fair values are primarily determined by discounting expected cash flows that reflect the probability of prepayment at the rates that consist of the risk free rate, credit risk and certain costs, by a group of major product categories.

Liabilities:

(1) Deposits, including negotiable certificates of deposit

The fair values of demand deposits, such as current deposits and ordinary deposits are recognized as the payment amount at the consolidated balance sheet date. The fair values of the deposits with maturity of six months or less approximate carrying amounts because of their short-term maturity.

The fair values of time deposits are determined by discounting the contractual cash flows at the rates that would be applied for the new contracts with the same terms at the consolidated balance sheet date.

(2) Debentures and (8) Corporate bonds

The fair values of marketable debentures and corporate bonds are measured at market prices.

The fair values of nonmarketable corporate debentures and corporate bonds under the Medium Term Note program are

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determined by discounting expected cash flows at the actual average funding rates of corporate time deposits and debentures funded in the past three months of the consolidated balance sheet date. The fair values of retail debentures are determined by discounting contractual cash flows at the latest actual funding rate.

The fair values of step-up callable subordinated bonds are determined by discounting expected cash flows which reflect the probability of early redemption at the rates that consist of the risk free rate and the CDS spread of the Bank.

(3) Call money and (4) Payables under securities lending transactions
The fair values approximate carrying amounts because most of them are with short maturities of three months or less.

(5) Trading liabilities
The fair values are measured at market prices.

(6) Borrowed money
The fair values of borrowed money with fixed interest rates are primarily determined by discounting contractual cash flows (for borrowed money hedged by interest rate swaps which meets specific matching criteria, the contractual cash flows include the cash flows of the interest rate swaps), and the fair values of borrowed money with floating interest rates are determined by discounting expected cash flows on forward rates, at the funding rates that reflect the credit risk of the borrower.

The fair values of step-up callable subordinated borrowings are determined by discounting expected cash flows that reflect the probability of early redemption at the rates that consist of the risk free rate and the CDS spread of the Bank.

(7) Short-term corporate bonds
The fair values approximate carrying amounts because most of them are with short maturities of six months or less.

Derivative instruments:
The fair values are primarily measured at closing prices on exchanges or determined using the discounted cash flow method or option pricing models.

Other:
Guarantee contracts
The fair values are determined by discounting the amount of difference between the original contractual cash flows and the expected cash flows that would be applied for the new contracts with the same terms at the risk free rate.

(Note 2) Carrying amount of the financial instruments whose fair value cannot be reliably determined

As of March 31,	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars 2014
Equity securities without readily available market price[1,2]	**¥ 11,501**	¥ 12,819	**$ 111,856**
Investment in partnerships and others[1,2]	**63,292**	57,681	**615,563**
Total	**¥ 74,793**	¥ 70,501	**$ 727,419**

1 Equity securities without readily available market price are out of the scope of fair value disclosure because their fair values cannot be reliably determined. Investments in partnerships and others, the assets of which comprise equity securities without readily available market price, are out of the scope of fair values disclosure because fair values of those investments cannot be reliably determined.
2 For the fiscal years ended March 31, 2014 and 2013, impairment losses on equity securities without readily available market price of ¥27 million (U.S.$272 thousand) and ¥1,271 million, and on investment in partnerships and others of ¥33 million (U.S.$323 thousand) and ¥606 million were recognized, respectively.

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

As of March 31, 2014	Millions of yen: 1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years
Due from banks	**¥ 1,448,146**	**¥ —**	**¥ —**	**¥ —**
Call loans	**36,451**	**—**	**—**	**—**
Receivables under resale agreements	**—**	**18,362**	**34,853**	**—**
Receivables under securities borrowing transactions	**23,651**	**—**	**—**	**—**
Other monetary claims purchased				
Other than trading purposes	**12,222**	**13,109**	**5,919**	**23,345**
Securities				
Held-to-maturity	**290,000**	**131,310**	**58,622**	**66,903**
Available-for-sale	**57,018**	**82,803**	**687,109**	**43,141**
Loans and bills discounted	**865,550**	**909,967**	**655,538**	**1,708,960**
Lease receivables and leased investment assets	**67,779**	**92,588**	**43,482**	**22,088**
Installment receivables	**163,186**	**150,212**	**48,936**	**32,403**
Total	**¥ 2,964,007**	**¥ 1,398,354**	**¥ 1,534,463**	**¥ 1,896,843**

37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) CONSOLIDATED

As of March 31, 2014	Thousands of U.S. dollars 1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years
Due from banks	$ 14,084,289	$ —	$ —	$ —
Call loans	354,515	—	—	—
Receivables under resale agreements	—	178,592	338,980	—
Receivables under securities borrowing transactions	230,033	—	—	—
Other monetary claims purchased				
Other than trading purposes	118,877	127,496	57,576	227,056
Securities				
Held-to-maturity	2,820,463	1,277,088	570,149	650,689
Available-for-sale	554,546	805,323	6,682,646	419,587
Loans and bills discounted	8,418,118	8,850,098	6,375,596	16,620,895
Lease receivables and leased investment assets	659,206	900,494	422,901	214,829
Installment receivables	1,587,104	1,460,932	475,939	315,145
Total	$ 28,827,151	$ 13,600,023	$ 14,923,787	$ 18,448,201

Note: The financial instruments whose cash flow cannot be reliably estimated such as loans and bills discounted to obligors of "legally bankrupt," "virtually bankrupt" and "possibly bankrupt," and the financial instruments with no contractual maturity are not included in the tables above.

(Note 4) Maturity analysis for financial liabilities with contractual maturities

As of March 31, 2014	Millions of yen 1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years
Deposits, including negotiable certificates of deposit	¥ 4,692,667	¥ 410,387	¥ 712,935	¥ 34,456
Debentures	7,350	26,306	8,090	—
Call money	180,000	—	—	—
Payables under securities lending transactions	317,599	—	—	—
Borrowed money	311,823	133,919	143,932	53,756
Short-term corporate bonds	86,900	—	—	—
Corporate bonds	34,527	47,401	3,844	91,509
Total	¥ 5,630,869	¥ 618,014	¥ 868,802	¥ 179,721

As of March 31, 2014	Thousands of U.S. dollars 1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years
Deposits, including negotiable certificates of deposit	$ 45,639,640	$ 3,991,318	$ 6,933,825	$ 335,110
Debentures	71,493	255,846	78,682	—
Call money	1,750,632	—	—	—
Payables under securities lending transactions	3,088,892	—	—	—
Borrowed money	3,032,714	1,302,465	1,399,848	522,821
Short-term corporate bonds	845,166	—	—	—
Corporate bonds	335,804	461,016	37,392	889,996
Total	$ 54,764,341	$ 6,010,645	$ 8,449,747	$ 1,747,927

Note: The cash flow of demand deposits is included in "1 year or less."

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38. DERIVATIVE FINANCIAL INSTRUMENTS

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(A) DERIVATIVE TRANSACTIONS TO WHICH HEDGE ACCOUNTING WAS NOT APPLIED

The fair values of derivatives on the consolidated balance sheets as of March 31, 2014 and 2013 are adjusted for credit risk by a reduction of ¥623 million (U.S.$6,060 thousand) and ¥611 million, respectively, and also adjusted for liquidity risk by a reduction of ¥1,102 million (U.S.$10,726 thousand) and ¥2,025 million, respectively.

Regardless of this accounting treatment, the reduction of those risks is not reflected in the fair values shown in the following tables.

(a) INTEREST RATE-RELATED TRANSACTIONS

Interest rate-related transactions as of March 31, 2014 and 2013 were as follows:

	Millions of yen							
	2014				2013			
	Contract/Notional principal				Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Futures contracts (listed):								
Sold	**¥ 2,495**	**¥ —**	**¥ 0**	**¥ 0**	¥ 3,280	¥ 2,325	¥ (3)	¥ (3)
Bought	**9,582**	**682**	**0**	**0**	7,693	2,335	(0)	(0)
Interest rate options (listed):								
Sold	**639**	**639**	**(0)**	**0**	—	—	—	—
Interest rate swaps (over-the-counter):								
Receive fixed and pay floating	**5,760,971**	**4,643,282**	**143,784**	**143,784**	5,600,527	4,558,713	176,626	176,626
Receive floating and pay fixed	**5,336,252**	**4,261,538**	**(120,446)**	**(120,446)**	5,125,244	4,099,234	(147,575)	(147,575)
Receive floating and pay floating	**694,348**	**557,544**	**(29)**	**(29)**	787,556	593,163	1,084	1,084
Interest rate swaptions (over-the-counter):								
Sold	**883,245**	**652,788**	**(13,407)**	**7,956**	1,083,435	723,154	(19,353)	4,353
Bought	**1,449,667**	**1,315,767**	**8,346**	**(3,267)**	1,453,978	1,124,526	15,002	1,886
Interest rate options (over-the-counter):								
Sold	**96,755**	**55,944**	**(275)**	**433**	115,090	92,907	(349)	368
Bought	**120,172**	**80,926**	**139**	**(333)**	106,049	101,049	183	(349)
Total			**¥ 18,113**	**¥ 28,097**			¥ 25,614	¥ 36,389

	Thousands of U.S. dollars			
	2014			
	Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**
Futures contracts (listed):				
Sold	**$ 24,267**	**$ —**	**$ 1**	**$ 1**
Bought	**93,196**	**6,636**	**4**	**4**
Interest rate options (listed):				
Sold	**6,219**	**6,219**	**(5)**	**2**
Interest rate swaps (over-the-counter):				
Receive fixed and pay floating	**56,029,679**	**45,159,329**	**1,398,409**	**1,398,409**
Receive floating and pay fixed	**51,898,972**	**41,446,595**	**(1,171,428)**	**(1,171,428)**
Receive floating and pay floating	**6,753,051**	**5,422,532**	**(283)**	**(283)**
Interest rate swaptions (over-the-counter):				
Sold	**8,590,207**	**6,348,851**	**(130,399)**	**77,384**
Bought	**14,099,083**	**12,796,807**	**81,180**	**(31,783)**
Interest rate options (over-the-counter):				
Sold	**941,023**	**544,102**	**(2,675)**	**4,213**
Bought	**1,168,766**	**787,065**	**1,361**	**(3,248)**
Total			**$ 176,165**	**$ 273,271**

Notes:

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.

(2) The fair values of listed transactions represent the closing price on the Tokyo Financial Exchange and other exchanges. The fair values of over-the-counter transactions are calculated primarily by using the discounted cash flow method or option pricing models.

38. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

CONSOLIDATED

(b) CURRENCY-RELATED TRANSACTIONS

Currency-related transactions as of March 31, 2014 and 2013 were as follows:

	Millions of yen							
	2014				2013			
	Contract/Notional principal				Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Currency swaps (over-the-counter)	**¥ 839,527**	**¥ 725,663**	**¥ (26,309)**	**¥ (26,309)**	¥ 825,128	¥ 716,720	¥ (29,417)	¥ (29,417)
Forward foreign exchange contracts (over-the-counter):								
Sold	**879,171**	**108,948**	**(25,619)**	**(25,619)**	673,772	101,842	(22,475)	(22,475)
Bought	**589,755**	**142,497**	**44,780**	**44,780**	477,400	158,504	55,253	55,253
Currency options (over-the-counter):								
Sold	**1,452,721**	**542,009**	**(33,859)**	**(9,031)**	2,020,346	931,805	(49,338)	(5,205)
Bought	**1,441,375**	**527,601**	**(800)**	**(21,886)**	2,046,529	918,286	4,744	(32,024)
Total			**¥ (41,807)**	**¥ (38,065)**			¥ (41,233)	¥ (33,869)

	Thousands of U.S. dollars			
	2014			
	Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**
Currency swaps (over-the-counter)	**$ 8,165,018**	**$ 7,057,613**	**$ (255,880)**	**$ (255,880)**
Forward foreign exchange contracts (over-the-counter):				
Sold	**8,550,590**	**1,059,606**	**(249,165)**	**(249,165)**
Bought	**5,735,808**	**1,385,893**	**435,526**	**435,526**
Currency options (over-the-counter):				
Sold	**14,128,788**	**5,271,442**	**(329,305)**	**(87,835)**
Bought	**14,018,440**	**5,131,311**	**(7,783)**	**(212,863)**
Total			**$ (406,607)**	**$ (370,217)**

Notes:

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.

(2) The fair values are calculated primarily by using the discounted cash flow method or option pricing models.

38. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

CONSOLIDATED

(c) EQUITY-RELATED TRANSACTIONS

Equity-related transactions as of March 31, 2014 and 2013 were as follows:

	Millions of yen							
	2014				2013			
	Contract/Notional principal				Contract/Notional principal			
	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Equity index futures (listed):								
Sold	¥ 12,003	¥ 6,938	¥ 343	¥ 343	¥ 3,762	¥ —	¥ (19)	¥ (19)
Bought	14,103	3,090	(286)	(286)	24,115	—	282	282
Equity index options (listed):								
Sold	625,042	176,262	(34,603)	(4,740)	384,365	161,525	(25,853)	(8,489)
Bought	624,831	163,425	37,056	4,999	373,268	141,975	23,188	4,848
Equity options (over-the-counter):								
Sold	77,568	48,523	(15,800)	(7,119)	168,569	74,685	(17,060)	(927)
Bought	82,960	57,790	22,193	11,857	194,060	80,077	23,634	6,649
Other (over-the-counter):								
Sold	68,900	68,900	50	50	28,399	18,400	(1,494)	(1,494)
Bought	103,377	103,377	(1,162)	(1,162)	119,347	118,997	729	729
Total			¥ 7,790	¥ 3,943			¥ 3,406	¥ 1,577

	Thousands of U.S. dollars			
	2014			
	Contract/Notional principal			
	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Equity index futures (listed):				
Sold	$ 116,738	$ 67,478	$ 3,344	$ 3,344
Bought	137,166	30,057	(2,785)	(2,785)
Equity index options (listed):				
Sold	6,078,997	1,714,282	(336,549)	(46,105)
Bought	6,076,944	1,589,428	360,399	48,627
Equity options (over-the-counter):				
Sold	754,406	471,925	(153,674)	(69,240)
Bought	806,853	562,051	215,844	115,324
Other (over-the-counter):				
Sold	670,103	670,103	491	491
Bought	1,005,422	1,005,422	(11,303)	(11,303)
Total			$ 75,767	$ 38,353

Notes:

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.

(2) The fair values of listed transactions represent the closing price on the Osaka Exchange and other exchanges. The fair values of over-the-counter transactions are calculated primarily by using the discounted cash flow method or option pricing model.

38. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED) CONSOLIDATED

(d) BOND-RELATED TRANSACTIONS

Bond-related transactions as of March 31, 2014 and 2013 were as follows:

	Millions of yen							
	2014				2013			
	Contract/Notional principal				Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Bond futures (listed):								
Sold	**¥ 5,042**	**¥ —**	**¥ (1)**	**¥ (1)**	¥ 20,504	¥ —	¥ (92)	¥ (92)
Bought	**13,525**	**—**	**(15)**	**(15)**	22,669	—	39	39
Bond futures options (listed):								
Bought	**—**	**—**	**—**	**—**	31,114	—	13	(10)
Total			**¥ (16)**	**¥ (16)**			¥ (39)	¥ (62)

	Thousands of U.S. dollars			
	2014			
	Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**
Bond futures (listed):				
Sold	**$ 49,039**	**$ —**	**$ (11)**	**$ (11)**
Bought	**131,543**	**—**	**(153)**	**(153)**
Bond futures options (listed):				
Bought	**—**	**—**	**—**	**—**
Total			**$ (164)**	**$ (164)**

Notes:

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.

(2) The fair values of listed transactions represent the closing price on the Osaka Exchange and other exchanges.

(e) CREDIT DERIVATIVES TRANSACTIONS

Credit derivatives transactions as of March 31, 2014 and 2013 were as follows:

	Millions of yen							
	2014				2013			
	Contract/Notional principal				Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Credit default option (over-the-counter):								
Sold	**¥ 294,763**	**¥ 242,814**	**¥ 3,571**	**¥ 3,571**	¥ 447,561	¥ 260,752	¥ 1,667	¥ 1,667
Bought	**288,062**	**237,995**	**(3,792)**	**(3,792)**	442,565	255,824	(2,075)	(2,075)
Other (over-the-counter):								
Bought	**—**	**—**	**—**	**—**	1,600	1,600	(2,435)	(835)
Total			**¥ (220)**	**¥ (220)**			¥ (2,843)	¥ (1,243)

	Thousands of U.S. dollars			
	2014			
	Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**
Credit default option (over-the-counter):				
Sold	**$ 2,866,793**	**$ 2,361,553**	**$ 34,739**	**$ 34,739**
Bought	**2,801,621**	**2,314,680**	**(36,886)**	**(36,886)**
Other (over-the-counter):				
Bought	**—**	**—**	**—**	**—**
Total			**$ (2,147)**	**$ (2,147)**

38. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED) CONSOLIDATED

Notes:

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.

(2) The fair values are calculated primarily by using the discounted cash flow method.

(3) "Sold" stands for accepting credit risk and "Bought" stands for transferring credit risk.

(B) DERIVATIVE TRANSACTIONS TO WHICH HEDGE ACCOUNTING WAS APPLIED

(a) INTEREST RATE-RELATED TRANSACTIONS

Interest rate-related transactions which are accounted for using the deferral method as of March 31, 2014 and 2013 were as follows:

	Millions of yen					
	2014			2013		
	Contract/Notional principal			Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**	Total	Maturity over 1 year	Fair value
Interest rate swaps:						
Receive fixed and pay floating	**¥ 760,794**	**¥ 477,794**	**¥ 3,743**	¥ 613,807	¥ 404,247	¥ 4,761
Receive floating and pay fixed	**247,304**	**232,411**	**(11,061)**	237,107	224,610	(14,555)
Total			**¥ (7,317)**			¥ (9,793)

	Thousands of U.S. dollars		
	2014		
	Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**
Interest rate swaps:			
Receive fixed and pay floating	**$ 7,399,281**	**$ 4,646,898**	**$ 36,407**
Receive floating and pay fixed	**2,405,215**	**2,260,374**	**(107,580)**
Total			**$ (71,173)**

Notes:

(1) Most of the hedged items are interest-bearing assets and liabilities such as loans and bills discounted, securities available for sale (bonds) and deposits, including negotiable certificate of deposit.

(2) Interest rate swaps are primarily accounted for using deferral method in accordance with Industry Audit Committee Report No.24 of the JICPA.

(3) The fair values are calculated primarily by using the discounted cash flow method.

38. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

CONSOLIDATED

Interest rate swaps which meet specific matching criteria as of March 31, 2014 and 2013 were as follows:

	Millions of yen					
	2014			2013		
	Contract/Notional principal			Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**	Total	Maturity over 1 year	Fair value
Interest rate swaps:						
Receive floating and pay fixed	**¥ 8,125**	**¥ 4,525**	**¥ —**	¥ 1,450	¥ 250	¥ —

	Thousands of U.S. dollars		
	2014		
	Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**
Interest rate swaps:			
Receive floating and pay fixed	**$ 79,022**	**$ 44,009**	**$ —**

Notes:

(1) The hedged item is borrowed money.

(2) Interest rate swaps which meet specific matching criteria are accounted for as component of hedged borrowed money. Therefore, the fair value of those interest rate swaps is included in the fair value of borrowed money in fair value information shown in Note 37 "FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES."

(b) CURRENCY-RELATED TRANSACTIONS

Currency-related transactions which are accounted for using the deferral method as of March 31, 2014 and 2013 were as follows:

	Millions of yen					
	2014			2013		
	Contract/Notional principal			Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**	Total	Maturity over 1 year	Fair value
Currency swaps	**¥ 10,329**	**¥ 10,329**	**¥ (758)**	¥ 33,333	¥ 9,446	¥ (6,727)

	Thousands of U.S. dollars		
	2014		
	Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**
Currency swaps	**$ 100,461**	**$ 100,461**	**$ (7,379)**

Notes:

(1) Most of the hedged items are foreign currency denominated loans and bills discounted, securities, deposits and foreign exchanges.

(2) Currency swap transactions are primarily accounted for using deferral method in accordance with Industry Audit Committee Report No.25 of the JICPA.

(3) The fair values are calculated primarily by using the discounted cash flow method.

39. SUBSEQUENT EVENTS

CONSOLIDATED

(A) DIVIDENDS

The following appropriation of retained earnings of the Bank for the fiscal year ended March 31, 2014 was approved at the meeting of the Board of Directors held on May 8, 2014:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, common stock, ¥1.00 (U.S.$0.01) per share	**¥ 2,653**	**$ 25,811**

(B) REDEMPTION OF PREFERRED SECURITIES ISSUED BY SUBSIDIARIES

On May 26, 2014, the Bank decided to redeem the preferred securities issued by the Bank's wholly owned subsidiaries outside Japan. Outline of the preferred securities to be redeemed is as follows:

(a) Issuer
- (i) Shinsei Finance III (Cayman) Limited
- (ii) Shinsei Finance IV (Cayman) Limited

(b) Type of securities
Japanese yen denominated preferred securities

(c) Aggregate redemption amount
- (i) ¥33,600 million (U.S.$326,784 thousand)
- (ii) ¥9,100 million (U.S.$88,504 thousand)

(d) Scheduled redemption date
July 23, 2014

(e) Reason for redemption
Optional redemption date has arrived.

