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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
<b>Statements of income data:</b>					
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)
<b>Balance sheet data:</b>					
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
<b>Per share data:</b>					
Common equity <sup>1</sup>	¥ 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	—	—	—	—
<b>Capital adequacy data:</b>					
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%
<b>Average balance data:</b>					
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
<b>Other data:</b>					
Return on assets	0.5%	0.6%	0.1%	0.4%	(1.2)%
Return on equity <sup>1</sup>	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 <sup>2</sup>	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%

<sup>1</sup> Stock acquisition rights and minority interests are excluded from equity.

<sup>2</sup> 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)

<b>Amortization of goodwill and intangible assets acquired in business combinations</b>	
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
<b>Reconciliation of net income to cash basis net income</b>	
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
<b>Reconciliation of basic net income per share to cash basis basic net income per share</b>	
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
<b>Reconciliation of return on assets to cash basis return on assets</b>	
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%
<b>Reconciliation of return on equity to cash basis return on equity</b>	
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%
<b>Reconciliation of return on equity to return on tangible equity</b>	
Return on equity	6.5%
Effect of goodwill and intangible assets acquired in business combinations	1.8%
Return on tangible equity <sup>1</sup>	8.3%

<sup>1</sup> 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)

Fiscal years ended March 31	2014			2013		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
<b>Interest-earning assets:</b>						
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 <sup>1</sup>	423.5	3.1	n.m. <sup>3</sup>	420.8	2.2	n.m. <sup>3</sup>
<b>Total revenue on interest-earning assets (A)</b>	<b>¥ 7,168.1</b>	<b>¥ 179.8</b>	<b>2.51%</b>	<b>¥ 7,249.9</b>	<b>¥ 183.4</b>	<b>2.53%</b>
<b>Interest-bearing liabilities:</b>						
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 <sup>1</sup>	743.5	1.0	n.m. <sup>3</sup>	490.8	0.9	n.m. <sup>3</sup>
<b>Total expense on interest-bearing liabilities (B)</b>	<b>¥ 7,465.5</b>	<b>¥ 32.7</b>	<b>0.44%</b>	<b>¥ 7,054.0</b>	<b>¥ 36.1</b>	<b>0.51%</b>
<b>Net interest margin (A) - (B)</b>	<b>—</b>	<b>—</b>	<b>2.07%</b>	<b>—</b>	<b>—</b>	<b>2.02%</b>
<b>Non interest-bearing sources of funds:</b>						
Non interest-bearing (assets) liabilities, net	¥ (937.5)	—	—	¥ (397.8)	—	—
Total equity excluding minority interest <sup>2</sup>	640.1	—	—	593.7	—	—
<b>Total non interest-bearing sources of funds (C)</b>	<b>¥ (297.3)</b>	<b>—</b>	<b>—</b>	<b>¥ 195.8</b>	<b>—</b>	<b>—</b>
<b>Total interest-bearing liabilities and non interest-bearing sources of funds (D) = (B)+(C)</b>	<b>¥ 7,168.1</b>	<b>¥ 32.7</b>	<b>0.46%</b>	<b>¥ 7,249.9</b>	<b>¥ 36.1</b>	<b>0.50%</b>
<b>Net revenue on interest-earning assets/ yield on interest-earning assets (A) - (D)</b>	<b>—</b>	<b>¥ 147.0</b>	<b>2.05%</b>	<b>—</b>	<b>¥ 147.2</b>	<b>2.03%</b>
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	—
<b>Net interest income</b>	<b>—</b>	<b>¥ 110.5</b>	<b>—</b>	<b>—</b>	<b>¥ 111.6</b>	<b>—</b>

<sup>1</sup> Other interest-earning assets and other interest-bearing liabilities include interest swaps and funding swaps.

<sup>2</sup> Represents a simple average of the balance as of the beginning and the end of the fiscal years presented.