INDEPENDENT AUDITORS' REPORT

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Shinsei Bank, Limited:

We have audited the accompanying consolidated financial statements of Shinsei Bank, Limited (the "Bank") and its consolidated subsidiaries (collectively, the "Group"), which comprise the consolidated balance sheets as of March 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank and its consolidated subsidiaries as of March 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Other Matter

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

Deloitte Touche Tohmatsu LLC

June 12, 2014

Member of
Deloitte Touche Tohmatsu Limited

NONCONSOLIDATED BALANCE SHEETS (UNAUDITED)

Shinsei Bank, Limited
As of March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note)
	2014	2013	**2014**
ASSETS			
Cash and due from banks	**¥ 1,367,839**	¥ 546,411	**$ 13,303,241**
Call loans	**36,451**	18,806	**354,515**
Receivables under resale agreements	**53,216**	78,507	**517,572**
Other monetary claims purchased	**195,287**	198,768	**1,899,318**
Trading assets	**235,097**	258,902	**2,286,491**
Monetary assets held in trust	**196,421**	255,505	**1,910,342**
Securities	**1,977,811**	2,282,624	**19,235,669**
Valuation allowance for investments	**(3,370)**	(3,370)	**(32,782)**
Loans and bills discounted	**4,235,713**	4,224,433	**41,195,423**
Foreign exchanges	**25,656**	33,857	**249,533**
Other assets	**204,706**	475,407	**1,990,922**
Premises and equipment	**20,042**	19,600	**194,931**
Intangible assets	**9,485**	9,333	**92,254**
Prepaid pension cost	**1,830**	1,512	**17,804**
Deferred issuance expenses for debentures	**32**	95	**314**
Deferred tax assets	**2,458**	1,210	**23,908**
Customers' liabilities for acceptances and guarantees	**11,616**	12,566	**112,975**
Reserve for credit losses	**(83,550)**	(106,518)	**(812,595)**
Total assets	**¥ 8,486,745**	¥ 8,307,655	**$ 82,539,835**
LIABILITIES AND EQUITY			
Liabilities:			
Deposits, including negotiable certificates of deposit	**¥ 6,194,216**	¥ 5,836,251	**$ 60,243,305**
Debentures	**41,747**	265,042	**406,021**
Call money	**180,000**	170,094	**1,750,632**
Payables under securities lending transactions	**300,690**	28,377	**2,924,434**
Trading liabilities	**206,587**	226,202	**2,009,211**
Borrowed money	**360,769**	479,854	**3,508,745**
Foreign exchanges	**37**	368	**363**
Corporate bonds	**221,891**	220,713	**2,158,056**
Other liabilities	**265,671**	398,199	**2,583,851**
Accrued employees' bonuses	**4,035**	4,091	**39,249**
Acceptances and guarantees	**11,616**	12,566	**112,975**
Total liabilities	**7,787,262**	7,641,761	**75,736,842**
Equity:			
Common stock	**512,204**	512,204	**4,981,565**
Capital surplus	**79,465**	79,465	**772,865**
Stock acquisition rights	**1,221**	1,238	**11,881**
Retained earnings:			
Legal reserve	**12,628**	12,097	**122,817**
Unappropriated retained earnings	**172,395**	139,126	**1,676,674**
Unrealized gain (loss) on available-for-sale securities	**5,140**	2,976	**49,993**
Deferred gain (loss) on derivatives under hedge accounting	**(11,013)**	(8,657)	**(107,115)**
Treasury stock, at cost	**(72,558)**	(72,558)	**(705,687)**
Total equity	**699,483**	665,893	**6,802,993**
Total liabilities and equity	**¥ 8,486,745**	¥ 8,307,655	**$ 82,539,835**

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥102.82=U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2014.

NONCONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Shinsei Bank, Limited
For the fiscal years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note)
	2014	2013	**2014**
Interest income:			
Interest on loans and bills discounted	**¥ 72,022**	¥ 67,116	**$ 700,473**
Interest and dividends on securities	**36,904**	26,144	**358,928**
Interest on deposits with banks	**948**	249	**9,228**
Other interest income	**2,609**	2,518	**25,381**
Total interest income	**112,486**	96,029	**1,094,010**
Interest expenses:			
Interest on deposits, including negotiable certificates of deposit	**20,625**	23,459	**200,594**
Interest and discounts on debentures	**155**	979	**1,510**
Interest on other borrowings	**2,706**	2,803	**26,318**
Interest on corporate bonds	**9,106**	8,381	**88,565**
Other interest expenses	**377**	271	**3,669**
Total interest expenses	**32,969**	35,895	**320,656**
Net interest income	**79,516**	60,133	**773,354**
Fees and commissions income	**20,194**	17,004	**196,402**
Fees and commissions expenses	**16,121**	11,865	**156,796**
Net fees and commissions	**4,072**	5,139	**39,606**
Net trading income	**5,394**	14,579	**52,462**
Other business income (loss), net:			
Net gain (loss) on monetary assets held in trust	**3,841**	5,178	**37,364**
Net gain (loss) on foreign exchanges	**6,228**	2,405	**60,572**
Net gain (loss) on securities	**(709)**	4,977	**(6,899)**
Net gain (loss) on other monetary claims purchased	**29**	(200)	**288**
Other, net	**2,198**	59	**21,378**
Net other business income (loss)	**11,588**	12,421	**112,703**
Total revenue	**100,570**	92,273	**978,125**
General and administrative expenses:			
Personnel expenses	**23,923**	23,551	**232,670**
Premises expenses	**12,321**	11,962	**119,833**
Technology and data processing expenses	**7,602**	7,657	**73,945**
Advertising expenses	**5,851**	5,392	**56,914**
Consumption and property taxes	**3,426**	3,212	**33,321**
Deposit insurance premium	**3,434**	3,573	**33,407**
Other general and administrative expenses	**14,820**	14,352	**144,144**
Total general and administrative expenses	**71,381**	69,701	**694,234**
Net business profit	**29,189**	22,571	**283,891**
Net credit costs (recoveries)	**(7,270)**	(1,256)	**(70,707)**
Other gains (losses), net	**(614)**	(421)	**(5,974)**
Income (loss) before income taxes	**35,845**	23,406	**348,624**
Income taxes (benefit):			
Current	**(348)**	(789)	**(3,391)**
Deferred	**(260)**	(460)	**(2,529)**
Net income (loss)	**¥ 36,454**	¥ 24,656	**$ 354,544**

	Yen		U.S. dollars (Note)
Basic net income (loss) per common share	**¥ 13.73**	¥ 9.29	**$ 0.13**
Diluted net income (loss) per common share	**¥ 13.73**	¥ —	**$ 0.13**

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥102.82=U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2014.

NONCONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

Shinsei Bank, Limited
For the fiscal years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note)
	2014	2013	2014
Common stock:			
Balance at beginning of the year	¥ 512,204	¥ 512,204	$ 4,981,565
Balance at end of the year	512,204	512,204	4,981,565
Capital surplus:			
Balance at beginning of the year	79,465	79,465	772,865
Balance at end of the year	79,465	79,465	772,865
Stock acquisition rights:			
Balance at beginning of the year	1,238	1,354	12,047
Net change during the year	(17)	(115)	(166)
Balance at end of the year	1,221	1,238	11,881
Retained earnings:			
Legal reserve:			
Balance at beginning of the year	12,097	11,566	117,655
Dividends	530	530	5,162
Balance at end of the year	12,628	12,097	122,817
Unappropriated retained earnings:			
Balance at beginning of the year	139,126	117,654	1,353,103
Dividends	(3,184)	(3,184)	(30,973)
Net income (loss)	36,454	24,656	354,544
Balance at end of the year	172,395	139,126	1,676,674
Unrealized gain (loss) on available-for-sale securities:			
Balance at beginning of the year	2,976	(1,031)	28,952
Net change during the year	2,163	4,008	21,041
Balance at end of the year	5,140	2,976	49,993
Deferred gain (loss) on derivatives under hedge accounting:			
Balance at beginning of the year	(8,657)	(4,476)	(84,201)
Net change during the year	(2,355)	(4,180)	(22,914)
Balance at end of the year	(11,013)	(8,657)	(107,115)
Treasury stock, at cost:			
Balance at beginning of the year	(72,558)	(72,558)	(705,687)
Balance at end of the year	(72,558)	(72,558)	(705,687)
Total equity			
Balance at beginning of the year	665,893	644,178	6,476,299
Net change in stock acquisition rights during the year	(17)	(115)	(166)
Dividends	(2,653)	(2,653)	(25,811)
Net income (loss)	36,454	24,656	354,544
Net change in unrealized gain (loss) on available-for-sale securities during the year	2,163	4,008	21,041
Net change in deferred gain (loss) on derivatives under hedge accounting during the year	(2,355)	(4,180)	(22,914)
Balance at end of the year	¥ 699,483	¥ 665,893	$ 6,802,993

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥102.82=U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2014.

CAPITAL ADEQUACY REQUIREMENT (BASEL ACCORD) PILLAR III (MARKET DISCIPLINE) DISCLOSURE

This chapter describes information that needs to be disclosed in disclosure documents related to the reported business year pursuant to the Financial Services Agency Notice No. 15 of March 23, 2007 (Basel Accord - Pillar III: Market Discipline) as the "matters concerning the status of capital adequacy separately prescribed by the Commissioner of the Financial Services Agency" as provided in Article 19-2 (1) (v) (d) of the Ordinance for Enforcement of the Banking Act (Ministry of Finance Ordinance No. 10 of 1982).

"Accord" in this chapter refers to the Financial Services Agency Notice No. 19 dated March 27, 2006 (Basel Accord - Pillar I: Minimum Capital Ratio).

QUALITATIVE DISCLOSURE

1. RANGE OF CONSOLIDATION

(1) DIFFERENCES BETWEEN COMPANIES WHICH BELONG TO THE GROUP OF COMPANIES (CONSOLIDATED GROUP) SUBJECTED TO CALCULATION OF THE CONSOLIDATED CAPITAL RATIOS BASED ON THE ACCORD'S ARTICLE 26 AND COMPANIES INCLUDED IN THE SCOPE OF ACCOUNTING CONSOLIDATION AND REASONS FOR DIFFERENCES

- There are no differences.

(2) NUMBER OF CONSOLIDATED SUBSIDIARIES AND NAMES AND BUSINESS OF MAJOR CONSOLIDATED SUBSIDIARIES

i) Number of consolidated subsidiaries

184 consolidated subsidiaries.

ii) Major consolidated subsidiaries

- Shinsei Trust & Banking Co., Ltd. (trust banking)
- Shinsei Securities Co., Ltd. (securities)
- APLUS FINANCIAL Co., Ltd. (installment credit)
- Showa Leasing Co., Ltd. (leasing)
- SHINKI Co., Ltd. (consumer finance)
- SHINSEI FINANCIAL Co., Ltd. (consumer finance)
- Shinsei Principal Investments Ltd. (financial investment)

(3) NUMBER AND NAMES OF FINANCIAL AFFILIATES UNDER ARTICLE 32 OF THE ACCORD AND TOTAL ASSETS AND NET ASSETS AMOUNTS ON BALANCE SHEET AND MAJOR BUSINESS OF THOSE FINANCIAL AFFILIATES

- There are no financial affiliate companies.

(4) NAMES OF COMPANIES WHICH BELONG TO THE CONSOLIDATED GROUP BUT ARE NOT INCLUDED IN THE SCOPE OF ACCOUNTING CONSOLIDATION OR COMPANIES WHICH DO NOT BELONG TO THE CONSOLIDATED GROUP BUT ARE INCLUDED IN THE SCOPE OF ACCOUNTING CONSOLIDATION, AND TOTAL ASSETS AND NET ASSETS AMOUNTS ON BALANCE SHEET AND MAJOR BUSINESS OF THOSE COMPANIES

- There are no companies that are subject to the above.

(5) SUMMARY OF RESTRICTIONS ON TRANSFER OF CASH AND CAPITAL IN THE CONSOLIDATED GROUP

- There are no particular restrictions.

2. TYPES OF CAPITAL INSTRUMENTS

The Bank has raised capital through the issuance of common shares. It should be noted with regard to preferred securities, perpetual subordinated bonds and loans and dated subordinated bonds and loans issued before March 31, 2014, the amounts under transitional arrangements are included in "Core capital: instruments and reserves."

3. ASSESSMENT OF CAPITAL ADEQUACY OF THE BANK GROUP

As part of its comprehensive risk management, the Bank, at the start of the fiscal year, determines a Risk Capital budget in consideration of its source of capital. This Risk Capital budget is allocated to each business line and monitored on a monthly basis, and each month the Executive Committee receives a report on the amount of Risk Capital used and the relevant source of capital. Additionally, in regards to regulatory capital, capital ratio is reported at the above mentioned reporting, allowing senior management to monitor and assess the overall availability of capital. At least once a year, the Bank performs stress tests on its estimates of Risk Capital and regulatory capital.

Current capital ratios are maintained at a sufficient level. Going forward, while the Bank expects an increase in risk assets due to an increase in loan assets, the Bank looks to strengthen its financial basis by improving profitability through the consideration and enactment of appropriate measures that take into account the market environment.

4. CREDIT RISK MANAGEMENT POLICIES AND PROCEDURES

CREDIT RISK MANAGEMENT SYSTEM

Credit risk is defined as the risk of loss due to a counterpart defaulting on contractual debt obligations. Our model for credit risk management focuses on securing adequate return on risk, avoiding excessive concentration in particular sectors or to par-

QUALITATIVE DISCLOSURE (CONTINUED)

ticular obligors, and managing the risk with an awareness of maximum loss amount from credit portfolio.

To achieve these goals, the Bank defines the policy to gain or restrict risk regarding customer attributes, products, markets, the type of industry and the form of transaction, etc. in the "Credit Risk Policy," and clarifies basic policies of credit operations and specific guidelines for credit risk management in this "Credit Risk Policy," "Credit Procedures" and other procedures. The credit risk management processes are roughly classified into credit risk management for individual transactions and portfolio-based credit risk management, as follows.

CREDIT RISK MANAGEMENT FOR INDIVIDUAL TRANSACTIONS

(1) Organization and Systems

In principle, a credit provision is consulted jointly by the sales promotion divisions and the risk management divisions that are independent from the sales promotion divisions. Thus the transparent and strict decision making processes are secured and the framework to put a brake on the sales promotion division has been established. Each transaction is discussed and approved by the Transaction Committee, etc. The level of approval authority over the obligor whose group companies should be taken into consideration is decided based mainly on the total exposure to the obligor group and ratings, and the decision is made strictly.

Among receivables that must be paid attention, for those that falls under a certain category decided by rating, the exposure, reserve, etc., the obligor's business performance are monitored by the Doubtful Debt Committee so that the Bank is able to take preventive measures, and by deciding the measures to handle the obligor in future, the Bank is making efforts to minimize credit-related costs and to ensure soundness of assets.

(2) Obligor Rating System

For corporate exposures, the Bank uses an internal obligor rating system with the following characteristics:

- Increasing model accuracy and reflecting appropriate qualitative factors
- Benchmarked against external ratings
- Ensuring conformity with rating systems among industry classifications

More specifically, obligor ratings are determined by applying adjustments with qualitative factors to the model ratings calculated by our estimation models, which are based on external ratings. Obligor ratings shall be determined at the "Credit Rating Review Committee" in order to ensure objectivity and transparency. Moreover, we ensure conformity of obligor ratings with obligor categories based on the regulatory self-assessment requirements.

Obligor ratings are used in the standards of credit approval authority procedures and portfolio controls, and are the foundation for credit risk management.

Furthermore, the Bank also applies a facility rating system based on expected losses that allows for improvement in the credit status, such as collateral and/or covenants, from the perspective of obligor ratings and the credit status of individual transactions.

An obligor rating system and facility rating system similar to those adopted in the Bank have been implemented for large amount leasing receivables of Showa Leasing.

(3) Pool Classification

The Bank assigns retail exposures to specific pools based on risk profile such as obligor characteristics and transaction characteristics that create reasonably homogeneous sub-portfolios. Major retail exposures to which pool classification is applied are housing loans of the Bank, installment sales credit receivables of APLUS, unsecured personal loans of Shinsei Financial, and small-lot leasing receivables of Showa Leasing.

PORTFOLIO-BASED CREDIT RISK MANAGEMENT

Controls must be carried out in such a way that risks are diversified in terms of industries and other criteria. This is done on a portfolio basis, which is an aggregation of transactions, and operations of individual transactions must be conducted based on appropriate risk analyses. At the Bank, Portfolio and Risk Management Division undertakes risk analyses of portfolios, and monitors the segment-specific risk distribution status including industry classifications, ratings, products and areas and also rating fluctuations related to customers within the portfolios. The Division uses this information to provide reports to senior management and the Chief Risk Officer on a monthly as well as on an ad hoc basis.

PRINCIPAL "CREDIT RISK MANAGEMENT STANDARDS"

For Basel Regulation, the Foundation Internal Ratings-Based Approach (F-IRB) has been adopted by the Bank for calculation of credit risk-weighted assets. In accordance with this approach, the Bank established "Credit Risk Management Standards," a set of policy, standards/guideline and procedures, which define the Bank's internal rating system design and operations, internal control, use of internal rating and risk quantification.

These Standards contain "Basic Principles of the Internal Rating System for Credit Risk" as the highest level policy to define basic framework of overall internal rating systems. Details of management policy and procedures are defined in the form of subordinate specific rules for each group of exposures in the portfolio.

Summary of internal rating system of each group of exposures is shown in "EXHIBIT."

QUALITATIVE DISCLOSURE (CONTINUED)

INTERNAL CONTROL ROLES AND RESPONSIBILITIES

The Bank Group's internal control system for credit risk management has been set up in accordance with current regulations.

(1) Credit Risk Management Divisions

The risk management divisions of the Bank and its subsidiaries undertake the roles and responsibilities for the Bank Group's management of credit risk. Credit Risk Management Sections are responsible for the management of each asset category, and Credit Risk Control Section (a section specified in Risk Management Group of the Bank) is responsible for management across asset categories.

(2) Senior Management Control/Oversight

Control and oversight for internal rating systems by senior management is defined in "Credit Risk Management Standards," and is performed in an appropriate manner.

(3) Audit Section

The Internal Audit Division of the Bank and its subsidiaries evaluate the internal rating system employed by the Bank Group and ensures the system is in compliance with existing regulations.

APPLICATION OF THE INTERNAL RATING SYSTEM

The Bank uses its own internal rating systems for portfolios to which the F-IRB Approach are applied. These items are listed in the "Exhibit" for each portfolio.

The internal rating system is applied to corporate and retail exposures as categorized below. The rules for applying the internal rating system are part of the Bank's overall "Credit Risk Management Standards."

(1) Corporate Exposure

Corporate exposure, financial institution exposure, and sovereign exposure are included. Basic standards and related detailed rules for design and operations of internal rating system, which are benchmarked against R&I rating and categorized as 0A, and 1A-9E, are applied. Corporate exposure includes Specialized Lending such as Non-Recourse Real Estate Loans, Project Finance, etc. using slotting criteria categorized as Strong, Good, Satisfactory, Weak, and Default. Specific rating standards are established for each type of finance.

(2) Retail Exposure

Retail exposures are defined as:

- Exposures subject to pool management
- Claims against an individual (except for a claim for the purpose of funding business operations), or claims against a corporation (including an individual with the purpose of funding a business) with an outstanding amount of less than ¥100 million after the "aggregation" (*nayose*) on a consolidated basis.

Features of these products and credit analysis standards may vary between the Bank and its subsidiaries. As such, specific pool classification systems for each product are applied at each entity, in accordance with established guidelines.

ESTIMATION AND VALIDATION OF PARAMETERS

The approach for estimation and validation of parameters such as Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) is set forth in "Credit Risk Management Standards." Ratings, pool classifications and estimated parameters are also used for internal control.

STRESS TESTS

Specific implementation guidelines are established for stress tests used in the assessment of capital adequacy, and credit risk stress tests to assess the effect of certain specific conditions on the Bank's regulatory capital requirements. Stress test results are reported to senior management at least once a year.

RESERVE POLICY

A reserve for credit losses of the Bank and its subsidiaries is provided as detailed below, pursuant to the predetermined internal rules for providing such reserves according to the obligor categorizations based on the self assessment of their assets.

A general reserve for claims against normal obligors, need-caution obligors and substandard obligors is provided based on the specific actual past loss experience.

A specific reserve for claims to possibly bankrupt, virtually bankrupt and legally bankrupt obligors is provided based on the full amount of the unsecured, un-guaranteed portion of the respective claims after a solvency assessment.

For claims against obligors that are possibly bankrupt (that is, those that are not presently bankrupt but are likely to go bankrupt in the future), a specific reserve is provided for the amount considered to be necessary based on an overall solvency assessment performed for the amount of claims, net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

For claims against obligors that are legally bankrupt (due to bankruptcy and special liquidation) or virtually bankrupt, a specific reserve is provided based on the amount of claims, net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

The reserve for loans to restructuring countries is provided based on the amount of expected losses due to the political and economic situation in each country.

Additionally, with regard to claims against possibly bankrupt obligors and substandard obligors, a reserve is provided based on the discounted cash flow method when the obligor's future cash flows for debt service are reasonably estimable and the balance of claims to such obligors is large.

QUALITATIVE DISCLOSURE (CONTINUED)

TRANSITION PLAN FOR MOVING A PORTION OF THE BANK'S PORTFOLIO, WHICH HAS NOT YET APPLIED F-IRB, FROM THE STANDARDIZED APPROACH TO THE F-IRB APPROACH

Expected IRB roll-out periods of assets currently evaluated using the Standardized Approach, and the F-IRB Approach will be applied at a future date to secure sufficient data observation periods are as follows:

(1) Residential mortgages at the Bank: March end 2015
(2) Card Loan Lake at the Bank: March end 2017

In the case of portfolios to which the Standardized Approach is applied, the Bank will use ratings from the following qualified rating agencies to determine exposure risk weights:
S&P, Moody's, Fitch, R&I and JCR.

5. CREDIT RISK MITIGATION POLICIES AND PROCEDURES

(1) Policies and framework for mitigating credit risk
The Bank mitigates credit exposure with collateral and guarantees to reduce the credit risk of obligors. The Bank has a clear framework regarding methods for mitigating credit risk. Basic procedures and descriptions of controls, as well as types of standard collateral, guarantees necessary in granting credit, evaluation methods for different types of credit and collateral, possible "haircuts" to collateral and regular revaluation of collateral, are stipulated in the Bank's credit procedures.

(2) Controls concerning overall methods to mitigate credit risk
The Bank uses net exposure for capital calculations after netting deposit and loan claims. All collateral and guarantees are registered in a dedicated system. The information is linked to obligor and credit account data. Collateral and guarantees are revalued at least once a year. Perfection of security interest, currency, date and correlation between collateral and counterparty are checked.

(3) Eligible financial asset collateral
Financial asset collateral types are defined by the Bank to include deposits, fixed income securities, equities and commercial paper.

(4) Eligible collateralized claims
Collateral types in this category include commercial bills, rights to claim return of security deposits, rights to claim return of construction funds, loan receivables, leasing and sales installment receivables and beneficial interests in trust.

(5) Eligible real estate collateral
Collateral types in this category include land and buildings, plants and foundations including industrial foundations.

(6) Other asset-backed collateral
Eligible other asset-backed collateral is defined by the Bank as aircraft and ships.

(7) Guarantees
Guarantors are classified into the following categories: governments, central banks, municipalities, public institutions, credit guarantee associations, banks, general business entities and individuals.

6. POLICIES AND PROCEDURES FOR COUNTERPARTIES OF DERIVATIVE PRODUCT AND TRANSACTIONS WITH LONG-HORIZON SETTLEMENT PERIODS

(1) COUNTERPARTY RISK
Credit risk arising from market trading, such as derivatives, is controlled based on current fair value and estimation of future fair value volatility.

As the risk associated with market trade changes by market rate fluctuation after the trade, the Bank controls it based on estimation of future fair value volatility.

(2) ALLOCATION OF CREDIT LIMITS
Counterparty limits due to derivatives transactions are established based on counterparty's specific situation, and credit limits are managed as appropriate on both a counterparty limit basis, and total credit limit basis where counterparty limit is added to any other credit exposure for each obligor in order to reflect the Bank's overall exposure.

As risk embedded in market transactions changes with market movement, the Bank strictly manages its exposures using estimation of future market volatilities.

(3) CREDIT ENHANCEMENT BASED ON COLLATERAL AND RESERVES
Credit enhancement measures are taken to mitigate the Bank's concerns regarding certain obligors' credit quality as well as concentration risk in the Bank's portfolio.

The Bank follows the guidelines outlined in the ISDA Credit Support Annex (CSA), which has been accepted by many financial institutions. Reserves are calculated based on expected losses according to the counterparty's credit quality, and are taken into consideration in the mark-to-market process.

QUALITATIVE DISCLOSURE (CONTINUED)

(4) POSSIBILITY OF THE BANK POSTING ADDITIONAL COLLATERAL DUE TO A DECLINE IN THE BANK'S CREDIT QUALITY

If the Bank's credit quality were to decline and be reflected as such in the assignment of lower external ratings, the Bank may be required to provide additional collateral to counterparties in transactions subject to the ISDA Credit Support Annex (CSA).

(5) CALCULATION METHOD OF COUNTERPARTY CREDIT EXPOSURE

Current exposure method has been applied.

7. EQUITY RISK MANAGEMENT

The Bank's equity investments are mainly composed of strategic merger/acquisition or business alliance related transactions, which are approved by the Executive Committee, and investment business related transactions, which are approved by the Transaction Committee (TC).

The risk management methodologies for these investments are determined based on their investment types and purposes. Each risk is recognized and monitored appropriately by evaluating underlying assets/enterprise value. For securities that do not have fair market value, self assessment is conducted every quarter.

Investments in subsidiaries and affiliates are carried at cost determined by the moving average method. Available-for-sale securities are carried at fair value at the balance sheet date (cost of securities sold is determined by the moving average method) in principle, with the exception of those whose fair value cannot be reliably determined, which are carried at cost determined by the moving average method.

8. SECURITIZATION EXPOSURE RISK MANAGEMENT POLICIES AND RISK CHARACTERISTICS

BANK RULES

The Bank manages securitization transactions as follows:

(1) Originator

For fundraising, mitigation of exposure concentration, transfer of credit risk and balance sheet management purposes, the Bank securitizes loans and the Bank's subsidiaries securitize financial assets such as credit card and consumer loan receivables.

As an originator, the Bank manages the credit risk of its securitized transactions using the assumption that original assets are maintained on its books. Since the purpose of these transactions includes acquiring funds, mitigating exposure concentration, transferring credit risk and managing the Bank's balance sheet, securitization transactions are a tool to control liquidity risk.

(2) Investor

In order to invest in assets whose credit risks are different from those of existing corporate exposure and to enhance the profit-earning opportunity, the Bank selectively invests in securitization transactions, including re-securitization as well as securitization defined as non-re-securitization as per Clause 2 a or b in Article 1 of Administrative Notice, which are backed by various financial products.

The Bank also re-securitizes some securitized products of which the Bank has purchased and may hold the subordinated/residual portion.

As a general rule, Risk Management Group which is fully independent from Business Groups, manages the risks arising from securitization exposure, and risk management/monitoring methodologies and risk taking/reduction policies are specified according to the types of products. Although the Bank does not actively intend to increase securitization exposure at this moment, aforementioned procedure defined in "4. Credit Risk Management and Procedures, Credit Risk Management of Specific Transactions" will be followed for new investments after specifying and recognizing the risk profile, product specifics, nature of underlying assets and structure including credit enhancement, etc.

(3) Servicer

The Bank acts as a servicer when loans, which were originated by the Bank, are used as underlying assets in securitization.

Similarly, when financial assets such as credit card and consumer loan receivables originated by the Bank's subsidiaries are used as underlying assets for a securitization, the subsidiary serves as a servicer.

(4) Swap provider

In some transactions wherein the Bank is the arranger, the Bank provides swaps in order to mitigate interest rate risk within a specified range or to manage any cashflow difference between interest from underlying assets and coupons from the securities backed by the same assets.

Securitized exposure includes various risk characteristics that are unique to each product, as well as general risks, such as credit risk, market risk, and liquidity risk.

QUALITATIVE DISCLOSURE (CONTINUED)

PREPARATION AND MANAGEMENT STATUSES OF THE FRAMEWORK DEFINED IN CLAUSE 4-3 THROUGH CLAUSE 4-6 OF ARTICLE 249 OF ADMINISTRATIVE NOTICE ON CAPITAL ADEQUACY RULES (INCLUDING INSTANCES WHERE THE RELEVANT PROVISIONS ARE APPLIED *MUTATIS MUTANDIS* BASED ON CLAUSE 2 OF ARTICLE 254 AND CLAUSE 4-1 OF ARTICLE 302 OF ADMINISTRATIVE NOTICE ON CAPITAL ADEQUACY RULES): OVERVIEW

When the Bank acquires and monitors securitized exposures, outside ratings and their changes are closely watched as one of the effective indicators. Moreover, when the Bank assigns internal ratings, risk characteristics and structural characteristics are understood and future performance forecast is analyzed, without depending solely on outside ratings.

Investment decisions are made based on the results of such analysis and expected return. Even after an investment is made, various covenants and triggers are checked based on trustee reports and servicer reports. A continuous and regular monitoring framework is established whereby information on comprehensive risk characteristics and performance of securitized exposures and underlying assets is captured in a timely manner.

Risk capital is measured based on internal ratings assigned for each transaction. For investments in securities without a fair market value or its track record, risks are understood and controlled through self-assessments.

In terms of the reporting, overall situation of the Bank's portfolio including the securitization exposure is reported to the senior management via the Risk Policy Committee etc on a monthly or a quarterly basis. The report includes information of exposure, risk quantification, change in the portfolio, and risk profiles.

POLICIES USING SECURITIZATION TRANSACTIONS FOR CREDIT RISK MITIGATION

The Bank is not using securitization transactions for credit risk mitigation.

CALCULATION METHODS FOR DETERMINING THE AMOUNT OF CREDIT RISK IN THE CONTEXT OF SECURITIZATION EXPOSURE

Risk weights are calculated based on internal rules entitled "Standards for Administering Risk Weight Calculation for Securitization Exposure." In general, the amount of credit risk assets related to securitization exposures is calculated using the Ratings-Based Approach (RBA).

In certain cases, where ratings have not been assigned by qualified rating agencies, Risk Management Group and Finance Group may approve exceptions to using the RBA. For such transactions, the Bank has sufficient data to estimate PDs and LGDs of the original assets, and therefore can calculate the transaction-specific PDs, LGDs and credit risk amount based on the Supervisory Formula Approach.

Where no ratings are assigned by qualified rating agencies and no data are available for estimating the PDs and LGDs of original assets, 1,250% of risk weight is applied.

CALCULATION METHODS FOR DETERMINING THE AMOUNT OF MARKET RISK IN THE CONTEXT OF SECURITIZATION EXPOSURE

The amount of the general market risk of the market risk related to securitization exposures is calculated using the internal model approach. The amount of the specific risk of the market risk related to securitization exposures is calculated using the standardized approach.

TYPE OF SECURITIZATION-PURPOSE-CONDUITS FOR SECURITIZATION TRANSACTIONS OF THIRD PARTIES' ASSETS, AND WHETHER THE BANK HOLDS RELATED SECURITIZATION EXPOSURE

The Bank securitizes third parties' assets using "trust" as a part of its businesses. However, the Bank does not hold related securitization exposure.

NONCONSOLIDATED SUBUSIDIARIES AND AFFILIATES WHO HOLD SECURITIZATION EXPOSURES RELATED TO THE BANK'S ORIGINATED SECURITIZATION TRANSACTIONS

No securitization exposures related to the Bank's originated securitization transactions are held by the Bank's nonconsolidated subsidiaries and affiliates.

ACCOUNTING POLICY ADOPTED FOR SECURITIZATION TRANSACTIONS

(1) When assets to be securitized are owned by the Bank, securitization assets are removed from the balance sheet and assignment of gains and losses are calculated based on the financial component (zaimu-kousei-youso) approach.

The assets sold and retained interests are recognized as separate components of a transfer of financial assets. Those components in the transferred assets are measured by allocating the previous carrying amount between the assets sold and retained interests based on the relative fair values at the time of transfer. Based on the calculated values of assets that are sold, gains or losses on the transfer are recognized.

However, when assets are securitized for fundraising purposes, the book value to be credited on the balance sheet is adjusted in order to prevent generating any initial profits, after removing the assets from the balance sheet using the financial component approach.

QUALITATIVE DISCLOSURE (CONTINUED)

(2) When the Bank purchases securitized products, Accounting Standards for Financial Products apply to each financial asset.

(3) Fee income earned by the Bank in arranging securitization for other parties (no investment) is treated as noninterest income.

QUALIFIED RATING AGENCIES WHOSE RATINGS ARE USED BY THE BANK IN DETERMINING SECURITIZED EXPOSURE TYPE-SPECIFIC RISK WEIGHTS:

S&P, Moody's, Fitch, R&I, and JCR.

SUMMARY OF INTERNAL VALUATION METHOD FOR SECURITIZATION

The Bank is not using the internal valuation method for securitization.

SIGNIFICANT CHANGES OF QUANTITATIVE INFORMATION

There are no significant changes of quantitative information.

9. MARKET RISK MANAGEMENT POLICIES AND PROCEDURES

a) POLICY AND PROCEDURE FOR RISK MANAGEMENT

(1) DEFINITION OF MARKET RISK

Market risk is the risk that makes loss by fluctuations of various market risk factors in interest rates, FX rates, equities, and etc.

(2) MARKET RISK MANAGEMENT POLICY

The Executive Committee makes important decisions concerning trading business. The Committee approves important items relating to market risk, including "Trading Business Risk Management Policy and Procedure" and qualitative limits of Value at Risk and Loss limit for the Bank and its Securities.

The Market Business Management Committee regularly controls market risk management and risk review of trading businesses. The Committee reviews monthly individual limit settings, customer related business movement, profit and loss/market risk situation and inherent market products risk in the business as a whole and makes decision on risk management. The market risk reports are delivered to the CRO and to the front office.

(3) MARKET RISK MANAGEMENT FRAMEWORK

We have established effective organizational framework for check and balance by making front office unit, back office unit and middle office management unit independent respectively. The Market Risk Management Division, the middle office unit, is responsible for the objective and timely recognition, monitoring and reporting of these market risks and carries out regular risk analysis and recommendations, as well as timely and appropriately providing management and front office unit.

(4) QUANTITATIVE MARKET RISK MANAGEMENT

The market risk is managed based on the VaR limit and loss limit which are determined by the Executive Committee. The bank also set sensitivity limits relating to interest rate and FX rate etc. and implement stress testing based on various market shocks to enhance market risk management.

The Market Risk Management Division is consistently responsible for risk measurement and its control stipulating its definitions and rules.

b) NAME OF METHODOLOGY FOR MARKET RISK MEASUREMENT

The internal-model method has been adopted for general market risk at market risk measurement and the standardized method for specific risk since March 31, 2007 for the Bank and Shinsei Securities. The standardized method is applied for FX related risks except Trading.

Market Risk Methodologies

		Trading	FX-related Risks except Trading
Shinsei Bank	General Market Risk	Internal Model Method • Historical Simulation Method	Standardized Method
	Specific Risk	Standardized method	
Shinsei Securities	General Market Risk	Internal Model Method •Historical Simulation Method	Standardized Method
	Specific Risk	Standardized Method	
Other Subsidiaries		—	Standardized Method

QUALITATIVE DISCLOSURE (CONTINUED)

c) ADEQUATE PRICING METHOD ACCORDING TO TRANSACTION PROFILE TAKING POSSIBILITIES INTO CONSIDERATION THAT ACTUAL HOLDING PERIOD MAY EXCEED EXPECTED HOLDING PERIOD

The VaR framework is using this 10-day for holding period. Market liquidity of all trading book's products are high enough, and we evaluate adequately the pricing according to the products profile including the independent price valuation process.

d) INTERNAL MODEL METHOD AND BACK-TESTING, STRESS-TESTING

The Bank and Shinsei Securities use a historical simulation VaR for internal model at general market risk measurement (a 99% confidential level, 10 day holding period, 250 observation days). Please refer to following table for VaR data and Stressed VaR.

		Millions of yen	
		Consolidated	Nonconsolidated
VaR at the end of year		¥ 1,209	¥ 1,189
through FY	High	3,264	3,242
	Mean	1,735	1,701
	Low	751	713

		Millions of yen	
		Consolidated	Nonconsolidated
Stressed VaR at the end of year		¥ 2,222	¥ 2,188
through FY	High	4,314	4,249
	Mean	2,834	2,759
	Low	1,375	1,318

The validity of the VaR is verified through back-testing etc., which examines how frequently actual daily loss exceeds VaR for a one-day holding period. The back-testing results for fiscal year 2013 show that the number of days in which loss amount exceeded VaR for a zero-day holding period on a consolidated basis was one.

For complementing the Internal Model method and figuring out loss possibility at stress, the Bank implements stress testing on a weekly basis. And the stress test results are reported to the Market Business Management Committee and etc.

e) INTERNAL MODEL SUMMARY IN CASE THAT INCREMENTAL RISK IS MEASURED BY INTERNAL MODEL

Not applicable.

f) INTERNAL MODEL SUMMARY IN CASE THAT COMPREHENSIVE RISK IS MEASURED BY INTERNAL MODEL

Not applicable.

g) ASSUMPTIONS AND VALUATION METHOD FOR INTERNAL EVALUATION OF CAPITAL SUFFICIENCY ON MARKET RISK

When we evaluate capital sufficiency for market risk using risk capital, we convert the above mentioned VaR calculation method into a one year horizon basis.

10. BANKING BOOK INTEREST RATE RISK MANAGEMENT

A. Overview of risk management policy and procedure

Interest rate risk is the risk of losses on the current value of assets and liabilities whose cash flow mismatch may be impacted by interest rates due to market interest rate fluctuations.

The interest rate risk of the banking account is managed and administered pursuant to the Asset Liability Management Policy for Banking Account. In order to appropriately control interest rate risk, at the beginning of each fiscal year the ALM Committee determines limits for the Bank and its group companies, such as the interest rate sensitivity limit and the loss limit. At the monthly meetings, the ALM Committee makes comprehensive decisions on assets and liabilities based on the monitoring of the limits and net interest income (NII).

In addition to monthly reporting to the ALM Committee, the Market Risk Management Division, which is independent of the front offices, monitors the status of acquiring the risk and observing the limits on a daily basis and reports the results to management.

B. Overview of the interest rate risk calculation method for the banking account used by the Bank and its consolidated subsidiaries for internal control

Based on the banking IR sensitivity calculation procedure, a rule subordinate to the Asset Liability Management Policy for Banking Account, the interest rate risk of the banking account is calculated as follows.

1) Calculation method

The amount of interest rate risk is calculated by adding up grid point sensitivity (GPS) for each period which reflects a certain interest rate shock. GPS is fluctuations in the current value of assets, liabilities, and off-balance-sheet transactions in accordance with interest rate fluctuations for each period (grid).

2) Subject assets and liabilities

Subject assets liabilities are deposits, loans, JGBs, and other assets and liabilities whose future cash flow is impacted by interest rates. The interest rate risk of investment and funding sides is calculated.

QUALITATIVE DISCLOSURE (CONTINUED)

3) Interest rate shock range
Internal control: 1%; outlier criteria: 2%

4) Calculation frequency
Bank: daily; consolidated subsidiaries: monthly

The amount of interest rate risk is significantly impacted by the recognition of maturities and prepayments. Accordingly, we are endeavoring to appropriately capture interest rate risk by adopting the following models.

a. Housing loans
We calculate the interest rate risk of fixed-rate retail housing loans by statistically analyzing prepayment data and estimating future cash flow based on a proportional hazard model using periods lapsed from the loan origination.

b. Core deposits
Core deposits are defined as retail ordinary yen deposits and 2-week yen denominated time deposits which are left with financial institutions for a long term without withdrawal. We model depositors' behaviors by statistically analyzing deposit balance data and estimating maturities by customer group.

The model parameters are regularly reviewed.

The 2% interest rate shock range is adopted in the outlier criteria. The outlier rate is calculated by a method which is consistent with calculations for internal control. March end, 2014 actual outlier rate is much lower than the outlier criteria (economical value decrease by the 2% interest rate shock range impact may exceed 20% against our core capital), which indicates that interest rate risk is controllable.

The change in economic values for applied interest rate shock of 2% in the banking book at the end of March 2014:

	Billions of yen	
	Consolidated	Nonconsolidated
JPY	¥ (57)	¥ (22)
USD	(2)	(2)
Other	(2)	(2)
Total	¥ (62)	¥ (27)
Outlier Ratio	7.69%	3.09%

11. OPERATIONAL RISK MANAGEMENT POLICIES AND PROCEDURES

MANAGEMENT POLICIES AND PROCEDURES

(1) Definition of Operational Risk

The Bank classifies operational risk into several risk categories, such as operational and administrative risk, compliance risk, labor-related risk, systems risk, extensive disaster risk and material object risk, which are applied across the Bank and its consolidated subsidiaries.

(2) Operational Risk Management System

The Bank manages operational risk at multiple levels as follows:

- Management by business lines according to the nature of each business
- Cross-organizational management by designated management divisions for respective risk categories mentioned above (hereinafter "designated management divisions") and by the firm-wide management division of operational risk (hereinafter "firm-wide management division")
- Verification by Internal Audit Division on the appropriateness and effectiveness of the overall risk management system
- Based on reports and proposals, the Board of Directors etc. makes decisions on important items, including general rules and organizational changes related to operational risk management

The designated management divisions and the firm-wide management division are independent from business lines, which are accountable for earnings, and promoting management of overall operational risk and each risk category. The divisions develop uniform management standards and procedures, capture and evaluate errors and irregularities, conduct causal analysis and support establishment of recurrence prevention measures. Moreover, the divisions meet on a regular basis to discuss challenges and measures for operational risk management, as well as to share information.

Operational risk is recognized and evaluated through review of internal errors and irregularities that have occurred, as well as through consideration of potential errors and irregularity scenarios that may occur less frequently but may have a significant impact. Uniform standards for collection and evaluation of errors and irregularities are established to capture and/or evaluate significant actual errors and/or irregularities on a regular basis. Procedures are determined to ensure that potential errors and irregular scenarios for each business operation are specified and their frequency and severity are evaluated in a complete and appropriate manner on an at least an annual basis.

QUALITATIVE DISCLOSURE (CONTINUED)

Such identified and evaluated risks are reported to senior management by the designated management divisions and the firm-wide management division and are used in Risk Capital measurement for internal management purposes.