<sup>3</sup> 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 TRADING INCOME**

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

**TABLE 2. NET TRADING INCOME (CONSOLIDATED)**

Fiscal years ended March 31	Billions of yen		
	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

**NET FEES AND COMMISSIONS**

Net fees and commissions consists mainly of fees from nonre-course 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.

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)**

Fiscal years ended March 31	Billions of yen		
	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)**

Fiscal years ended March 31	Billions of yen		
	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)**

Fiscal years ended March 31	Billions of yen		
	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)**

Fiscal years ended March 31	Billions of yen		
	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)**

Fiscal years ended March 31	Billions of yen		
	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)

Fiscal years ended March 31	Billions of yen					
	2014			2013		
	Reported-basis	Reclassifications	Operating-basis	Reported-basis	Reclassifications	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 <sup>1,3</sup>	135.0	(2.1)	132.8	130.9	(2.3)	128.6
Amortization of goodwill and intangible assets acquired in business combinations <sup>2,3</sup>	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 <sup>2</sup>	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 <sup>2</sup>	—	9.6	9.6	—	10.7	10.7
Other gains (losses), net <sup>1</sup>	(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.

**RESULTS OF OPERATIONS (CONSOLIDATED) (continued)****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)**

Fiscal years ended March 31	Billions of yen		
	2014	2013	% Change
<b>Institutional Group:</b>			
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
<b>Global Markets Group:</b>			
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)
<b>Individual Group:</b>			
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)
<b>Corporate/Other<sup>1</sup>:</b>			
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)
<b>Total:</b>			
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

<sup>1</sup> 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
<b>Institutional Business Sub-Group—Institutional Business<sup>1</sup>:</b>			
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)
<b>Institutional Business Sub-Group—Structured Finance<sup>1</sup>:</b>			
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
<b>Principal Transactions Sub-Group:</b>			
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
<b>Showa Leasing:</b>			
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
<b>Others:</b>			
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
<b>Institutional Group:</b>			
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

<sup>1</sup> 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 credit-worthiness 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)

Fiscal years ended March 31	Billions of yen		
	2014	2013	% Change
<b>Financial Institutions Sub-Group:</b>			
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)
<b>Markets Sub-Group:</b>			
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)
<b>Others:</b>			
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
<b>Global Markets Group:</b>			
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)

Fiscal years ended March 31	Billions of yen		
	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 <sup>1</sup>	40.9	37.6	8.7
SHINKI	6.1	6.3	(2.7)
APLUS FINANCIAL	48.1	47.8	0.7
Others <sup>2</sup>	1.7	1.6	6.8
<b>Total revenue</b>	<b>¥ 129.3</b>	<b>¥ 126.4</b>	<b>2.3</b>

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)