(3) "Operational Risk Management Standards"

"Operational Risk Management Standards" are a set of policies and procedures used to define the organizational framework, specific methods and processes for operational risk management. They are composed of the following:

- "Operational Risk Management Policy"
- Specific management rules
- Management rules at consolidated subsidiaries

"Operational Risk Management Policy" is the highest set of rules on operational risk management. To ensure comprehensive and consistent operational risk management within the Bank Group, the Policy establishes risk definitions, governance and basic policies on operational risk management, and the basic framework for risk capture, evaluation, monitoring, reporting, control and mitigation.

Specific management rules include management standards and procedures for each respective operational risk category, and for new businesses and products.

Management rules at each consolidated subsidiary are composed of comprehensive rules on overall operational risk management and specific rules for respective operational risk categories. Consolidated subsidiaries establish, revise and repeal rules with the approval of their Board of Directors, according to their risk characteristics and specific internal controls. Their establishment, revision and repeal are subject to prior discussions with and after-the-fact reports to the Bank to ensure consistency with the Bank's risk management rules.

METHODOLOGY TO CALCULATE OPERATIONAL RISK UNDER BASEL REGULATION

The Standardized Approach is adopted by the Bank.

Amount of required capital for Operational Risk at the end of fiscal year 2013:

	Millions of yen	
	Required capital amount (Consolidated)	Required capital amount (Nonconsolidated)
The Standardized Approach	¥ 27,558	¥ 13,894

QUALITATIVE DISCLOSURE (CONTINUED)

EXHIBIT: SUMMARY OF INTERNAL RATING SYSTEM

<table>
<tr><td rowspan="2">Type of Exposures</td><td colspan="2">Corporate Exposures (Shinsei Bank, and Showa Leasing (large amount exposures))</td></tr>
<tr><td>(a) Corporate Exposures, (b) Sovereign Exposures,
(c) Exposures to Banks, and (d) Equity Exposures
(Exposures to which Internal Rating and PD/LGD approach is applied)</td><td>(e) Specialized Lending</td></tr>
<tr><td>Structure of Internal Rating System</td><td>A obligor rating system benchmarked against external ratings (R&I) which reflects credit status of obligor is in place.

Obligor rating is derived from quantitative score calculated from model prepared by using external ratings as a benchmark based on the financial data of a customer, and determined taking into account of influence from group companies and future financial projection.

Obligor ratings for Sovereign/Bank exposures are assigned based on specific rules.</td><td>A facility rating system based on degree of expected loss ratio according to the transaction type is in place for specialized lending assets whose interest payments and principal repayments are heavily dependent on the profit of assets and the business.

Ratings are assessed according to facility type as follows.
• Real estate nonrecourse loans are decided by adding qualitative adjustments to quantitative index based on the LTV.
• Ratings for project finance or non-recourse shipping finance are decided by comprehensively considering financial indices such as DSCR and the assessment of each risk factor that has an impact on the operation of the project. Regarding nonrecourse shipping finance, evaluation of ship is also considered in the risk assessment.</td></tr>
<tr><td>Usage of Various Estimated Value (Use Test)</td><td colspan="2">Obligor rating and facility rating are used in the standards of credit approval authority procedures, pricing, portfolio management, and allocating Risk Capital.</td></tr>
<tr><td>Management of Internal Rating System, and Rating Assignment Procedures</td><td>Portfolio and Risk Management Division (PRMD: Credit Risk Control Section) of the Bank is in charge of designing the rating system and ratings are assigned by the Credit Rating Review Committee.</td><td>Credit Risk Management Section (CRMS) of the Bank and PRMD of the Bank are jointly in charge of the design of the rating system.
Ratings are assigned by the Credit Rating Review Committee or CRMS of the Bank depending on the transaction type.</td></tr>
<tr><td>Validation Procedures</td><td>Back testing, rating transition analyses, the reasonability of the rating and appropriateness of the rating process are conducted in a multifaceted manner for validation of rating and parameters by using internal and external data.</td><td>According to the type of transactions, rating transition analyses, the reasonability of the rating and appropriateness of the rating process are conducted for validation of rating by using internal and external data.</td></tr>
<tr><td>Estimation of Parameters</td><td>Definition of Default
Obligor categorization under self assessment falls to sub-standard (9B) or lower, etc.

PD
Long-term averages are calculated based on internal data, and margin for estimation error is added to derive estimates.

LGD/EAD
Parameters are not estimated as a bank using Fundamental Internal Ratings-Based Approach.</td><td>Internal ratings are allocated to slotting criteria, and parameters are not estimated.</td></tr>
</table>

QUALITATIVE DISCLOSURE (CONTINUED)

EXHIBIT: SUMMARY OF INTERNAL RATING SYSTEM

Type of Exposures	Retail Exposures (Shinsei Bank)	Retail Exposures (APLUS FINANCIAL, APLUS, APLUS PERSONAL LOAN, Zen-Nichi Shinpan, Shinsei Financial, SHINKI, and Showa Leasing)
	(f) Purchased Residential Mortgage Exposures	(g) Qualifying Revolving Retail Exposures, (h) Other Retail Exposures
Structure of Internal Rating System	Housing loans originated by lenders other than the Bank and purchased as portfolios by the Bank are classified as purchased residential mortgage exposures. Business purpose loans collateralized by real estate to retail customers are classified as purchased other retail exposures or purchased corporate exposures depending on each exposure amount. Pool classification is established by purchased portfolios, where each exposure is assigned to Normal, Delinquent or Default pool.	Portfolios of the Bank's subsidiaries are classified as qualifying revolving retail exposures (such as unsecured personal loans, credit cards) or other retail exposures (such as installment sales credit receivables, small-lot lease receivables) according to credit facility types. (Housing loan portfolios of APLUS and Zen-Nichi Shinpan are classified as residential mortgage exposures). Each exposure is assigned to an appropriate pool as part of the credit approval process. Pool classification is established for each subsidiary, considering obligor risk characteristics, transaction risk characteristics, and delinquency of exposure. Major criteria on obligor/transaction risk characteristics for pool classification are as follows: • Installment sales credit receivables ... Obligor risk grade, and type of asset financed • Unsecured personal loans/credit cards ... situation of card utilization, exposure amount, credit limit, borrowing status, and repayment status • Small-lot lease receivables ... Obligor Rating (mainly determined by external evidence), and type of asset leased
Usage of Various Estimated Value (Use Test)	Pool classification and PD/LGD/EAD estimates are used for calculating and allocating Risk Capital.	Pool classification and PD/LGD/EAD estimates are used for calculating and allocating Risk Capital.
Management of Internal Rating System, and Rating Assignment Procedures	Credit Risk Management Section (CRMS) of the Bank is in charge of internal rating system design and pool assignment. CRMS of the Bank estimates/validates parameters with support by Portfolio and Risk Management Division (PRMD. Credit Risk Control Section) of the Bank.	CRMS of the Bank's subsidiaries and PRMD of the Bank are jointly in charge of internal rating system design. Pool assignment is conducted or confirmed/overseen by CRMS of the Bank's subsidiaries. CRMS of the Bank's subsidiaries and PRMD of the Bank estimate/validate PD/LGD/EAD, based on data provided by the subsidiaries.
Validation Procedures	Key methodologies of validation are as follows: • PD: Validation of accordance between PD estimates and historical PD, and comparison with historical PD of other housing loan portfolios • LGD: Validation whether gap between LGD estimates and historical LGD remain within a certain confidence level, and comparison with historical LGD of other housing loan portfolios	Key methodologies of validation are as follows: • PD: Validation of accordance between PD estimates and historical PD, and validation of PD and rating goodness of fit • LGD: Validation if gap between LGD estimates and historical LGD remain within a certain confidence level • Pool classification: Validation on default predictive power
Estimation of Parameters	Definition of Default Any of the following: i) past due three months or more, ii) relaxation of terms and conditions, iii) legal bankruptcy, iv) payment in subrogation by guarantors, etc. PD/LGD/EAD PD/LGD/EAD are estimated on pool by pool basis, using historical data of each purchased housing loan portfolio. Period before loan purchase is also included in data observation period. Long-term averages are calculated based on these data, and margin for estimation error is added to derive estimates.	Definition of Default Any of the following: i) past due three months or more, ii) relaxation of terms and conditions, iii) legal bankruptcy, etc. PD/LGD/EAD PD/LGD/EAD are estimated on pool by pool basis, using the Bank's subsidiaries' historical data. Long-term averages are calculated based on these data, and margin for estimation error is added to derive estimates.

QUALITATIVE DISCLOSURE (CONTINUED)

SHINSEI BANK CORPORATE OBLIGOR RATING SYSTEM

Obligor Rating Categories	Corresponding Rating Assigned by R & I	Summary
0A		1. Japanese Government, BOJ. 2. Government-affiliated agencies, expected high certainty from strong backup by the Government.
1A	AAA	Highest capability to meet its financial commitments on the obligations and many other positive factors.
2A	AA+	Very high capability to meet its financial commitment on the obligation and other positive factors.
2B	AA	
2C	AA-	
3A	A+	High capability to meet its financial commitments on the obligations and some good factors.
3B	A	
3C	A-	
4A	BBB+	There is adequate certainty of the fulfillment of obligations, but there are also some factors requiring attention in the event of serious adverse economic conditions in the future.
4B	BBB	
4C	BBB-	
5A	BB+	No problem regarding the certainty of the fulfillment of obligations for the time being, but some factors need to be closely watched in the event of adverse economic conditions in the future.
5B	BB	
5C	BB-	
6A	B+	No problem regarding the certainty of the fulfillment of obligations in the present situation, but special supervision is needed to monitor the trends in business performance and the protection of credit exposure.
6B	B	
6C	B-	
9A		Classified as "Other Need Caution" in the self-assessment.
9B		Classified as "Sub-Standard" in the self-assessment.
9C		Classified as "Possibly Bankrupt" in the self-assessment.
9D		Classified as "Virtually Bankrupt" in the self-assessment.
9E		Classified as "Bankrupt" in the self-assessment.

COMPOSITION OF CAPITAL DISCLOSURE (CONSOLIDATED)

Shinsei Bank and subsidiaries

Millions of yen (except percentages)

As of March 31 Items	2014 Basel III (Domestic Standard)	Amounts excluded under transitional arrangements
Core capital: instruments and reserves (1)		
Directly issued qualifying common share capital or preferred share capital with a compulsory conversion clause plus related capital surplus and retained earnings	¥ 662,456	
of which: capital and capital surplus	591,666	
of which: retained earnings	146,002	
of which: treasury stock (–)	(72,558)	
of which: earning to be distributed (–)	(2,653)	
of which: other than above	—	
Accumulated other comprehensive income (amount allowed to be included in Core capital)	267	¥ (5,195)
of which: foreign currency translation adjustment	267	
of which: amount related defined benefit	—	(5,195)
Stock acquisition right to common shares and preferred shares with a compulsory conversion clause	1,221	
Adjusted minority interests (amount allowed to be included in Core capital)	—	
Total of reserves included in Core capital: instruments and reserves	2,919	
of which: general reserve for loan losses included in Core capital	2,919	
of which: eligible provision included in Core capital	—	
Eligible noncumulative perpetual preferred shares subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	—	
Eligible capital instruments subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	219,293	
Capital instruments issued through measures for capital enhancement by public institutions (amount allowed to be included in Core capital: instruments and reserves)	—	
Land revaluation excess after 55% discount (amount allowed to be included in Core capital: instruments and reserves)	—	
Minority interests subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	3,412	
Core capital: instruments and reserves (A)	¥ 889,571	
Core capital: regulatory adjustments (2)		
Total amount of intangible assets (excluding those relating to mortgage servicing rights)	¥ 34,914	¥ 12,674
of which: goodwill (including those equivalent)	28,949	—
of which: other intangibles other than goodwill and mortgage servicing rights	5,964	12,674
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	—	6,129
Shortfall of eligible provisions to expected losses	27,564	—
Gain on sale of securitization	9,414	—
Gains and losses due to changes in own credit risk on fair valued liabilities	—	—
Net defined benefit asset	—	1,018
Investments in own shares (excluding those reported in the net assets section)	—	—
Reciprocal cross-holdings in common equity	—	—
Investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation ("Other Financial Institutions"), net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above the 10% threshold)	60	1,990
Amount exceeding the 10% threshold on specific items	—	—
of which: significant investments in the common stock of Other Financial Institutions, net of eligible short positions	—	—
of which: mortgage servicing rights	—	—
of which: deferred tax assets arising from temporary differences (net of related tax liability)	—	—
Amount exceeding the 15% threshold on specific items	—	—
of which: significant investments in the common stock of Other Financial Institutions, net of eligible short positions	—	—
of which: mortgage servicing rights	—	—
of which: deferred tax assets arising from temporary differences (net of related tax liability)	—	—
Core capital: regulatory adjustments (B)	¥ 71,953	
Capital (consolidated)		
Capital (consolidated)((A)–(B))(C)	¥ 817,618	
Risk-weighted assets (3)		
Total amount of credit risk-weighted assets	¥ 5,546,726	
of which: total amount included in risk-weighted assets by transitional arrangements	(20,629)	
of which: intangible assets (excluding those relating to goodwill and mortgage servicing rights)	12,674	
of which: deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	6,129	
of which: net defined benefit asset	1,018	
of which: significant investments in the common stock of Other Financial Institutions (net of eligible short positions)	(49,195)	
of which: other than above	8,742	
Market risk (divided by multiplying the capital requirement by 12.5)	125,561	
Operational risk (divided by multiplying the capital requirement by 12.5)	344,483	
Credit risk adjustments	—	
Operational risk adjustments	—	
Total amount of Risk-weighted assets (D)	¥ 6,016,771	
Capital ratio (consolidated)		
Capital ratio (consolidated)((C)/(D))	13.58%	

COMPOSITION OF CAPITAL DISCLOSURE (CONSOLIDATED) (continued)

Shinsei Bank and subsidiaries

As of March 31 Items	Millions of yen (except percentages) 2013 Basel II (Domestic Standard)
Basic items (Tier I)	
Common stock and preferred stock	¥ 512,204
of which: common stock	512,204
of which: noncumulative perpetual preferred stock	—
Advance payment for new shares	—
Capital surplus	79,461
Retained earnings	107,288
Treasury stock (–)	(72,558)
Advance payment for treasury stock	—
Expected income distribution (–)	(2,653)
Unrealized loss on available-for-sale securities(–)	—
Foreign currency translation adjustments	1,475
Stock acquisition rights	1,238
Minority interests in consolidated subsidiaries	60,173
of which: preferred securities issued by foreign SPC	57,547
Goodwill (–)	(35,394)
Intangible assets acquired in business combinations (–)	(12,487)
Gain on sale of securitization (–)	(9,555)
50% of expected loss provision shortfall (–)	(20,358)
Total of Tier I capital before deduction of deferred tax assets (Total of the above items)	
Deduction for deferred tax assets (–)	
Total Tier I (A)	¥ 608,832
of which: step-up preferred securities	24,073
Supplementary items (Tier II)	
Land revaluation excess after 55% discount	¥ —
General reserve for loan losses	8,972
Debt capital, etc.	169,798
of which: perpetual subordinated debt	29,358
of which: dated subordinated debt and redeemable preferred stock	140,440
Total Tier II (B)	¥ 178,770
Deduction	
Intentional capital investment to other financial institutions	¥ 5,824
Capital investment to affiliate companies	39,172
50% of expected loss provision shortfall	20,358
Expected losses on exposures under PD/LGD measures such as equities	880
Unrated securitization exposure	5,560
Exclusion from deductions (–)	—
Total amount of Deduction (C)	¥ 71,795
Capital (consolidated)	
Capital (consolidated)((A)+(B)–(C))(D)	¥ 715,807
Risk-weighted assets	
Total amount of credit risk-weighted assets	¥ 5,250,898
of which: On-balance sheet items	4,443,342
of which: Off-balance sheet items	807,555
Market risk (divided by multiplying the capital requirement by 12.5)	228,290
Operational risk (divided by multiplying the capital requirement by 12.5)	368,595
Credit risk adjustments	—
Operational risk adjustments	—
Total amount of Risk-weighted assets (E)	¥ 5,847,783
Capital ratio (consolidated)	
Capital ratio (consolidated)((D)/(E))	12.24%
Tier I capital ratio (consolidated)((A)/(E))	10.41%

COMPOSITION OF CAPITAL DISCLOSURE (NONCONSOLIDATED)

Shinsei Bank

Millions of yen (except percentages)

As of March 31 Items	2014 Basel III (Domestic Standard)	Amounts excluded under transitional arrangements
Core capital: instruments and reserves (1)		
Directly issued qualifying common share capital or preferred share capital with a compulsory conversion clause plus related capital surplus and retained earnings	¥ 701,481	
of which: capital and capital surplus	591,670	
of which: retained earnings	185,023	
of which: treasury stock (–)	(72,558)	
of which: earning to be distributed (–)	(2,653)	
of which: other than above	—	
Stock acquisition right to common shares and preferred shares with a compulsory conversion clause	1,221	
Total of reserves included in Core capital: instruments and reserves	2,400	
of which: general reserve for loan losses included in Core capital	2,400	
of which: eligible provision included in Core capital	—	
Eligible noncumulative perpetual preferred shares subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	—	
Eligible capital instruments subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	219,293	
Capital instruments issued through measures for capital enhancement by public institutions (amount allowed to be included in Core capital: instruments and reserves)	—	
Land revaluation excess after 55% discount (amount allowed to be included in Core capital: instruments and reserves)	—	
Core capital: instruments and reserves (A)	¥ 924,396	
Core capital: regulatory adjustments (2)		
Total amount of intangible assets (excluding those relating to mortgage servicing rights)	¥ 1,851	¥ 4,668
of which: goodwill (including those equivalent)	1,021	—
of which: other intangibles other than goodwill and mortgage servicing rights	830	4,668
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	—	1,916
Shortfall of eligible provisions to expected losses	23,121	—
Gain on sale of securitization	9,414	—
Gains and losses due to changes in own credit risk on fair valued liabilities	—	—
Prepaid pension cost	—	1,189
Investments in own shares (excluding those reported in the net assets section)	—	—
Reciprocal cross-holdings in common equity	—	—
Investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (“Other Financial Institutions”), net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above the 10% threshold)	—	—
Amount exceeding the 10% threshold on specific items	—	—
of which: significant investments in the common stock of Other Financial Institutions, net of eligible short positions	—	—
of which: mortgage servicing rights	—	—
of which: deferred tax assets arising from temporary differences (net of related tax liability)	—	—
Amount exceeding the 15% threshold on specific items	—	—
of which: significant investments in the common stock of Other Financial Institutions, net of eligible short positions	—	—
of which: mortgage servicing rights	—	—
of which: deferred tax assets arising from temporary differences (net of related tax liability)	—	—
Core capital: regulatory adjustments (B)	¥ 34,387	
Capital (nonconsolidated)		
Capital (nonconsolidated)((A)–(B))(C)	¥ 890,009	
Risk-weighted assets (3)		
Total amount of credit risk-weighted assets	¥ 5,508,483	
of which: total amount included in risk-weighted assets by transitional arrangements	(41,420)	
of which: intangible assets (excluding those relating to goodwill and mortgage servicing rights)	4,668	
of which: deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	1,916	
of which: prepaid pension cost	1,189	
of which: significant investments in the common stock of Other Financial Institutions (net of eligible short positions)	(49,195)	
of which: other than above	—	
Market risk (divided by multiplying the capital requirement by 12.5)	119,673	
Operational risk (divided by multiplying the capital requirement by 12.5)	173,676	
Credit risk adjustments	—	
Operational risk adjustments	—	
Total amount of Risk-weighted assets (D)	¥ 5,801,833	
Capital ratio (nonconsolidated)		
Capital ratio (nonconsolidated)((C)/(D))	15.34%	

COMPOSITION OF CAPITAL DISCLOSURE (NONCONSOLIDATED) (continued)

Shinsei Bank

As of March 31 Items	Millions of yen (except percentages) 2013 Basel II (Domestic Standard)
Basic items (Tier I)	
Common stock and preferred stock	¥ 512,204
of which: common stock	512,204
of which: noncumulative perpetual preferred stock	—
Advance payment for new shares	—
Capital surplus	79,465
Other capital surplus	—
Retained earnings	12,628
Other retained earnings	138,595
Others	57,547
Treasury stock (–)	(72,558)
Advance payment for treasury stock	—
Expected income distribution (–)	(2,653)
Unrealized loss on available-for-sale securities (–)	—
Stock acquisition rights	1,238
Goodwill (–)	(1,262)
Intangible assets acquired in business combinations (–)	(1,562)
Gain on sale of securitization (–)	(9,555)
50% of expected loss provision shortfall (–)	(23,593)
Total of Tier I capital before deduction of deferred tax assets (Total of the above items)	
Deduction for deferred tax assets (–)	
Total Tier I (A)	¥ 690,494
of which: step-up preferred securities	24,073
of which: preferred securities issued by foreign SPC	57,547
Supplementary items (Tier II)	
Land revaluation excess after 55% discount	¥ —
General reserve for loan losses	2,442
Debt capital, etc.	169,798
of which: perpetual subordinated debt	29,358
of which: dated subordinated debt and redeemable preferred stock	140,440
Total Tier II (B)	¥ 172,240
Deduction	
Intentional capital investment to other financial institutions	¥ 5,801
50% of expected loss provision shortfall	23,593
Expected losses on exposures under PD/LGD measures such as equities	4,059
Unrated securitization exposure	5,560
Total amount of Deduction (C)	¥ 39,014
Capital (nonconsolidated)	
Capital (nonconsolidated)((A)+(B)–(C))(D)	¥ 823,720
Risk-weighted assets	
Total amount of credit risk-weighted assets	¥ 5,361,554
of which: On-balance sheet items	5,072,072
of which: Off-balance sheet items	289,482
Market risk (divided by multiplying the capital requirement by 12.5)	220,647
Operational risk (divided by multiplying the capital requirement by 12.5)	172,465
Credit risk adjustments	—
Operational risk adjustments	—
Total amount of Risk-weighted assets (E)	¥ 5,754,668
Capital ratio (nonconsolidated)	
Capital ratio (nonconsolidated)((D)/(E))	14.31%
Tier I capital ratio (nonconsolidated)((A)/(E))	11.99%

QUANTITATIVE DISCLOSURE (CONSOLIDATED)

1. NAMES OF SUBSIDIARIES THAT ARE OUTSIDE THE SCOPE OF REGULATORY CONSOLIDATION WITH LOWER LEVEL OF CAPITAL THAN REQUIRED LEVEL OF ADEQUACY CAPITAL AND AMOUNT OF SHORTAGE

• There are no companies that are subject to the above.

2. CAPITAL ADEQUACY

(1) AMOUNT OF REQUIRED CAPITAL FOR CREDIT RISK

Portfolios under the Standardized Approach (SA)

	Millions of yen	
	2014	2013
As of March 31	**Required capital amount**	Required capital amount
Shinsei Bank	**¥ 43,397**	¥ 39,224
Subsidiaries[1]	**5,980**	25,865

1 Shinsei Financial Co., Ltd. and SHINKI Co., Ltd. had shifted to the F-IRB approach since March 31, 2014. The total amount of requited capital of those two subsidiaries under the standardized approach was ¥20,432 million as of March 31, 2013.

Portfolios under the Internal Ratings-Based Approach (IRB)

	Millions of yen	
	2014	2013
As of March 31	**Required capital amount**	Required capital amount
Corporate (Excluding Specialized Lending)[1]	**¥ 170,472**	¥ 183,548
Specialized Lending[2]	**103,628**	151,378
Sovereign	**3,158**	4,620
Bank	**17,594**	18,279
Residential mortgages	**1,502**	1,793
Qualified revolving retails	**98,388**	48,545
Other retails	**132,190**	138,052
Equity	**29,755**	11,212
Regarded (Fund)	**27,707**	27,544
Securitization[3]	**31,637**	36,421
(as capital deduction)	**(9,414)**	(15,115)
Purchase receivables	**44,536**	56,934
Other assets	**6,331**	6,416
CVA risk	**8,900**	
CCP risk	**—**	
Total	**¥ 675,805**	¥ 684,748

1 "Corporate" includes "Small and Medium-sized Entities."
2 "Specialized Lending" refers to a claim whose source of recovery is solely dependent on the cash flow generated from a transaction such as a real estate non-recourse loan.
3 "Securitization" includes a part of amounts based on the Standardized Approach.

(2) AMOUNT OF REQUIRED CAPITAL FOR EQUITY EXPOSURE UNDER IRB

	Millions of yen	
	2014	2013
As of March 31	**Required capital amount**	Required capital amount
Market-Based Approach Simplified Method	**¥ 1,972**	¥ 1,426
PD/LGD Method	**18,144**	9,270
Grandfathering Rule	**402**	514
RW250% Applied	**9,234**	
Total	**¥ 29,755**	¥ 11,212

(3) AMOUNT OF REQUIRED CAPITAL FOR REGARDED-METHOD EXPOSURE UNDER IRB

	Millions of yen	
	2014	2013
As of March 31	**Required capital amount**	Required capital amount
Look Through	**¥ 3,384**	¥ 3,085
Revised Naivete Majority	**17,418**	16,630
Simplified [400%]	**616**	533
Simplified [1,250%]	**6,288**	7,294
Total	**¥ 27,707**	¥ 27,544

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(4) AMOUNT OF REQUIRED CAPITAL FOR MARKET RISK

	Millions of yen	
	2014	2013
As of March 31	**Required capital amount**	Required capital amount
The Standardized Approach	**¥ 659**	¥ 1,491
Interest rate risk	**482**	810
Equity position risk	**0**	210
FX risk	**79**	243
Securitization risk	**96**	227
The Internal Models Approach (IMA) (General Market Risk)	**9,385**	16,771

(5) AMOUNT OF REQUIRED CAPITAL FOR OPERATIONAL RISK

	Millions of yen	
	2014	2013
As of March 31	**Required capital amount**	Required capital amount
The Standardized Approach	**¥ 27,558**	¥ 29,487

(6) TOTAL REQUIRED CAPITAL (DOMESTIC STANDARD)

	Millions of yen	
As of March 31	**2014**	2013
Total Required Capital (Risk Assets x 4%)	**¥ 240,670**	¥ 233,911

3. CREDIT RISK EXPOSURE (EXCLUDING SECURITIZATION AND REGARDED EXPOSURE)

(1) AMOUNT OF CREDIT RISK EXPOSURE

Geographic, Industries or Maturity

	Millions of yen							
	2014				2013			
	Amount of Credit Risk Exposure				Amount of Credit Risk Exposure			
As of March 31	**Total**	**Loans, etc.[1]**	**Securities[2]**	**Derivatives[3]**	Total	Loans, etc.[1]	Securities[2]	Derivatives[3]
Manufacturing	**¥ 346,707**	**¥ 339,231**	**¥ —**	**¥ 7,476**	¥ 364,154	¥ 359,354	¥ 0	¥ 4,799
Agriculture	**831**	**831**	**—**	**—**	967	967	—	—
Mining	**874**	**874**	**—**	**—**	830	830	—	—
Construction	**44,252**	**44,215**	**36**	**—**	40,795	40,757	36	1
Electric power, gas, water supply	**197,906**	**195,828**	**19**	**2,057**	134,776	134,176	31	568
Information and communication	**57,135**	**57,116**	**—**	**19**	36,372	36,344	—	28
Transportation	**224,010**	**220,870**	**1,998**	**1,141**	249,011	235,287	2,160	11,563
Wholesale and retail	**175,307**	**169,418**	**68**	**5,820**	153,172	152,385	222	564
Finance and insurance	**2,077,613**	**2,018,663**	**24,142**	**34,807**	1,271,552	1,210,505	13,803	47,242
Real estate	**680,862**	**565,016**	**113,107**	**2,738**	788,987	597,733	189,636	1,616
Services	**487,746**	**485,143**	**1,594**	**1,007**	456,102	452,231	2,651	1,219
Government	**1,217,011**	**88,968**	**1,128,042**	**—**	1,431,154	93,260	1,337,894	—
Individuals	**2,476,668**	**2,476,627**	**—**	**40**	2,448,490	2,448,359	—	130
Others	**6,412**	**6,412**	**0**	**—**	8,215	8,215	—	—
Domestic Total	**7,993,341**	**6,669,220**	**1,269,010**	**55,110**	7,384,584	5,770,410	1,546,438	67,736
Foreign	**669,638**	**388,151**	**100,191**	**181,295**	711,180	407,714	120,130	183,335
Total	**¥ 8,662,980**	**¥ 7,057,372**	**¥ 1,369,202**	**¥ 236,405**	¥ 8,095,765	¥ 6,178,125	¥ 1,666,568	¥ 251,071
To 1 year	**1,466,105**	**1,066,926**	**338,841**	**60,337**	1,429,694	1,138,863	229,293	61,537
1 to 3 years	**1,790,471**	**1,489,387**	**224,649**	**76,434**	2,089,682	1,470,025	534,358	85,297
3 to 5 years	**2,935,922**	**2,185,072**	**721,146**	**29,703**	2,313,481	1,532,782	748,870	31,828
Over 5 years	**2,039,390**	**1,892,690**	**76,769**	**69,930**	1,803,998	1,579,010	152,581	72,406
Undated	**431,090**	**423,294**	**7,795**	**—**	458,907	457,442	1,464	—
Total	**¥ 8,662,980**	**¥ 7,057,372**	**¥ 1,369,202**	**¥ 236,405**	¥ 8,095,765	¥ 6,178,125	¥ 1,666,568	¥ 251,071

1 Excluding purchased receivables.
2 Excluding equity exposures
Acquisition cost is applied to EAD of Securities available for sale as of March 31, 2014 under the Basel III Domestic Standard.
3 Credit equivalent amount basis.

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(2) AMOUNT OF DEFAULT EXPOSURE BEFORE PARTIAL WRITE-OFF

Geographic, Industries

Millions of yen

As of March 31	2014 Default Exposure	2013 Default Exposure
Manufacturing	¥ 10,606	¥ 20,723
Agriculture	6	22
Mining	—	—
Construction	1,486	2,221
Electric power, gas, water supply	—	—
Information and communication	508	2,198
Transportation	5,863	5,331
Wholesale and retail	1,146	1,037
Finance and insurance	49,597	59,718
Real estate	84,206	181,035
Services	28,735	31,016
Government	—	—
Individuals	138,115	142,751
Others	5,947	7,652
Domestic Total	326,220	453,708
Foreign	41,249	37,594
Total	¥ 367,470	¥ 491,303

(3) AMOUNT OF LOAN LOSS RESERVES (GENERAL, SPECIFIC AND COUNTRY RISK) BEFORE PARTIAL WRITE-OFF

Millions of yen

As of March 31	2014			2013		
	Start Amount	Change Amount	End Amount	Start Amount	Change Amount	End Amount
General	¥ 67,707	¥ (7,898)	¥ 59,809	¥ 80,949	¥ (13,242)	¥ 67,707
Specific	243,746	(16,268)	227,478	265,675	(21,929)	243,746
Country	0	—	0	0	—	0
Total	¥ 311,454	¥ (24,166)	¥ 287,288	¥ 346,625	¥ (35,171)	¥ 311,454

Geographic

Millions of yen

As of March 31	2014 Reserve Amount				2013 Reserve Amount			
	Total	General	Specific	Country	Total	General	Specific	Country
Domestic	¥ 250,385	¥ 54,265	¥ 196,119	¥ —	¥ 276,111	¥ 61,640	¥ 214,471	¥ —
Foreign	36,903	5,543	31,358	0	35,343	6,067	29,275	0
Total	¥ 287,288	¥ 59,809	¥ 227,478	¥ 0	¥ 311,454	¥ 67,707	¥ 243,746	¥ 0

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

Industries

As of March 31	2014 Reserve Amount (Millions of yen)	2013 Reserve Amount (Millions of yen)
Manufacturing	¥ 8,808	¥ 12,551
Agriculture	25	46
Mining	4	15
Construction	1,359	1,587
Electric power, gas, water supply	331	276
Information and communication	552	1,105
Transportation	2,392	2,659
Wholesale and retail	2,369	2,326
Finance and insurance	14,685	16,874
Real estate	60,107	73,081
Services	17,979	20,799
Government	74	70
Individuals	134,161	135,960
Others	4,436	4,676
Foreign	36,903	35,343
Non-classified	3,096	4,079
Total	¥ 287,288	¥ 311,454

(4) AMOUNT OF WRITE-OFFS

Industries

	FY2013 Amount of write-off (Millions of yen)	FY2012 Amount of write-off (Millions of yen)
Manufacturing	¥ 927	¥ 623
Agriculture	5	—
Mining	—	—
Construction	48	170
Electric power, gas, water supply	—	—
Information and communication	382	52
Transportation	10	534
Wholesale and retail	81	235
Finance and insurance	—	943
Real estate	5,440	14,942
Services	146	378
Government	—	—
Individuals	26,076	30,379
Others	5	—
Foreign	1,834	5,107
Non-classified	—	0
Total	¥ 34,958	¥ 53,367

(5) AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)

Millions of yen

	2014		2013	
As of March 31	Rated	Unrated	Rated	Unrated
0%	¥ 66	¥ 1,970	¥ 184	¥ 1,598
10%	—	—	—	—
20%	58,796	30	80,212	0
35%	—	976,239	—	790,481
50%	159	5,015	434	7,025
75%	—	305,809	—	592,542
100%	332	28,966	277	68,431
150%	—	1,686	—	2,718
350%	—	—	—	—
1,250%	—	—	—	—
Total	¥ 59,354	¥ 1,319,718	¥ 81,109	¥ 1,462,797

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(6) SPECIALIZED LENDING EXPOSURE UNDER SLOTTING CRITERIA AND EQUITY EXPOSURE UNDER MARKET-BASED SIMPLIFIED METHOD

Specialized lending excluding high-volatility commercial real estate

	Millions of yen	
As of March 31	**2014**	2013
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
50%	**¥ 28,948**	¥ 41,123
70%	**242,205**	89,411
90%	**56,855**	104,509
115%	**53,771**	48,748
250%	**22,331**	94,565
0% (Default)	**85,100**	108,363
Total	**¥ 489,212**	¥ 486,723

Specialized lending for high-volatility commercial real estate

	Millions of yen	
As of March 31	**2014**	2013
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
70%	**¥ 5,830**	¥ 12,333
95%	**1,194**	2,121
120%	**1,028**	3,473
140%	**15,894**	557
250%	**18,390**	60,778
0% (Default)	**36,319**	56,172
Total	**¥ 78,657**	¥ 135,437

Equity exposure under Market-Based Simplified Method

	Millions of yen	
As of March 31	**2014**	2013
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
300%	**¥ 2,019**	¥ 492
400%	**4,301**	3,836
Total	**¥ 6,320**	¥ 4,329

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(7) PORTFOLIOS UNDER IRB EXCLUDING THE AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)

• Estimated average PD, LGD, Risk Weight Ratio and Exposure at Default (EAD) (on-balance and off-balance) for Corporate, Sovereign and Bank exposure

Corporate

Millions of yen (except percentages)

As of March 31	2014					2013				
Credit Rating	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
0–4	**0.20%**	**44.87%**	**45.67%**	**¥ 1,352,909**	**¥ 154,719**	0.21%	44.92%	41.50%	¥ 1,207,470	¥ 162,343
5–6	**1.93%**	**44.39%**	**102.35%**	**543,351**	**58,191**	1.96%	44.30%	100.34%	501,805	40,327
9A	**10.91%**	**44.85%**	**197.92%**	**128,825**	**5,872**	10.50%	45.61%	195.75%	180,607	16,142
Default	**100.00%**	**43.80%**	**—**	**54,385**	**839**	100.00%	45.33%	—	90,687	67

Sovereign

Millions of yen (except percentages)

As of March 31	2014					2013				
Credit Rating	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
0–4	**0.00%**	**45.00%**	**1.34%**	**¥ 2,728,857**	**¥ 981**	0.01%	45.01%	2.41%	¥ 2,205,029	¥ 2,527
5–6	**0.65%**	**45.00%**	**89.71%**	**—**	**156**	0.71%	45.00%	83.83%	—	103
9A	**—**	**—**	**—**	**—**	**—**	10.50%	45.00%	179.31%	—	150
Default	**100.00%**	**45.00%**	**—**	**15**	**—**	100.00%	45.00%	—	15	—

Bank

Millions of yen (except percentages)

As of March 31	2014					2013				
Credit Rating	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
0–4	**0.11%**	**40.93%**	**30.29%**	**¥ 364,445**	**¥ 219,021**	0.12%	40.14%	26.81%	¥ 450,486	¥ 222,598
5–6	**2.19%**	**45.00%**	**116.20%**	**19,124**	**634**	2.35%	45.00%	125.72%	17,817	1,801
9A	**10.91%**	**45.00%**	**207.09%**	**811**	**—**	10.50%	45.00%	189.93%	1,458	112
Default	**100.00%**	**45.00%**	**—**	**68**	**—**	100.00%	45.00%	—	93	—

• Estimated average PD, risk weight ratio and amount of exposure for equity exposure under PD/LGD method

Millions of yen (except percentages)

As of March 31	2014				2013			
Credit Rating	**PD**	**LGD**	**Risk Weight**	**Amount**	PD	LGD	Risk Weight	Amount
0–4	**0.15%**	**90.00%**	**235.80%**	**¥ 13,654**	0.14%	90.00%	210.59%	¥ 11,501
5–6	**1.95%**	**90.00%**	**451.22%**	**24,963**	1.40%	90.00%	358.66%	5,323
9A	**10.91%**	**90.00%**	**793.29%**	**8,244**	10.50%	90.00%	657.24%	8,464
Default	**100.00%**	**90.00%**	**1,125.00%**	**332**	100.00%	90.00%	—	19

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

• Estimated average PD, LGD, risk weight ratio, Exposure at Default (EAD) (on- and off-balance), amount of undrawn commitments and estimated average Credit Conversion Factors (CCF) of undrawn commitments for residential mortgage exposure, qualified revolving retail exposure and other retail exposure

Residential mortgage exposure

Millions of yen (except percentages)

As of March 31	2014							2013						
Pool	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	**Undrawn Amount**	**Commitment CCF**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)	Undrawn Amount	Commitment CCF
Normal	**1.25%**	**68.12%**	**89.91%**	**¥ 7,269**	**¥ 7,011**	**¥ —**	**—**	1.38%	67.91%	94.41%	¥ 8,837	¥ 8,244	¥ —	—
Need caution	**78.83%**	**49.60%**	**121.87%**	**4**	**233**	**—**	**—**	78.45%	49.10%	122.64%	3	159	—	—
Default	**100.00%**	**59.04%**	**—**	**201**	**113**	**—**	**—**	100.00%	55.45%	—	261	106	—	—

Qualified revolving retail exposure

Millions of yen (except percentages)

As of March 31	2014							2013						
Pool	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	**Undrawn Amount**	**Commitment CCF**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)	Undrawn Amount	Commitment CCF
Normal	**6.52%**	**72.62%**	**90.95%**	**¥327,769**	**¥ 90,328**	**¥ 2,401,824**	**3.76%**	2.90%	73.90%	54.88%	¥104,489	¥89,846	¥ 2,202,005	4.08%
Need caution	**83.37%**	**78.15%**	**97.81%**	**2,340**	**—**	**—**	**—**	66.20%	84.67%	200.00%	784	—	—	—
Default	**100.00%**	**77.25%**	**—**	**56,763**	**—**	**—**	**—**	100.00%	85.82%	—	39,727	—	—	—

Other retail exposure

Millions of yen (except percentages)

As of March 31	2014							2013						
Pool	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	**Undrawn Amount**	**Commitment CCF**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)	Undrawn Amount	Commitment CCF
Normal	**2.56%**	**58.90%**	**73.94%**	**¥ 355,289**	**¥ 604,674**	**¥ 22,569**	**1.00%**	2.56%	58.85%	72.78%	¥331,405	¥656,682	¥ 173,193	1.23%
Need caution	**74.52%**	**51.67%**	**90.96%**	**5,657**	**2,394**	**—**	**—**	77.55%	53.90%	86.99%	6,082	2,630	—	—
Default	**100.00%**	**56.74%**	**—**	**93,467**	**686**	**—**	**—**	100.00%	57.42%	—	98,978	729	—	—

Note: LGD is shown after credit risk mitigation

(8) COMPARATIVE RESULTS OF ACTUAL LOSSES AND EXPECTED LOSSES FOR THE LAST TWO YEARS UNDER F-IRB APPROACH

Corporate, Sovereign & Bank

Millions of yen

	FY2013	FY2012
Results of actual losses (a)	**¥ 1,323**	¥ 2,697
Expected losses (b)	**13,958**	16,444
Differences ((b) - (a))	**12,635**	13,746

Retail

Millions of yen

	FY2013	FY2012
Results of actual losses (a)	**¥ 16,079**	¥ 9,807
Expected losses (b)	**40,932**	21,754
Differences ((b) - (a))	**24,853**	11,946

The above matrix shows the results of default (downgrade below substandard) losses (increase of reserve, write-offs and loss on sale) for the twelve-month period ended March 31, 2012 and 2013 for the Bank Group's non-default exposures at the start of the twelve-month period, with expected losses calculated using estimated PD and LGD at the end of March 2014.

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

4. CREDIT RISK MITIGATION (CRM)

(1) COVERED AMOUNT OF CRM BY COLLATERAL

FIRB

Millions of yen

As of March 31	2014 Eligible financial collateral	2014 Other eligible FIRB collateral	2013 Eligible financial collateral	2013 Other eligible FIRB collateral
Corporate	¥ 935	¥ 182,677	¥ 1,386	¥ 177,230
Sovereign	—	—	—	—
Bank	53,216	—	78,507	—
Total	¥ 54,141	¥ 182,677	¥ 79,894	¥ 177,230

(2) COVERED AMOUNT OF CRM BY GUARANTEE OR CREDIT DERIVATIVES

Millions of yen

As of March 31	2014	2013
SA Exposures	¥ —	¥ —
IRB Exposures	110,933	130,934
Corporate	3,024	9,780
Sovereign	52,909	66,154
Bank	55,000	55,000
Residential mortgages	—	—
Qualified revolving retail	—	—
Other retail	—	—

5. COUNTERPARTY CREDIT RISK OF DERIVATIVES

Millions of yen

As of March 31	2014	2013
Total amount of gross positive fair value	¥ 575,872	¥ 552,248
Amount of gross add-on	211,069	216,688
EAD before CRM	786,942	768,937
FX-related	227,248	252,808
Interest-related	276,314	295,186
Equity-related	68,592	61,219
Commodity-related	—	—
Credit derivatives	214,389	159,685
Others	397	37
Amount of net	550,138	517,828
EAD after net	236,803	251,108
Amount covered collateral	—	—
EAD after CRM	236,803	251,108

Note: Current Exposure Method

• Notional amount of credit derivatives which have counterparty risk

Millions of yen

As of March 31 Notional amount	2014 Protection-buy	2014 Protection-sell	2013 Protection-buy	2013 Protection-sell
Single name	¥ 265,369	¥ 208,567	¥ 536,796	¥ 256,123
Multi name	66,472	42,416	122,084	64,083

Not applicable for the following items;

• Amount covered collateral
• Notional amount of credit derivatives which cover exposures by CRM

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

6. SECURITIZATION

SECURITIZATION EXPOSURE ORIGINATED BY THE BANK GROUP (CREDIT RISK)

(1) Amount of original assets

Securitization by transfer of assets

As of March 31	Millions of yen 2014	2013
Type of original assets	**Amount of original assets**	Amount of original assets
Residential mortgages	**¥ 155,191**	¥ 205,596
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**26,318**	33,998
Others	**—**	—
Total	**¥ 181,510**	¥ 239,594

Note: Includes originally securitized assets originated by the Bank Group, even though the Bank Group had no exposure to these particular assets.