Fiscal years ended March 31	Billions of yen		
	2014	2013	% Change
<b>Retail Banking:</b>			
Net interest income	¥ 25.3	¥ 26.0	(2.4)
Noninterest income	7.0	7.0	(1.0)
<b>Total revenue</b>	<b>32.4</b>	<b>33.1</b>	<b>(2.1)</b>
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)
<b>Ordinary business profit after net credit costs (recoveries)</b>	<b>¥ 0.6</b>	<b>¥ 2.8</b>	<b>(76.4)</b>
<b>Shinsei Financial and Shinsei Bank Lake<sup>1</sup>:</b>			
Net interest income	¥ 44.2	¥ 40.9	8.1
Noninterest income	(3.3)	(3.2)	(0.6)
<b>Total revenue</b>	<b>40.9</b>	<b>37.6</b>	<b>8.7</b>
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
<b>Ordinary business profit after net credit costs (recoveries)</b>	<b>¥ 12.4</b>	<b>¥ 12.4</b>	<b>(0.4)</b>
<b>SHINKI:</b>			
Net interest income	¥ 6.7	¥ 6.9	(2.6)
Noninterest income	(0.5)	(0.5)	1.2
<b>Total revenue</b>	<b>6.1</b>	<b>6.3</b>	<b>(2.7)</b>
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
<b>Ordinary business profit after net credit costs (recoveries)</b>	<b>¥ 1.7</b>	<b>¥ 2.2</b>	<b>(22.9)</b>
<b>APLUS FINANCIAL:</b>			
Net interest income	¥ 7.5	¥ 9.2	(18.7)
Noninterest income	40.6	38.5	5.3
<b>Total revenue</b>	<b>48.1</b>	<b>47.8</b>	<b>0.7</b>
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
<b>Ordinary business profit after net credit costs</b>	<b>¥ 6.5</b>	<b>¥ 8.1</b>	<b>(18.8)</b>
<b>Others<sup>2</sup>:</b>			
Net interest income	¥ 1.4	¥ 1.4	4.7
Noninterest income	0.2	0.1	21.7
<b>Total revenue</b>	<b>1.7</b>	<b>1.6</b>	<b>6.8</b>
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)
<b>Ordinary business profit after net credit costs (recoveries)</b>	<b>¥ 1.1</b>	<b>¥ 1.1</b>	<b>(0.6)</b>
<b>Total Individual Group:</b>			
Net interest income	¥ 85.3	¥ 84.4	1.0
Noninterest income	44.0	42.0	4.8
<b>Total revenue</b>	<b>129.3</b>	<b>126.4</b>	<b>2.3</b>
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
<b>Ordinary business profit after net credit costs</b>	<b>¥ 22.6</b>	<b>¥ 26.9</b>	<b>(15.9)</b>

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)

Fiscal years ended March 31	Billions of yen		
	2014	2013	% Change
<b>Treasury Sub-Group:</b>			
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)
<b>Others<sup>1</sup>:</b>			
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
<b>Corporate/Other<sup>1</sup>:</b>			
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)

<sup>1</sup> 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)**

Fiscal years ended March 31	Billions of yen (except percentages)			
	2014		2013	
	Target	Actual	Target	Actual
Net income	¥ 26.0	¥ 36.4	¥ 22.0	¥ 24.6
Total expenses (without taxes) <sup>1</sup>	70.0	65.6	66.3	64.1
Return on equity based on net business profit <sup>2</sup>	5.3%	4.3%	4.7%	3.9%

<sup>1</sup> Equals Shinsei's total general and administrative expenses excluding business taxes such as consumption tax.

<sup>2</sup> 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)

Fiscal years ended March 31	Billions of yen	
	2014	2013
Gross business profit ( <i>gyomu sorieki</i> ):		
Net interest income	¥ 80.9	¥ 62.0
Net fees and commissions <sup>1</sup>	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 <sup>2</sup>	69.0	67.3
Net business profit ( <i>jishshitsu gyomu jun-eki</i> )	29.8	25.9
Net credit costs	(7.2)	(1.2)
Other, net <sup>3</sup>	0.5	(1.5)
Net operating income ( <i>keijo rieki</i> )	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

<sup>1</sup> 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.

<sup>2</sup> General and administrative expenses with certain adjustment.

<sup>3</sup> 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)

As of March 31	Billions of yen (except percentages)			
	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)

As of March 31	Billions of yen	
	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)

As of March 31	Billions of yen	
	2014	2013
Fixed-interest loans:		
One year or less <sup>1</sup>	¥ —	¥ —
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 <sup>1</sup>	¥ —	¥ —
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