(2) Amount of default exposure including original assets

Securitization by transfer of assets

As of March 31	Millions of yen 2014	2013
Type of original assets	**Amount of Default**	Amount of Default
Residential mortgages	**¥ 4,571**	¥ 4,783
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**26,318**	26,898
Others	**—**	—
Total	**¥ 30,889**	¥ 31,681

Note: Includes originally securitized assets originated by the Bank Group, even though the Bank Group had no exposure to these particular assets.

(3) Amount of securitization exposure the Bank Group has by type of original assets

Securitization by transfer of assets

Excluding resecuritization

As of March 31	Millions of yen 2014	2013
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 62,271**	¥ 78,071
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**19,518**	25,015
Others	**—**	—
Total	**¥ 81,790**	¥ 103,086

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

Resecuritization

As of March 31	Millions of yen 2014	2013
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 845**	¥ 875
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥ 845**	¥ 875

(4) Amount of securitization exposure and required capital the Bank Group has by risk weight ratio

Securitization by transfer of assets

Excluding resecuritization exposure

As of March 31	Millions of yen 2014		2013	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 12%	**¥ 19,527**	**¥ 115**	¥ 19,499	¥ 115
Over 12% to 20%	**50,462**	**807**	66,261	1,060
Over 20% to 50%	**—**	**—**	—	—
Over 50% to 75%	**—**	**—**	—	—
Over 75% to 100%	**11,800**	**944**	17,325	1,399
Over 100% to 250%	**—**	**—**	—	—
Over 250% to 425%	**—**	**—**	—	—
Over 425% to 1,250%	**—**	**—**	—	—
Total	**¥ 81,790**	**¥ 1,867**	¥ 103,086	¥ 2,575

Resecuritization exposure

As of March 31	Millions of yen 2014		2013	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 30%	**¥ —**	**¥ —**	¥ —	¥ —
Over 30% to 50%	**483**	**16**	501	16
Over 50% to 100%	**361**	**19**	373	20
Over 100% to 225%	**—**	**—**	—	—
Over 225% to 500%	**—**	**—**	—	—
Over 500% to 1,250%	**—**	**—**	—	—
Total	**¥ 845**	**¥ 36**	¥ 875	¥ 37

(5) Amount of increase of capital by securitization (to be deducted from capital)

As of March 31	Millions of yen 2014	2013
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 9,414**	¥ 9,555
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥ 9,414**	¥ 9,555

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(6) Amount of securitization exposure applied risk weight 1,250%

As of March 31	Millions of yen 2014	2013
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 5,717**	¥ 4,953
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥ 5,717**	¥ 4,953

Not applicable for the following items;

- Amount of assets held for securitization trade
- Summary of current year's securitization activities
- Amount of recognized gain/loss by original asset type during FY2013
- Securitization exposure subject to early amortization
- Credit risk mitigation for resecuritization exposure
- Amount of credit risk asset of securitization under SA subject to the Accord Supplementary Provision 15

SECURITIZATION EXPOSURE IN WHICH THE BANK GROUP INVESTS

(1) Amount of securitization exposure the Bank Group has by type of original asset

Excluding resecuritization exposure

As of March 31	Millions of yen 2014	2013
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 2,449**	¥ 3,439
Consumer loans	**—**	—
Commercial real estate loans	**56,221**	73,871
Corporate loans	**20,357**	24,513
Others	**24,207**	42,560
Total	**¥ 103,235**	¥ 144,385

Resecuritization exposure

As of March 31	Millions of yen 2014	2013
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ —**	¥ —
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**16,588**	20,519
Others	**—**	—
Total	**¥ 16,588**	¥ 20,519

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(2) Amount of securitization exposure and required capital for the Bank Group by risk weight ratio

Excluding resecuritization exposure

As of March 31	Millions of yen 2014 Amount	2014 Required capital amount	2013 Amount	2013 Required capital amount
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 12%	**¥ 40,245**	**¥ 246**	¥ 63,127	¥ 386
Over 12% to 20%	**17,221**	**254**	7,386	93
Over 20% to 50%	**—**	**—**	—	—
Over 50% to 75%	**—**	**—**	—	—
Over 75% to 100%	**—**	**—**	—	—
Over 100% to 250%	**6,000**	**965**	37,195	6,997
Over 250% to 425%	**27,311**	**6,680**	27,176	6,140
Over 425% to 1,250%	**12,456**	**5,980**	9,500	4,660
Total	**¥ 103,235**	**¥ 14,127**	¥ 144,385	¥ 18,278

Resecuritization exposure

As of March 31	Millions of yen 2014 Amount	2014 Required capital amount	2013 Amount	2013 Required capital amount
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 30%	**¥ 16,588**	**¥ 311**	¥ 20,519	¥ 414
Over 30% to 50%	**—**	**—**	—	—
Over 50% to 100%	**—**	**—**	—	—
Over 100% to 225%	**—**	**—**	—	—
Over 225% to 500%	**—**	**—**	—	—
Over 500% to 1,250%	**—**	**—**	—	—
Total	**¥ 16,588**	**¥ 311**	¥ 20,519	¥ 414

(3) Amount of securitization exposure applied risk weight 1,250%

As of March 31	Millions of yen 2014	2013
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 39**	¥ 79
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**56**	528
Others	**—**	—
Total	**¥ 96**	¥ 607

Not applicable for the following items;

- Credit risk mitigation for resecuritization exposure
- Amount of credit risk asset of securitization under SA subject to the Accord Supplementary Provision 15

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

SECURITIZATION EXPOSURE IN WHICH THE BANK GROUP INVESTS (MARKET RISK)

(1) Amount of securitization exposure the Bank Group has by type of original asset

Excluding resecuritization exposure

Millions of yen

As of March 31	2014	2013
Type of original assets	**Amount of exposure**	Amount of exposure
Residential mortgages	**¥ 1,575**	¥ 12,914
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥ 1,575**	¥ 12,914

Resecuritization exposure

Millions of yen

As of March 31	2014	2013
Type of original assets	**Amount of exposure**	Amount of exposure
Residential mortgages	**¥2,232**	¥ 662
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥2,232**	¥ 662

(2) Amount of securitization exposure and required capital for the Bank Group by risk weight ratio

Excluding resecuritization exposure

Millions of yen

As of March 31	2014		2013	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
1.6%	**¥ 1,575**	**¥ 25**	¥ 12,914	¥ 206
4%	**—**	**—**	—	—
8%	**—**	**—**	—	—
28%	**—**	**—**	—	—
Total	**¥ 1,575**	**¥ 25**	¥ 12,914	¥ 206

Resecuritization exposure

Millions of yen

As of March 31	2014		2013	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
3.2%	**¥ 2,232**	**¥ 71**	¥ 662	¥ 21
8%	**—**	**—**	—	—
18%	**—**	**—**	—	—
52%	**—**	**—**	—	—
Total	**¥ 2,232**	**¥ 71**	¥ 662	¥ 21

Not applicable for the following items;

- Amount of securitization exposure targeted for comprehensive risk
- Amount of securitization exposure which should be deducted from capital under the Accord Article 302.5.2

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

7. MARKET RISK (UNDER INTERNAL MODEL APPROACH)

(1) VAR AT THE END OF MARCH 2013 AND MARCH 2014 AND THE HIGH, MEAN AND LOW VAR

	Millions of yen	
As of March 31	**2014**	2013
VaR at term end	**¥ 1,209**	¥ 1,642
VaR through this term		
High	**3,264**	2,770
Mean	**1,735**	1,539
Low	**751**	1,053

(2) STRESSED VAR AT THE END OF MARCH 2013 AND MARCH 2014 AND THE HIGH, MEAN AND LOW VAR

	Millions of yen	
As of March 31	**2014**	2013
VaR at term end	**¥ 2,222**	¥ 3,727
VaR through this term		
High	**4,314**	5,962
Mean	**2,834**	3,588
Low	**1,375**	2,241

The trading portfolio experienced no losses that exceeded the specified VaR threshold.

Not applicable for the following items;

- The amount of required capital related to additional risk and comprehensive risk as of the period-end, as well as the maximum, minimum and average values for the amount of required capital for additional risk and comprehensive risk during the disclosure period.

8. EQUITY EXPOSURE IN BANKING BOOK

(1) BOOK VALUE AND FAIR VALUE

	Millions of yen	
As of March 31	**2014**	2013
Market-based approach		
Listed equity exposure	**¥ 2,101**	¥ 492
Unlisted equity exposure	**4,301**	3,836
PD/LGD method		
Listed equity exposure	**10,275**	14,157
Unlisted equity exposure	**36,918**	11,150

(2) GAIN OR LOSS ON SALE OR DEPRECIATION OF EQUITY EXPOSURE

	Millions of yen	
	FY2013	FY2012
Gain (loss) on sale	**¥ 4,905**	¥ 3,142
Loss of depreciation	**36**	1,996

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(3) UNREALIZED GAIN OR LOSS WHICH IS RECOGNIZED ON BALANCE SHEET AND NOT RECOGNIZED ON PROFIT AND LOSS STATEMENT

As of March 31	Millions of yen 2014	2013
Unrealized gain (loss)	**¥ 6,415**	¥ 5,831

(4) AMOUNT OF EQUITY EXPOSURE UNDER GRANDFATHERING RULE SUBJECT TO THE ACCORD SUPPLEMENTARY PROVISION 13

As of March 31	Millions of yen 2014	2013
Grandfathering rule (100% risk weight apply)	**¥ 4,744**	¥ 6,071

Not applicable for the following items;

• UNREALIZED GAIN OR LOSS WHICH IS NOT RECOGNIZED BOTH ON BALANCE SHEET AND ON PROFIT AND LOSS STATEMENT

9. AMOUNT OF REGARDED EXPOSURE UNDER THE ACCORD ARTICLE 167

As of March 31	Millions of yen 2014	2013
Regarded exposure (fund)	**¥ 63,890**	¥ 61,900

10. INTEREST RATE RISK IN THE BANKING BOOK (IRRBB) THE INCREASE/DECREASE IN ECONOMIC VALUE FOR UPWARD/DOWNWARD RATE SHOCKS ACCORDING TO MANAGEMENT'S METHOD FOR IRRBB

Change in economic values from a 2% interest-rate shock on the banking book:

As of March 31	Billions of yen 2014	2013
JPY	**¥ (57.8)**	¥ (73.3)
USD	**(2.2)**	(0.7)
Others	**(2.7)**	(2.9)
Total	**¥ (62.8)**	¥ (77.1)

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED)

1. CAPITAL ADEQUACY

(1) AMOUNT OF REQUIRED CAPITAL FOR CREDIT RISK

Portfolios under the Standardized Approach (SA)

	Millions of yen	
	2014	2013
As of March 31	**Required capital amount**	Required capital amount
Shinsei Bank	**¥ 43,397**	¥ 39,224
Housing loans	**36,229**	35,324
Shinsei bank card loan Lake	**7,168**	3,900

Portfolios under the Internal Ratings-Based Approach (IRB)

	Millions of yen	
	2014	2013
As of March 31	**Required capital amount**	Required capital amount
Corporate (Excluding Specialized Lending)[1]	**¥ 158,756**	¥ 170,826
Specialized Lending[2]	**102,786**	150,285
Sovereign	**3,123**	4,533
Bank	**17,354**	17,660
Residential mortgages	**—**	—
Qualified revolving retails	**—**	—
Other retails	**—**	—
Equity	**149,074**	133,633
Regarded (Fund)	**19,568**	20,764
Securitization[3]	**32,106**	42,890
(as capital deduction)	**(9,414)**	(15,115)
Purchase receivables	**44,191**	55,917
Other assets	**2,440**	2,485
CVA risk	**8,803**	
CCP risk	**—**	
Total	**¥ 538,205**	¥ 598,998

1 "Corporate" includes "Small and Medium-sized Entities."
2 "Specialized Lending" refers to a claim whose source of recovery is solely dependent on the cash flow generated from a transaction such as a real estate non-recourse loan.
3 "Securitization" includes a part of amounts based on the Standardized Approach.

(2) AMOUNT OF REQUIRED CAPITAL FOR EQUITY EXPOSURE UNDER IRB

	Millions of yen	
	2014	2013
As of March 31	**Required capital amount**	Required capital amount
Market-Based Approach Simplified Method	**¥ 6,527**	¥ 5,024
PD/LGD Method	**140,765**	127,195
Grandfathering Rule	**1,392**	1,414
RW250% Applied	**389**	
Total	**¥ 149,074**	¥ 133,633

(3) AMOUNT OF REQUIRED CAPITAL FOR REGARDED-METHOD EXPOSURE UNDER IRB

	Millions of yen	
	2014	2013
As of March 31	**Required capital amount**	Required capital amount
Look Through	**¥ 3,384**	¥ 3,085
Revised Naivete Majority	**8,106**	8,558
Simplified [400%]	**1,790**	1,835
Simplified [1,250%]	**6,286**	7,285
Total	**¥ 19,568**	¥ 20,764

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

(4) AMOUNT OF REQUIRED CAPITAL FOR MARKET RISK

As of March 31	2014 Required capital amount	2013 Required capital amount
	Millions of yen	
The Standardized Approach	**¥ 553**	¥ 1,228
Interest rate risk	**473**	797
Equity position risk	**0**	210
FX risk	**79**	220
Securitization risk	**—**	—
The Internal Models Approach (IMA) (General Market Risk)	**9,020**	16,423

(5) AMOUNT OF REQUIRED CAPITAL FOR OPERATIONAL RISK

As of March 31	2014 Required capital amount	2013 Required capital amount
	Millions of yen	
The Standardized Approach	**¥ 13,894**	¥ 13,797

(6) TOTAL REQUIRED CAPITAL (DOMESTIC STANDARD)

As of March 31	2014	2013
	Millions of yen	
Total Required Capital (Risk Assets x 4%)	**¥ 231,256**	¥ 230,186

2. CREDIT RISK EXPOSURE (EXCLUDING SECURITIZATION AND REGARDED EXPOSURE)

(1) AMOUNT OF CREDIT RISK EXPOSURE

Geographic, Industries or Maturity

Millions of yen

	2014				2013			
	Amount of Credit Risk Exposure				Amount of Credit Risk Exposure			
As of March 31	Total	Loans,etc.[1]	Securities[2]	Derivatives[3]	Total	Loans,etc.[1]	Securities[2]	Derivatives[3]
Manufacturing	**¥ 278,294**	**¥ 270,818**	**¥ —**	**¥ 7,476**	¥ 300,427	¥ 295,628	¥ 0	¥ 4,799
Agriculture	**224**	**224**	**—**	**—**	236	236	—	—
Mining	**329**	**329**	**—**	**—**	268	268	—	—
Construction	**9,238**	**9,238**	**—**	**—**	12,569	12,568	—	1
Electric power, gas, water supply	**197,716**	**195,638**	**19**	**2,057**	134,586	133,985	31	568
Information and communication	**41,398**	**41,379**	**—**	**19**	21,755	21,726	—	28
Transportation	**197,202**	**194,062**	**1,998**	**1,141**	223,809	210,085	2,160	11,563
Wholesale and retail	**98,595**	**92,706**	**68**	**5,820**	80,680	79,892	222	564
Finance and insurance	**2,256,478**	**2,186,034**	**39,626**	**30,817**	1,506,775	1,437,510	31,509	37,755
Real estate	**696,073**	**580,226**	**113,107**	**2,738**	806,178	614,924	189,636	1,616
Services	**399,726**	**395,695**	**1,487**	**2,543**	389,125	384,440	2,729	1,955
Government	**1,205,312**	**77,305**	**1,128,006**	**—**	1,418,449	80,590	1,337,859	—
Individuals	**1,116,933**	**1,116,892**	**—**	**40**	1,009,761	1,009,630	—	130
Others	**—**	**—**	**—**	**—**	—	—	—	—
Domestic Total	**6,497,525**	**5,160,554**	**1,284,314**	**52,656**	5,904,623	4,281,488	1,564,150	58,984
Foreign	**654,039**	**352,604**	**119,849**	**181,585**	691,890	370,939	137,324	183,627
Total	**¥ 7,151,565**	**¥ 5,513,159**	**¥ 1,404,163**	**¥ 234,242**	¥ 6,596,514	¥ 4,652,427	¥ 1,701,474	¥ 242,612
To 1 year	**1,478,233**	**1,063,441**	**354,289**	**60,502**	1,467,947	1,181,420	229,452	57,074
1 to 3 years	**1,249,715**	**949,476**	**224,649**	**75,590**	1,631,950	1,014,947	534,358	82,644
3 to 5 years	**2,723,112**	**1,954,113**	**740,695**	**28,303**	1,955,616	1,175,141	748,753	31,721
Over 5 years	**1,649,623**	**1,503,007**	**76,769**	**69,846**	1,475,214	1,234,268	169,774	71,170
Undated	**50,880**	**43,120**	**7,759**	**—**	65,784	46,650	19,134	—
Total	**¥ 7,151,565**	**¥ 5,513,159**	**¥ 1,404,163**	**¥ 234,242**	¥ 6,596,514	¥ 4,652,427	¥ 1,701,474	¥ 242,612

1 Excluding purchased receivables.
2 Excluding equity exposures
Acquisition cost is applied to EAD of Securities available for sale as of March 31, 2014 under the Basel III Domestic Standard.
3 Credit equivalent amount basis.

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

(2) AMOUNT OF DEFAULT EXPOSURE BEFORE PARTIAL WRITE-OFF

Geographic, Industries

As of March 31	2014 Default Exposure (Millions of yen)	2013 Default Exposure (Millions of yen)
Manufacturing	**¥ 7,463**	¥ 16,375
Agriculture	**—**	—
Mining	**—**	—
Construction	**72**	91
Electric power, gas, water supply	**—**	—
Information and communication	**500**	2,183
Transportation	**3,592**	3,592
Wholesale and retail	**375**	230
Finance and insurance	**58,432**	59,706
Real estate	**107,661**	177,487
Services	**26,923**	29,052
Government	**—**	—
Individuals	**6,093**	6,380
Others	**—**	—
Domestic Total	**211,114**	295,101
Foreign	**41,249**	37,594
Total	**¥ 252,364**	¥ 332,695

(3) AMOUNT OF LOAN LOSS RESERVES (GENERAL, SPECIFIC AND COUNTRY RISK) BEFORE PARTIAL WRITE-OFF

Millions of yen

	2014			2013		
As of March 31	Start Amount	Change Amount	End Amount	Start Amount	Change Amount	End Amount
General	**¥ 28,522**	**¥ (8,585)**	**¥ 19,937**	¥ 39,627	¥ (11,105)	¥ 28,522
Specific	**136,187**	**(9,112)**	**127,075**	156,555	(20,368)	136,187
Country	**0**	**—**	**0**	0	—	0
Total	**¥ 164,711**	**¥ (17,698)**	**¥ 147,013**	¥ 196,183	¥ (31,472)	¥ 164,711

Geographic

Millions of yen

	2014				2013			
As of March 31	Total	General	Specific	Country	Total	General	Specific	Country
Domestic	**¥ 112,452**	**¥ 15,943**	**¥ 96,508**	**¥ —**	¥ 132,950	¥ 24,926	¥ 108,023	¥ —
Foreign	**34,560**	**3,993**	**30,566**	**0**	31,761	3,595	28,164	0
Total	**¥ 147,013**	**¥ 19,937**	**¥ 127,075**	**¥ 0**	¥ 164,711	¥ 28,522	¥ 136,187	¥ 0

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

Industries

As of March 31	Millions of yen 2014 Reserve Amount	2013 Reserve Amount
Manufacturing	¥ 5,494	¥ 8,227
Agriculture	0	—
Mining	0	5
Construction	99	119
Electric power, gas, water supply	330	276
Information and communication	383	105
Transportation	1,322	1,716
Wholesale and retail	698	777
Finance and insurance	16,736	19,676
Real estate	63,778	76,063
Services	14,619	16,777
Government	—	—
Individuals	5,080	5,078
Others	3,907	4,126
Foreign	34,560	31,761
Non-classified	—	—
Total	¥ 147,013	¥ 164,711

(4) AMOUNT OF WRITE-OFFS

Industries

	Millions of yen FY2013 Amount of write-off	FY2012 Amount of write-off
Manufacturing	¥ 785	¥ 426
Agriculture	—	—
Mining	—	—
Construction	—	23
Electric power, gas, water supply	—	—
Information and communication	—	—
Transportation	—	519
Wholesale and retail	—	—
Finance and insurance	—	943
Real estate	5,434	14,898
Services	—	21
Government	—	—
Individuals	85	80
Others	—	—
Foreign	1,834	5,107
Non-classified	—	—
Total	¥ 8,141	¥ 22,018

(5) AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)

Millions of yen

As of March 31	2014 Rated	2014 Unrated	2013 Rated	2013 Unrated
0%	¥ —	¥ —	¥ —	¥ —
10%	—	—	—	—
20%	—	—	—	—
35%	—	976,239	—	790,481
50%	—	1,677	—	1,426
75%	—	263,677	—	280,077
100%	—	1,539	—	1,483
150%	—	434	—	925
350%	—	—	—	—
1,250%	—	—	—	—
Total	¥ —	¥ 1,243,568	¥ —	¥ 1,074,394

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

(6) SPECIALIZED LENDING EXPOSURE UNDER SLOTTING CRITERIA AND EQUITY EXPOSURE UNDER MARKET-BASED SIMPLIFIED METHOD

Specialized lending excluding high-volatility commercial real estate

As of March 31	Millions of yen	
	2014	2013
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
50%	**¥ 28,948**	¥ 41,123
70%	**237,092**	84,379
90%	**56,855**	104,509
115%	**53,771**	48,748
250%	**20,556**	91,914
0% (Default)	**85,100**	108,363
Total	**¥ 482,324**	¥ 479,038

Specialized lending for high-volatility commercial real estate

As of March 31	Millions of yen	
	2014	2013
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
70%	**¥ 5,830**	¥ 12,333
95%	**1,194**	2,121
120%	**1,028**	3,473
140%	**15,894**	557
250%	**18,390**	60,778
0% (Default)	**36,319**	56,172
Total	**¥ 78,657**	¥ 135,473

Equity exposure under Market-Based Simplified Method

As of March 31	Millions of yen	
	2014	2013
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
300%	**¥ 1,958**	¥ 441
400%	**17,773**	14,480
Total	**¥ 19,732**	¥ 14,922

(7) PORTFOLIOS UNDER IRB EXCLUDING THE AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)

• Estimated average PD, LGD, Risk Weight Ratio and Exposure at Default (EAD) (on-balance and off-balance) for Corporate, Sovereign and Bank exposure

Corporate

Millions of yen (except percentages)

As of March 31	2014					2013				
Credit Rating	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
0–4	**0.20%**	**44.87%**	**47.77%**	**¥ 1,370,703**	**¥ 156,545**	0.23%	44.93%	41.90%	¥ 1,319,525	¥ 163,872
5–6	**1.82%**	**44.35%**	**103.00%**	**501,122**	**58,169**	1.98%	44.26%	99.01%	474,691	39,886
9A	**10.91%**	**44.80%**	**198.74%**	**96,495**	**4,654**	10.50%	45.80%	197.88%	133,434	16,142
Default	**100.00%**	**43.57%**	**—**	**45,103**	**1,154**	100.00%	45.37%	—	80,361	382

Sovereign

Millions of yen (except percentages)

As of March 31	2014					2013				
Credit Rating	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
0–4	**0.00%**	**45.00%**	**1.33%**	**¥ 2,706,452**	**¥ 981**	0.01%	45.01%	2.40%	¥ 2,174,567	¥ 2,527
5–6	**0.65%**	**45.00%**	**89.71%**	**—**	**156**	0.71%	45.00%	83.83%	—	103
9A	**—**	**—**	**—**	**—**	**—**	10.50%	45.00%	179.31%	—	150
Default	**100.00%**	**45.00%**	**—**	**15**	**—**	100.00%	45.00%	—	15	—

Bank

Millions of yen (except percentages)

As of March 31	2014					2013				
Credit Rating	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
0–4	**0.11%**	**40.71%**	**30.92%**	**¥ 327,842**	**¥ 225,868**	0.12%	39.89%	28.03%	¥ 407,543	¥ 233,052
5–6	**2.26%**	**45.00%**	**119.20%**	**17,268**	**634**	2.58%	45.00%	137.31%	13,451	1,801
9A	**10.91%**	**45.00%**	**223.09%**	**2,380**	**—**	10.50%	45.00%	201.28%	505	112
Default	**100.00%**	**45.00%**	**—**	**68**	**—**	100.00%	45.00%	—	93	—

• Estimated average PD, risk weight ratio and amount of exposure for equity exposure under PD/LGD method

Millions of yen (except percentages)

As of March 31	2014				2013			
Credit Rating	**PD**	**LGD**	**Risk Weight**	**Amount**	PD	LGD	Risk Weight	Amount
0–4	**0.31%**	**90.00%**	**301.74%**	**¥ 392,811**	0.34%	90.00%	297.39%	¥ 390,755
5–6	**1.85%**	**90.00%**	**435.99%**	**30,006**	1.78%	90.00%	329.57%	10,257
9A	**10.91%**	**90.00%**	**896.20%**	**37,713**	10.50%	90.00%	674.43%	37,989
Default	**100.00%**	**90.00%**	**1,125.00%**	**523**	100.00%	90.00%	—	342

(8) COMPARATIVE RESULTS OF ACTUAL LOSSES AND EXPECTED LOSSES FOR THE LAST THREE YEARS UNDER F-IRB APPROACH

Corporate, Sovereign & Bank

Millions of yen

	FY2013	FY2012	FY2011
Results of actual losses (a)	**¥ 1,219**	¥ 2,006	¥ 17,113
Expected losses (b)	**12,602**	15,977	18,558
Differences ((b) - (a))	**11,383**	13,971	1,445

The above matrix shows the results of default (downgrade below substandard) losses (increase of reserve, write-offs and loss on sale) for the twelve-month period ended March 31, 2011, 2012 and 2013 for the Bank's non-default corporate, sovereign and bank exposures at the start of the twelve-month period, with expected losses calculated using estimated PD at the end of March 2014.

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

3. CREDIT RISK MITIGATION (CRM)

(1) COVERED AMOUNT OF CRM BY COLLATERAL

FIRB

Millions of yen

As of March 31	2014 Eligible financial collateral	2014 Other eligible FIRB collateral	2013 Eligible financial collateral	2013 Other eligible FIRB collateral
Corporate	¥ 935	¥ 182,677	¥ 1,386	¥ 177,230
Sovereign	—	—	—	—
Bank	53,216	—	78,507	—
Total	¥ 54,141	¥ 182,677	¥ 79,894	¥ 177,230

(2) COVERED AMOUNT OF CRM BY GUARANTEE OR CREDIT DERIVATIVES

Millions of yen

As of March 31	2014	2013
SA Exposures	¥ —	¥ —
IRB Exposures	110,933	130,934
Corporate	3,024	9,780
Sovereign	52,909	66,154
Bank	55,000	55,000
Residential mortgages	—	—
Qualified revolving retail	—	—
Other retail	—	—

4. COUNTERPARTY CREDIT RISK OF DERIVATIVES

Millions of yen

As of March 31	2014	2013
Total amount of gross positive fair value	¥ 524,455	¥ 568,972
Amount of gross add-on	201,088	211,363
EAD before CRM	734,543	780,336
FX-related	229,115	254,010
Interest-related	276,539	295,543
Equity-related	67,028	58,989
Commodity-related	—	—
Credit derivatives	161,462	171,755
Others	397	37
Amount of net	499,904	537,686
EAD after net	234,639	242,649
Amount covered collateral	—	—
EAD after CRM	234,639	242,649

Note: Current Exposure Method

• Notional amount of credit derivatives which have counterparty risk

Millions of yen

As of March 31	2014		2013	
Notional amount	Protection-buy	Protection-sell	Protection-buy	Protection-sell
Single name	¥ 232,589	¥ 241,347	¥ 345,041	¥ 358,917
Multi name	58,472	56,416	97,524	88,643

Not applicable for the following items;

• Amount covered collateral
• Notional amount of credit derivatives which cover exposures by CRM

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

5. SECURITIZATION

SECURITIZATION EXPOSURE ORIGINATED BY THE BANK (CREDIT RISK)

(1) Amount of original assets

Securitization by transfer of assets

As of March 31	Millions of yen	
	2014	2013
Type of original assets	**Amount of original assets**	Amount of original assets
Residential mortgages	**¥ 155,191**	¥ 205,596
Consumer loans	**189,488**	229,526
Commercial real estate loans	**—**	—
Corporate loans	**26,318**	33,998
Others	**170,783**	181,624
Total	**¥ 541,782**	¥ 650,745

Note: Includes originally securitized assets originated by the Bank, even though the Bank had no exposure to these particular assets.

(2) Amount of default exposure including original assets

Securitization by transfer of assets

As of March 31	Millions of yen	
	2014	2013
Type of original assets	**Amount of Default**	Amount of Default
Residential mortgages	**¥ 4,571**	¥ 4,783
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**26,318**	26,898
Others	**—**	—
Total	**¥ 30,889**	¥ 31,681

Note: Includes originally securitized assets originated by the Bank, even though the Bank had no exposure to these particular assets.

(3) Amount of securitization exposure the Bank has by type of original assets

Securitization by transfer of assets

Excluding resecuritization

As of March 31	Millions of yen	
	2014	2013
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 62,271**	¥ 78,071
Consumer loans	**120,800**	152,100
Commercial real estate loans	**—**	—
Corporate loans	**19,518**	25,015
Others	**141,428**	151,285
Total	**¥ 344,018**	¥ 406,472

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

Resecuritization exposure

As of March 31	Millions of yen	
	2014	2013
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 845**	¥ 875
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥ 845**	¥ 875

(4) Amount of securitization exposure and required capital the Bank has by risk weight ratio

Securitization by transfer of assets

Excluding resecuritization exposure

As of March 31	Millions of yen			
	2014		2013	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 12%	**¥ 179,455**	**¥ 1,669**	¥ 196,584	¥ 1,818
Over 12% to 20%	**90,762**	**1,421**	108,061	1,749
Over 20% to 50%	**27,500**	**816**	44,500	1,320
Over 50% to 75%	**34,500**	**2,194**	30,000	1,908
Over 75% to 100%	**11,800**	**944**	27,325	2,247
Over 100% to 250%	**—**	**—**	—	—
Over 250% to 425%	**—**	**—**	—	—
Over 425% to 1,250%	**—**	**—**	—	—
Total	**¥ 344,018**	**¥ 7,046**	¥ 406,472	¥ 9,044

Resecuritization exposure

As of March 31	Millions of yen			
	2014		2013	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 30%	**¥ —**	**¥ —**	¥ —	¥ —
Over 30% to 50%	**483**	**16**	501	16
Over 50% to 100%	**361**	**19**	373	20
Over 100% to 225%	**—**	**—**	—	—
Over 225% to 500%	**—**	**—**	—	—
Over 500% to 1,250%	**—**	**—**	—	—
Total	**¥ 845**	**¥ 36**	¥ 875	¥ 37

(5) Amount of increase of capital by securitization (to be deducted from capital)

As of March 31	Millions of yen	
	2014	2013
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 9,414**	¥ 9,555
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥ 9,414**	¥ 9,555

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

(6) Amount of securitization exposure applied risk weight 1,250%

As of March 31	2014	2013
	Millions of yen	
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 5,717**	¥ 4,953
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥ 5,717**	¥ 4,953

Not applicable for the following items;

- Amount of assets held for securitization trade
- Summary of current year's securitization activities
- Amount of recognized gain/loss by original asset type during FY2013
- Securitization exposure subject to early amortization
- Credit risk mitigation for resecuritization exposure
- Amount of credit risk asset of securitization under SA subject to the Accord Supplementary Provision 15

SECURITIZATION EXPOSURE IN WHICH THE BANK INVESTS

(1) Amount of securitization exposure the Bank has by type of original asset

Excluding resecuritization exposure

As of March 31	2014	2013
	Millions of yen	
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 2,449**	¥ 3,439
Consumer loans	**—**	—
Commercial real estate loans	**56,221**	73,871
Corporate loans	**20,357**	24,513
Others	**24,207**	42,560
Total	**¥ 103,235**	¥ 144,385

Resecuritization exposure

As of March 31	2014	2013
	Millions of yen	
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ —**	¥ —
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**16,588**	20,519
Others	**—**	—
Total	**¥ 16,588**	¥ 20,519

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

(2) Amount of securitization exposure and required capital for the Bank by risk weight ratio

Excluding resecuritization exposure

	Millions of yen			
As of March 31	**2014**		2013	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 12%	**¥ 40,245**	**¥ 246**	¥ 63,127	¥ 386
Over 12% to 20%	**17,221**	**254**	7,386	93
Over 20% to 50%	**—**	**—**	—	—
Over 50% to 75%	**—**	**—**	—	—
Over 75% to 100%	**—**	**—**	—	—
Over 100% to 250%	**6,000**	**965**	37,195	6,997
Over 250% to 425%	**27,311**	**6,680**	27,176	6,140
Over 425% to 1,250%	**12,456**	**5,980**	9,500	4,660
Total	**¥ 103,235**	**¥ 14,127**	¥ 144,385	¥ 18,278

Resecuritization exposure

	Millions of yen			
As of March 31	**2014**		2013	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 30%	**¥ 16,588**	**¥ 311**	¥ 20,519	¥ 414
Over 30% to 50%	**—**	**—**	—	—
Over 50% to 100%	**—**	**—**	—	—
Over 100% to 225%	**—**	**—**	—	—
Over 225% to 500%	**—**	**—**	—	—
Over 500% to 1,250%	**—**	**—**	—	—
Total	**¥ 16,588**	**¥ 311**	¥ 20,519	¥ 414

(3) Amount of securitization exposure applied risk weight 1,250%

	Millions of yen	
As of March 31	**2014**	2013
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 39**	¥ 79
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**56**	528
Others	**—**	—
Total	**¥ 96**	¥ 607

Not applicable for the following items;

- Credit risk mitigation for resecuritization exposure
- Amount of credit risk asset of securitization under SA subject to the Accord Supplementary Provision 15

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

6. MARKET RISK (UNDER INTERNAL MODEL APPROACH)

(1) VAR AT THE END OF MARCH 2013 AND MARCH 2014 AND THE HIGH, MEAN AND LOW VAR

	Millions of yen	
As of March 31	**2014**	2013
VaR at term end	**¥ 1,189**	¥ 1,627
VaR through this term		
High	**3,242**	2,724
Mean	**1,701**	1,498
Low	**713**	988

(2) STRESSED VAR AT THE END OF MARCH 2013 AND MARCH 2014 AND THE HIGH, MEAN AND LOW VAR

	Millions of yen	
As of March 31	**2014**	2013
VaR at term end	**¥ 2,188**	¥ 3,681
VaR through this term		
High	**4,249**	5,685
Mean	**2,759**	3,472
Low	**1,318**	2,116

The trading portfolio experienced no losses that exceeded the specified VaR threshold.

Not applicable for the following items;

- The amount of required capital related to additional risk and comprehensive risk as of the period-end, as well as the maximum, minimum and average values for the amount of required capital for additional risk and comprehensive risk during the disclosure period.

7. EQUITY EXPOSURE IN BANKING BOOK

(1) BOOK VALUE AND FAIR VALUE

	Millions of yen	
As of March 31	**2014**	2013
Market-based approach		
Listed equity exposure	**¥ 2,040**	¥ 441
Unlisted equity exposure	**17,773**	14,480
PD/LGD method		
Listed equity exposure	**10,202**	14,031
Unlisted equity exposure	**450,852**	425,313

(2) GAIN OR LOSS ON SALE OR DEPRECIATION OF EQUITY EXPOSURE

	Millions of yen	
	FY2013	FY2012
Gain (loss) on sale	**¥ 3,286**	¥ 3,024
Loss of depreciation	**34**	1,242

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

(3) UNREALIZED GAIN OR LOSS WHICH IS RECOGNIZED ON BALANCE SHEET AND NOT RECOGNIZED ON PROFIT AND LOSS STATEMENT

	Millions of yen	
As of March 31	**2014**	2013
Unrealized gain (loss)	**¥ 3,817**	¥ 4,444

(4) AMOUNT OF EQUITY EXPOSURE UNDER GRANDFATHERING RULE SUBJECT TO THE ACCORD SUPPLEMENTARY PROVISION 13

	Millions of yen	
As of March 31	**2014**	2013
Grandfathering rule (100% risk weight apply)	**¥ 16,420**	¥ 16,674

Not applicable for the following items;

• UNREALIZED GAIN OR LOSS WHICH IS NOT RECOGNIZED BOTH ON BALANCE SHEET AND ON PROFIT AND LOSS STATEMENT

8. AMOUNT OF REGARDED EXPOSURE UNDER THE ACCORD ARTICLE 167

	Millions of yen	
As of March 31	**2014**	2013
Regarded exposure (fund)	**¥ 40,478**	¥ 41,932

9. INTEREST RATE RISK IN THE BANKING BOOK (IRRBB) THE INCREASE/DECREASE IN ECONOMIC VALUE FOR UPWARD/DOWNWARD RATE SHOCKS ACCORDING TO MANAGEMENT'S METHOD FOR IRRBB

Change in economic values from a 2% interest-rate shock on the banking book:

	Billions of yen	
As of March 31	**2014**	2013
JPY	**¥ (22.4)**	¥ (45.0)
USD	**(2.2)**	(0.7)
Others	**(2.7)**	(2.9)
Total	**¥ (27.4)**	¥ (48.8)

DISCLOSURE ITEMS CONCERNING REMUNERATION, ETC.

1. MATTERS CONCERNING THE SITUATION OF SETTING UP AN ORGANIZATIONAL STRUCTURE REGARDING REMUNERATION, ETC. FOR APPLICABLE OFFICERS AND EMPLOYEES OF SHINSEI BANK (GROUP)

(1) Scope of "Applicable Officers and Employees"
The scopes of "Applicable Officers" and "Applicable Employees" (collectively, "Applicable Officers and Employees") prescribed in the announcement on remuneration subject to disclosure are as shown below.

1) Scope of "Applicable Officers"
Applicable Officers refer to the Directors and Statutory Auditors of Shinsei Bank, excluding outside Directors and outside Statutory Auditors.

2) Scope of "Applicable Employees, etc."
At Shinsei Bank, "Applicable Employees, etc." who are subject to disclosure refer to the "persons who receive a large amount of remuneration, etc." and who have a material impact on business operation or the situation of assets of Shinsei Bank and its major consolidated subsidiaries, etc. among the officers and employees of Shinsei Bank and officers and employees of its major consolidated subsidiaries, etc., excluding Applicable Officers.

(a) Scope of "major consolidated subsidiaries, etc."
Major consolidated subsidiaries etc. refer to the subsidiaries that are independently mentioned in the business report and consolidated financial statements and which are important for the operation of the Shinsei Bank Group, taking into account the significance of their impact on the financial conditions and business results of the Shinsei Bank Group. More specifically, they refer to the following seven companies. While there are four consolidated subsidiaries, etc. with total assets accounting for 2% or more of consolidated total asset, all of those four companies are included in the following seven companies.

APLUS FINANCIAL Co., Ltd.
Showa Leasing Co., Ltd.
SHINKI Co., Ltd.
Shinsei Financial Co., Ltd.
Shinsei Trust & Banking Co., Ltd.
Shinsei Securities Co., Ltd.
Shinsei Principal Investments Ltd.

(b) Scope of the "persons who receive a large amount of remuneration, etc."
The "persons who receive large remuneration, etc." refer to the persons who receive remuneration, etc. at the amount equal to or above the "average amount of remuneration paid to Applicable Officers (which was 40 million yen in the fiscal year reported)." In the fiscal year reported, there were two Applicable Employees who receive remuneration at the amount equal to or above the "average amount of remuneration paid to Applicable Officers."
With respect to lump-sum retirement allowances, the amount calculated by deducting from the amount of remuneration etc. the entire amount of the lump-sum retirement allowance and then adding the "amount obtained by dividing the lump-sum retirement allowance by the number of years of service" shall be deemed as the amount of remuneration, etc. for the relevant person in making judgment as to whether the said person is a "person who receives a large amount of remuneration, etc."

(c) Scope of the "persons who have a material impact on business operation or the situation of assets of the Shinsei Bank Group"
The "persons who have a material impact on business operation or the situation of assets of the Shinsei Bank Group" refer to the persons who, in their normal duties, execute transactions and manage matters which have a significant degree of impact on the business operation of Shinsei Bank, Shinsei Bank Group, and its major consolidated subsidiaries, etc. or who have a material impact on the situation of assets through losses incurred in transactions, etc. More specifically, these include the Executive Officers and persons in similar positions at Shinsei Bank, and Directors, Executive Officers, etc. of its major consolidated subsidiaries.
In the fiscal year reported, there were two Applicable Employees who fell under (b). All of them were considered to be "persons who have a material impact on business operation or the situation of assets of the Group."

(2) Determination of remuneration, etc. for Applicable Officers and Employees

1) Determination of remuneration, etc. of Applicable Officers
At Shinsei Bank, the General Meeting of Shareholders determines the total maximum amount of remuneration paid to its officers (for Directors: up to 180 million yen a year (of this amount, 50 million yen is for outside directors); for Statutory Auditors: up to 60 million yen a year). The allocation to each individual of the remuneration of Directors approved at the General Meeting of Shareholders is left to the discretion of the Board of Directors. The allocation to each individual of the remuneration for Statutory Auditors is left to the consultations among Statutory Auditors.

2) Determination of remuneration, etc. of Applicable Employees, etc.
Remuneration, etc. paid to employees of the Shinsei Bank Group is determined and paid under the remuneration system designed based on the management policy and human resources policy of Shinsei Bank and its major consolidated subsidiaries, etc. Such remuneration system is designed and documented by the Human Resources Divisions, etc. of Shinsei Bank and its major consolidated subsidiaries, etc., which are independent from business promotion groups. Furthermore, policies regarding salaries, etc. of Shinsei Bank's major consolidated subsidiaries, etc. are reported to the Human Resources Division of the Bank on a periodical basis for the said Division to check their contents.