<sup>1</sup> 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 <sup>2,3</sup>		Risk-monitored Loans <sup>2</sup>
			Total loans and bills discounted:	Other	Total loans and bills discounted:
			4,235.7	92.5	4,235.7
Legally bankrupt	9E	100.0% for unsecured portion	<b>Claims against bankrupt and quasi-bankrupt obligors</b> 13.2 (Amount of coverage, coverage ratio) (13.2*, 100.0%) *Amount of reserve for loan losses is —, collateral and guarantees is 13.2	7.2	
Virtually bankrupt	9D	100.0% for unsecured portion			
Possibly bankrupt	9C	95.7% for unsecured portion	<b>Doubtful claims</b> 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	138.6	
Need caution	9B	67.6% for unsecured portion			
	Other need caution	9A	6.6% for total claims	4.8	
Normal	0A–6C	0.3% for total claims	<b>Substandard claims (loan account only)</b> 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		<b>Loans past due for three months or more</b> <b>Restructured loans</b>
				<b>Normal claims</b> 4,163.5	
<b>Total nonperforming claims and ratio to total claims</b> 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			<b>Total risk-monitored loans and ratio to total loans and bills discounted</b> 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 ( <i>hatan-saki</i> )	Obligors who have already gone bankrupt, from a legal and/or formal perspective.
Virtually bankrupt ( <i>jisshitsu hatan-saki</i> )	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 ( <i>hatan kenen-saki</i> )	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 ( <i>youchui-saki</i> )	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" ( <i>youkanri-saki</i> ), 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" ( <i>sono ta youchui-saki</i> ).
Normal ( <i>seijou-saki</i> )	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 ( <i>hasan kosei saiken oyobi korera ni junzuru saiken</i> )	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 ( <i>kiken saiken</i> )	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 ( <i>youkanri saiken</i> )	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 ( <i>seijou saiken</i> )	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 ( <i>hatan-saki saiken</i> )	Loans to legally bankrupt obligors.
Non accrual delinquent loans ( <i>entai-saki saiken</i> )	Loans to virtually bankrupt and possibly bankrupt obligors.
Loans past due for three months or more ( <i>san-ka-getsu ijou entai saiken</i> )	Loans on which principal and/or interest are past due three months or more.
Restructured loans ( <i>kashidashi jouken kanwa saiken</i> )	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)**

As of March 31	Billions of yen (except percentages)	
	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 <sup>1</sup>	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%

<sup>1</sup> 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)				
	Amounts of coverage				Coverage ratio
	Amount of claims	Reserve for loan losses	Collateral and guarantees	Total	
<b>As of March 31, 2014:</b>					
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%
<b>As of March 31, 2013:</b>					
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.

## 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)

As of March 31	Billions of yen (except percentages)	
	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 <sup>1</sup>	¥ 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%

<sup>1</sup> 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)

As of March 31	Percentages	
	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)

As of March 31	Billions of yen (except percentages)	
	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 <sup>1</sup>	¥ 12.5	¥ 5.9

<sup>1</sup> 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
<b>As of March 31, 2014:</b>						
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
<b>As of March 31, 2013:</b>						
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)<sup>1</sup>

	Billions of yen				
	Shinsei Financial	APLUS FINANCIAL	Showa Leasing	Other subsidiaries	Total
<b>As of March 31, 2014:</b>					
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
<b>As of March 31, 2013:</b>					
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

<sup>1</sup> Neither Shinsei nor SHINKI had any such installment receivables.

## FUNDING AND LIQUIDITY

We continue 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 <sup>1</sup>	39.9	253.8
Institutional deposits	758.7	762.5
Institutional debentures	1.8	8.4
Total	¥ 5,892.1	¥ 5,719.8

<sup>1</sup> 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 <sup>1</sup>	¥ 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

<sup>1</sup> 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)**

Payments due by period as of March 31, 2014	Billions of yen		
	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

Payments due by period as of March 31, 2013	Billions of yen		
	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



## FINANCIAL CONDITION (continued)

## 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

Year tax loss carry-forwards generated/renewed	Billions of yen	
	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<sup>1</sup>) (CONSOLIDATED)**

As of March 31	Billions of yen (except percentages)	
	2014	Amounts excluded under transitional arrangements
<b>Core capital: instruments and reserves</b>		
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	
<b>Core capital: instruments and reserves</b>	<b>¥ 889.5</b>	
<b>Core capital: regulatory adjustments</b>		
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)	—	—
<b>Core capital: regulatory adjustments</b>	<b>¥ 71.9</b>	
<b>Capital (consolidated)</b>	<b>¥ 817.6</b>	
<b>Risk-weighted assets</b>		
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	—	
<b>Total amount of Risk-weighted assets</b>	<b>¥ 6,016.7</b>	
<b>Capital ratio (consolidated)</b>	<b>13.6%</b>	

<sup>1</sup> Calculated according to F-IRB.