2. MATTERS CONCERNING THE EVALUATION OF THE APPROPRIATENESS OF THE DESIGN AND APPLICATION OF THE SYSTEM RELATED TO REMUNERATION, ETC. FOR APPLICABLE OFFICERS AND EMPLOYEES OF SHINSEI BANK (GROUP)

(1) Policy on remuneration, etc.

1) Policy on remuneration, etc. for "Applicable Officers"
Remuneration for Applicable Officers of Shinsei Bank is determined at the Board of Directors attended by four outside

DISCLOSURE ITEMS CONCERNING REMUNERATION, ETC. (CONTINUED)

Directors, Standing Statutory Auditors, and two outside Statutory Auditors, based on an appropriate evaluation of the responsibilities, and contributions to the Bank's performance, of each officer in his/her duties and sufficient discussions taking into account the Bank's business results, market standards, etc.

2) Policy on remuneration, etc. for "Applicable Employees, etc."
Remuneration for Applicable Employees of the Shinsei Bank Group is determined based on performance evaluation against individual targets which are broken down under the quantitative and qualitative business plan prepared with a medium- to long-term viewpoint. With its emphasis on both medium- and long-term quantitative targets and achievement against qualitative targets, our system enables evaluations that do not excessively rely on short-term results.

3. MATTERS CONCERNING CONSISTENCY BETWEEN THE SYSTEM FOR REMUNERATION, ETC. OF APPLICABLE OFFICERS AND EMPLOYEES OF SHINSEI BANK (GROUP) AND RISK MANAGEMENT AND THE LINKAGE BETWEEN REMUNERATION, ETC. AND BUSINESS RESULTS

When determining remuneration, etc. of Applicable Officers, the total amounts of remuneration payable to Directors and Statutory Auditors are each determined at the General Meeting of Shareholders, while the amount of remuneration, etc. payable to each Director and Statutory Auditor is determined at the Board of Directors or through consultations among Statutory Auditors, respectively. Furthermore, remuneration, etc. of Applicable Employees is determined taking into account the financial conditions, etc. of each member company of the Shinsei Bank Group.

While business results are taken into account in determining remuneration, etc. of Applicable Officers and Employees of the Shinsei Bank Group, the portion of performance-based remuneration, etc. paid to Applicable Officers and Employees is very small. Accordingly, we cannot say that our remuneration system is linked to performance. Also, our remuneration system will not have a negative impact on risk management.

4. MATTERS CONCERNING TYPES, TOTAL AMOUNT PAYABLE, AND PAYMENT METHOD OF REMUNERATION, ETC. FOR APPLICABLE OFFICERS AND EMPLOYEES OF SHINSEI BANK (GROUP)

Total amount of remuneration, etc. for Applicable Officers and Employees (from April 1, 2013 to March 31, 2014)
(For both consolidated/and non-consolidated bases)

Category	Number of people	Total amount of remuneration, etc. (in million yen)	Total amount of fixed remuneration	Basic remuneration	Stock option given as compensation	Other	Total amount of variable remuneration	Basic remuneration	Bonus	Other	Retirement allowance	Other
Applicable Officers (excl. outside officers)	3	120	119	119	0	0	1	0	1	0	0	0
Applicable Employees, etc.	2	179	179	83	(4)	100	1	0	1	0	0	0

Notes: (1) Because Applicable Employees, etc. only include employees of Shinsei Bank, the figures on consolidated and non-consolidated bases are the same.
(2) Applicable Officers include four people in total consisting of two fulltime Directors and one Standing Statutory Auditor.
(3) The total amount of remuneration paid to fulltime officers (fulltime Directors and Standing Statutory Auditors), excluding remuneration paid when they were employees, was 120 million yen (including bonuses paid to Executive Officers). The average number of the payees during the year was three and the average amount of remuneration paid to fulltime officers was 40 million yen.
(4) Two people who received remuneration at or over 40 million yen as shown in the certificate of income and withholding tax were identified as Applicable Employees, etc. The table shows the amount of remuneration paid to these two people during the fiscal year reported (April 2013 to March 2014).
(5) Specific comments on the breakdown of remuneration are as below.
1) Fixed remuneration
• Stock option given as compensation
This refers to the amount posted as expenses during the fiscal year reported with respect to stock options granted in previous years.
• Other
This refers to the amount posted as the reserve during the fiscal year reported with respect to deferred remuneration based on contracts concluded in previous years and bonuses which payment is guaranteed.
2) Variable remuneration
• Bonuses
This refers to the bonuses paid during the fiscal year reported.
3) Retirement allowance
This refers to the amount posted as retirement benefit expenses (service cost) for applicable persons and severance pay during the fiscal year reported.
(6) The exercise periods of stock options granted as compensation are as shown below.

	Exercise period	
Shinsei Bank, Ltd. 1st Warrant	From July 1, 2006 to June 23, 2014	From July 1, 2007 to June 23, 2014
Shinsei Bank, Ltd. 5th Warrant	From July 1, 2007 to June 23, 2015	From July 1, 2008 to June 23, 2015
Shinsei Bank, Ltd. 6th Warrant	From July 1, 2007 to June 23, 2015	From July 1, 2008 to June 23, 2015
Shinsei Bank, Ltd. 7th Warrant	From July 1, 2008 to June 23, 2015	From July 1, 2010 to June 23, 2015
Shinsei Bank, Ltd. 8th Warrant	From July 1, 2008 to June 23, 2015	From July 1, 2010 to June 23, 2015
Shinsei Bank, Ltd. 13th Warrant	From June 1, 2008 to June 23, 2015	From June 1, 2009 to June 23, 2015
Shinsei Bank, Ltd. 15th Warrant	From June 1, 2009 to June 23, 2015	From June 1, 2011 to June 23, 2015
Shinsei Bank, Ltd. 20th Warrant	From June 1, 2010 to May 13, 2018	From June 1, 2012 to May 13, 2018

5. OTHER MATTERS THAT SHOULD BE REFERRED TO CONCERNING THE SYSTEM OF REMUNERATION, ETC. FOR APPLICABLE OFFICERS AND EMPLOYEES OF SHINSEI BANK (GROUP)

There is no applicable matter.

CORPORATE INFORMATION

SHINSEI BANK GROUP

AS OF MARCH 31, 2014

As of March 31, 2014, the Shinsei Bank Group consisted of Shinsei Bank, Limited, 277 subsidiaries (comprising 184 consolidated companies including APLUS FINANCIAL Co., Ltd., Showa Leasing Co., Ltd., Shinsei Financial Co., Ltd. and Shinsei Principal Investments Ltd. and 93 unconsolidated subsidiaries) and 19 affiliated companies (19 affiliated companies accounted for using the equity method, such as Jih Sun Financial Holding Co., Ltd.). The Shinsei Bank Group provides a wide variety of financial products and services to domestic institutional and individual customers through the "Institutional Group," the "Global Markets Group," and the "Individual Group."

Shinsei Bank, Limited

- Institutional Group
  - Head Office and domestic branch offices
  - Major subsidiary: •Showa Leasing Co., Ltd. •Shinsei Trust & Banking Co., Ltd. •Shinsei Principal Investments Ltd.
- Global Markets Group
  - Head Office and domestic branch offices
  - Major subsidiaries: •Shinsei Securities Co., Ltd. •Shinsei Investment Management Co., Ltd.
- Individual Group
  - Head Office and domestic branches
  - Major subsidiaries: •Shinsei Financial Co., Ltd. •SHINKI Co., Ltd. •APLUS FINANCIAL Co., Ltd.

MAJOR SUBSIDIARIES AND AFFILIATES

Name	Location	Main business
Major Domestic Subsidiaries		
Showa Leasing Co., Ltd.	Tokyo, Japan	Leasing[1]
Shinsei Trust & Banking Co., Ltd.	Tokyo, Japan	Trust banking[1]
Shinsei Securities Co., Ltd.	Tokyo, Japan	Securities[2]
Shinsei Investment Management Co., Ltd.	Tokyo, Japan	Investment trust and discretionary investment advising[2]
Shinsei Principal Investments Ltd.	Tokyo, Japan	Financial instruments business[1]
Shinsei Corporate Investment Limited	Tokyo, Japan	Investment[1]
Shinsei Investment & Finance Limited	Tokyo, Japan	Finance[1]
Shinsei Servicing & Consulting Limited	Tokyo, Japan	Servicing business[1]
Shinsei Property Finance Co., Ltd.	Tokyo, Japan	Real estate collateral finance[3]
APLUS FINANCIAL Co., Ltd.	Osaka, Japan	Holding company[3]
APLUS Co., Ltd.	Osaka, Japan	Installment credit[3]
APLUS Personal Loan Co., Ltd.	Osaka, Japan	Finance[3]
Zen-Nichi Shinpan Co., Ltd.	Okayama, Japan	Installment credit[3]
Shinsei Financial Co., Ltd.	Tokyo, Japan	Finance[3]
SHINKI Co., Ltd.	Tokyo, Japan	Financing for individuals and small businesses[3]
Shinsei Information Technology Co., Ltd.	Tokyo, Japan	Information technology[4]
Major Overseas Subsidiaries		
Shinsei International Limited	London, UK	Securities[1]
Shinsei Finance (Cayman), Limited	Grand Cayman, Cayman Islands	Finance[4]
Shinsei Finance II (Cayman), Limited	Grand Cayman, Cayman Islands	Finance[4]
Shinsei Finance III (Cayman), Limited	Grand Cayman, Cayman Islands	Finance[4]
Shinsei Finance IV (Cayman), Limited	Grand Cayman, Cayman Islands	Finance[4]
Shinsei Finance V (Cayman), Limited	Grand Cayman, Cayman Islands	Finance[4]
Major Affiliates Accounted for Using the Equity Method		
Comox Holdings Ltd.	Hamilton, Bermuda	Holding company[2]
Jih Sun Financial Holding Co., Ltd.	Taipei, Taiwan	Finance[1]

1 Institutional Group 2 Global Markets Group 3 Individual Group 4 Corporate/Other

EMPLOYEES

	2012	2013	**2014**
Consolidated			
Number of Employees	4,830	4,863	**5,064**
Nonconsolidated			
Number of Employees	1,895	1,931	**2,030**
Male	1,044	1,063	**1,141**
Female	851	868	**889**
Average age	40 years 6 months	40 years 3 months	**40 years 3 months**
Average years of service	12 years 1 months	11 years 8 months	**11 years 5 months**
Average monthly salary	¥489 thousand	¥487 thousand	**¥482 thousand**

"Average monthly salary" includes overtime wages but excludes annual bonus.

AS OF MARCH 31, 2014

Capital (in millions)	Established	Acquired	Equity stake held by Shinsei Bank and consolidated subsidiaries (%)	Equity stake held by Shinsei Bank	Equity stake held by consolidated subsidiaries of Shinsei Bank
¥ 29,360	1969.4	2005.3	97.8%	97.8%	—%
5,000	1996.11	—	100.0	100.0	—
8,750	1997.8	—	100.0	100.0	—
495	2001.12	—	100.0	100.0	—
100	2006.4	2012.12	100.0	100.0	—
50	2012.11	—	100.0	—	100.0
100	1993.1	2000.9	100.0	—	100.0
500	2001.10	—	100.0	—	100.0
2,750	1959.5	2002.3	100.0	100.0	—
15,000	1956.10	2004.9	95.0	3.5	91.4
15,000	2009.4	—	100.0	—	100.0
1,000	2009.4	—	100.0	—	100.0
1,000	1957.4	2006.3	100.0	—	100.0
100	1991.6	2008.9	100.0	100.0	—
28,619	1954.12	2007.12	100.0	—	100.0
100	1983.8	—	100.0	100.0	—
£ 3	2004.9	—	100.0%	100.0%	—%
$ 58	2006.2	—	100.0	100.0	—
$ 39	2006.3	—	100.0	100.0	—
¥ 33,613	2009.3	—	100.0	100.0	—
9,107	2009.3	—	100.0	100.0	—
9,008	2009.9	—	100.0	100.0	—
$ 16	2007.6	2010.8	49.9%	49.9%	—%
NT$ 30,991	2002.2	2006.7	35.4	—	35.4

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NETWORK

AS OF JUNE 30, 2014

DOMESTIC OUTLETS:

AS OF JUNE 30, 2014

39 outlets (28 branches including head office, 11 annexes)

Hokkaido
- Sapporo Branch

Tohoku
- Sendai Branch

Kanto (Excluding Tokyo)
- Omiya Branch
- Ikebukuro Branch—Kawaguchi Annex
- Head Office—Chiba Annex
- Kashiwa Branch
- Tsudanuma Branch
- Yokohama Branch
- Yokohama Branch—Kawasaki Annex
- Fujisawa Branch
- Fujisawa Branch—Kamakura Annex

Tokyo
- Head Office
- Tokyo Branch
- Ginza Branch
- Ikebukuro Branch
- Ueno Branch
- Kichijoji Branch
- Shinjuku Branch
- Roppongi Hills Branch
- Futakotamagawa Branch
- Futakotamagawa Branch—Jiyugaoka Annex
- Hachioji Branch
- Machida Branch

Hokuriku
- Kanazawa Branch

Tokai
- Nagoya Branch

Kinki
- Kyoto Branch
- Osaka Branch
- Umeda Branch
- Umeda Branch—Hankyu Umeda Annex
- Umeda Branch—Senri Chuo Annex
- Umeda Branch—Takatsuki Annex
- Umeda Branch—Nishinomiya Kitaguchi Annex
- Namba Branch
- Namba Branch—Sakai Higashi Annex
- Kobe Branch
- Kobe Branch—Ashiya Annex

Chugoku
- Hiroshima Branch

Shikoku
- Takamatsu Branch

Kyushu
- Fukuoka Branch

DOMESTIC SUB-BRANCHES (ATM ONLY):

AS OF JUNE 30, 2014

Domestic Sub-Branches (ATM Only)	24 locations

SHINSEI BANK CARD LOAN—LAKE UNSTAFFED BRANCHES:

AS OF JUNE 30, 2014

Shinsei Bank Card Loan—Lake unstaffed branches	780 locations

PARTNER TRAIN STATION AND CONVENIENCE STORE ATMS:

AS OF JUNE 30, 2014

Seven Bank, Ltd. ATMs	18,235 locations
E-net ATMs	12,927 locations
Lawson ATM Networks ATMs	10,331 locations
VIEW ALTTE ATMs	276 locations

STOCK INFORMATION
AS OF MARCH 31, 2014

Shares Outstanding and Capital

1,000 shares, millions of yen

Date	Shares outstanding		Capital		Capital surplus		Notes
	Change	Balance	Change	Balance	Change	Balance	
July 29, 2003	(1,358,537)	2,033,065[1]	—	451,296	—	18,558	2-for-1 reverse share split for common shares Post reverse split common shares outstanding 1,358,537 thousand shares
July 31, 2006	(99,966)	1,933,098[1]	—	451,296	—	18,558	Use of call feature for Series 3 Class-B preferred shares Issuance of 200,033 thousand common shares Retirement of Series 3 Class-B preferred shares -300,000 thousand shares
November 16, 2006	(85,000)	1,848,098[1]	—	451,296	—	18,558	Cancellation of treasury shares (common) -85,000 thousand shares
August 1, 2007	(100,000)	1,748,098[1]	—	451,296	—	18,558	Mandatory acquisition of Series 3 Class-B preferred shares Issuance of 200,000 thousand common shares Retirement of Series 3 Class-B preferred shares -300,000 thousand shares
February 4, 2008	117,647	1,865,746[1]	25,000	476,296	25,000	43,558	Third party allocation of shares (common shares) Subscription price ¥425, par value ¥212.5
March 31, 2008	194,600	2,060,346	—	476,296	—	43,558	Use of call feature for Series 2 Class-A preferred shares Issuance of 269,128 thousand common shares Retirement of Series 2 Class-A preferred shares -74,528 thousand shares
March 15, 2011	690,000	2,750,346	35,907	512,204	35,907	79,465	New shares issued through International Offering (common shares) Subscription price ¥108, par value ¥52.04

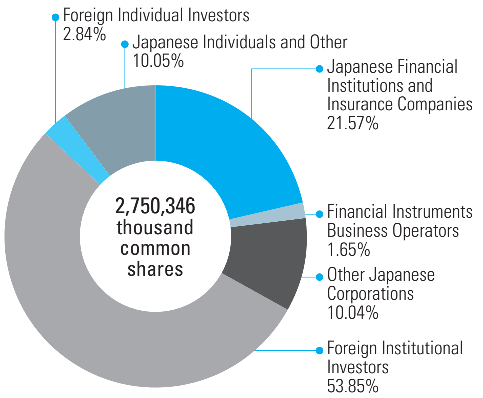
1 Figures include number of preferred shares outstanding

Largest Shareholders

Rank	Shareholders	Thousands of Common Shares	%
1	SATURN IV SUB LP (JPMCB 380111)	323,680	11.76
2	Deposit Insurance Corporation of Japan	269,128	9.78
3	THE RESOLUTION AND COLLECTION CORPORATION	200,000	7.27
4	SATURN JAPAN III SUB C.V. (JPMCB 380113)	110,449	4.01
5	THE MASTER TRUST BANK OF JAPAN, LTD.(TRUST ACCOUNT)	108,867	3.95
6	SHINSEI BANK, LIMITED	96,427	3.50
7	JAPAN TRUSTEE SERVICE BANK, LTD. (TRUST ACCOUNT)	95,116	3.45
8	THE CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	88,710	3.22
9	JP MORGAN CHASE BANK 380072	79,461	2.88
10	J.CHRISTOPHER FLOWERS	76,753	2.79
11	NORTHERN TRUST CO. (AVFC) RE 15PCT TREATY ACCOUNT	56,959	2.07
	Total (includes treasury shares)	2,750,346	100.00

Notes: 1 As of March 31, 2014, a group of investors, including affiliates of J.C. Flowers & Co. LLC., holds 553,663,517 common shares or 20.86% of Shinsei's outstanding common shares, excluding treasury shares.
2 As of March 31, 2014, in total, the Deposit Insurance Corporation and the Resolution and Collection Corporation hold 469,128,888 common shares or 17.67% of Shinsei's outstanding common shares, excluding treasury shares.

Largest Shareholders



Notes: 1 "Japanese Financial Institutions and Insurance Companies" includes the Resolution and Collection Corporation.
2 "Other Japanese Corporations" includes the Deposit Insurance Corporation.
3 "Japanese Individuals and Other" includes treasury shares.

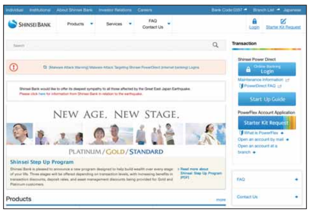
RATINGS INFORMATION
AS OF JULY 1, 2014

	Long-Term (Outlook)	Short-Term
Moody's	Baa3 (Stable)	Prime-3
Standard and Poor's (S&P)	BBB+ (Stable)	A-2
Japan Credit Rating Agency (JCR)	BBB+ (Stable)	J-2
Rating and Investment Information, Inc. (R&I)	BBB+ (Positive)	a-2

WEBSITE

Our English and Japanese websites provide a wide range of corporate data as well as information for individual and institutional customers and investors.

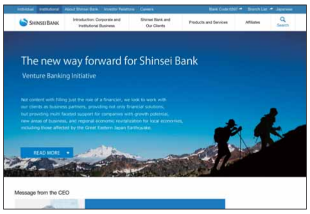
INDIVIDUAL



http://www.shinseibank.com/english/

The website for individual customers provides information on our comprehensive retail account, *PowerFlex*. Customers can log on to our Internet banking service, Shinsei *PowerDirect*, submit requests for information on *PowerFlex* and apply to open an account. Product offerings, campaigns, branch and ATM information, and detailed explanations on foreign currency deposits and investment trusts are covered here.

INSTITUTIONAL

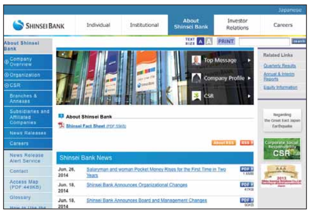


http://www.shinseibank.com/institutional/en/

This website provides information on our products and services for institutional customers, as well as the various solutions provided to customers based upon their business area, company lifecycle stage and company needs.

Additionally, information regarding the Bank's undertakings in its "Venture Banking Initiative," ("VBI") is available in the form of interviews with customers. Through the VBI the Bank is working proactively to contribute to the growth of its customers, the economy, society and regional areas. Information regarding branches, affiliates and market reports (Japanese language only) is also available.

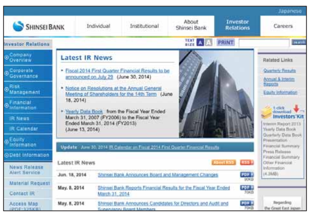
ABOUT SHINSEI BANK



http://www.shinseibank.com/investors/en/about/

This website provides information on our corporate and management profiles, history, subsidiaries as well as CSR initiatives. It also contains news releases.

INVESTOR RELATIONS



http://www.shinseibank.com/investors/en/ir/

The Investor Relations website contains a company and management overview, information on corporate governance, shareholders, financial information, IR news and an IR calendar. It also provides equity- and debt-related information.

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Website

For further information, please contact:

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