## FINANCIAL CONDITION (continued)

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

As of March 31	Billions of yen (except percentages)	
	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 <sup>1</sup>	—	—
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 <sup>2</sup>	125.5	228.2
Operational Risk <sup>2</sup>	344.4	368.5
<b>Total (E)</b>	<b>¥ 5,442.1</b>	<b>¥ 5,847.7</b>
Consolidated capital adequacy ratio (D) / (E)	13.8%	12.2%
Consolidated Tier I capital ratio (A) / (E)	12.2%	10.4%

<sup>1</sup> 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.

<sup>2</sup> 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
<b>ASSETS</b>			
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)
<b>Total assets</b>	<b>¥ 9,321,103</b>	<b>¥ 9,029,335</b>	<b>\$ 90,654,574</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities:</b>			
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
<b>Total liabilities</b>	<b>8,598,512</b>	<b>8,345,690</b>	<b>83,626,849</b>
<b>Equity:</b>			
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
<b>Total equity</b>	<b>722,590</b>	<b>683,644</b>	<b>7,027,725</b>
<b>Total liabilities and equity</b>	<b>¥ 9,321,103</b>	<b>¥ 9,029,335</b>	<b>\$ 90,654,574</b>

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
<b>Total interest income</b>	<b>143,270</b>	<b>147,834</b>	<b>1,393,411</b>
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
<b>Total interest expenses</b>	<b>32,752</b>	<b>36,149</b>	<b>318,540</b>
<b>Net interest income</b>	<b>110,518</b>	<b>111,685</b>	<b>1,074,871</b>
Fees and commissions income	43,603	40,309	424,074
Fees and commissions expenses	21,165	21,134	205,854
<b>Net fees and commissions</b>	<b>22,437</b>	<b>19,175</b>	<b>218,220</b>
<b>Net trading income (loss) (Note 27)</b>	<b>13,975</b>	<b>20,029</b>	<b>135,919</b>
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
<b>Net other business income (loss)</b>	<b>56,105</b>	<b>48,118</b>	<b>545,668</b>
<b>Total revenue</b>	<b>203,036</b>	<b>199,009</b>	<b>1,974,678</b>
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
<b>General and administrative expenses</b>	<b>135,067</b>	<b>130,987</b>	<b>1,313,632</b>
<b>Amortization of goodwill and intangible assets acquired in business combinations</b>	<b>9,746</b>	<b>10,811</b>	<b>94,796</b>
<b>Total general and administrative expenses</b>	<b>144,814</b>	<b>141,798</b>	<b>1,408,428</b>
<b>Net business profit (loss)</b>	<b>58,221</b>	<b>57,210</b>	<b>566,250</b>
Net credit costs (Note 29)	279	5,522	2,715
Other gains (losses), net (Note 30)	(11,922)	2,187	(115,953)
<b>Income (loss) before income taxes and minority interests</b>	<b>46,020</b>	<b>53,875</b>	<b>447,582</b>
Income taxes (benefit) (Note 31):			
Current	2,464	595	23,971
Deferred	(795)	(1,334)	(7,739)
<b>Net income (loss) before minority interests</b>	<b>44,351</b>	<b>54,614</b>	<b>431,350</b>
Minority interests in net income of subsidiaries	2,976	3,534	28,949
<b>Net income (loss)</b>	<b>¥ 41,374</b>	<b>¥ 51,079</b>	<b>\$ 402,401</b>
	Yen		U.S. dollars (Note 1)
<b>Basic net income (loss) per common share (Note 32)</b>	<b>¥ 15.59</b>	<b>¥ 19.24</b>	<b>\$ 0.15</b>
<b>Diluted net income (loss) per common share (Note 32)</b>	<b>¥ 15.59</b>	<b>¥ —</b>	<b>\$ 0.15</b>

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

# 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
<b>Net income (loss) before minority interests</b>	<b>¥ 44,351</b>	¥ 54,614	<b>\$ 431,350</b>
<b>Other comprehensive income (Note 33):</b>			
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)
<b>Total other comprehensive income</b>	<b>4,830</b>	8,098	<b>46,980</b>
<b>Comprehensive income</b>	<b>¥ 49,181</b>	¥ 62,713	<b>\$ 478,330</b>
<b>Total comprehensive income attributable to:</b>			
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.

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# 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
<b>Common stock:</b>			
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
<b>Capital surplus:</b>			
Balance at beginning of the year	79,461	79,461	772,825
Balance at end of the year	79,461	79,461	772,825
<b>Stock acquisition rights:</b>			
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
<b>Retained earnings:</b>			
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
<b>Treasury stock, at cost:</b>			
Balance at beginning of the year	(72,558)	(72,558)	(705,687)
Balance at end of the year	(72,558)	(72,558)	(705,687)
<b>Accumulated other comprehensive income:</b>			
<b>Unrealized gain (loss) on available-for-sale securities:</b>			
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
<b>Deferred gain (loss) on derivatives under hedge accounting:</b>			
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)
<b>Foreign currency translation adjustments:</b>			
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
<b>Defined retirement benefit plans:</b>			
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)
<b>Minority interests:</b>			
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
<b>Total equity:</b>			
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
<b>Cash flows from operating activities:</b>			
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
<b>Cash flows from investing activities:</b>			
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
<b>Cash flows from financing activities:</b>			
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)
<b>Foreign currency translation adjustments on cash and cash equivalents</b>	<b>108</b>	<b>68</b>	<b>1,059</b>
<b>Net change in cash and cash equivalents</b>	<b>792,239</b>	<b>241,672</b>	<b>7,705,116</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>574,470</b>	<b>332,798</b>	<b>5,587,149</b>
<b>Cash and cash equivalents at end of year (Note 3)</b>	<b>¥ 1,366,710</b>	<b>¥ 574,470</b>	<b>\$ 13,292,265</b>

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).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

CONSOLIDATED

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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

CONSOLIDATED

**(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.



## 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 "non-controlling 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
<b>Total</b>	<b>¥ 105,857</b>	<b>¥ 112,318</b>	<b>\$ 1,029,543</b>

(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
<b>Total</b>	<b>¥ 249,115</b>	<b>¥ 287,907</b>	<b>\$ 2,422,835</b>

**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
<b>Total</b>	<b>¥ 199,117</b>	<b>¥ 233,847</b>	<b>\$ 1,936,566</b>

(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
<b>Total</b>	<b>¥ 1,557,020</b>	<b>¥ 1,842,344</b>	<b>\$ 15,143,168</b>

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
<b>Total</b>	<b>¥ 545,675</b>	<b>¥ 5,872</b>	<b>¥ —</b>	<b>¥ 551,548</b>	<b>¥ 639,809</b>	<b>¥ 9,365</b>	<b>¥ 0</b>	<b>¥ 649,174</b>
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
<b>Total</b>	<b>¥ 892,289</b>	<b>¥ 12,186</b>	<b>¥ 1,909</b>	<b>¥ 902,565</b>	<b>¥ 1,087,909</b>	<b>¥ 13,173</b>	<b>¥ 4,288</b>	<b>¥ 1,096,795</b>

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
<b>Total</b>	<b>\$ 5,307,097</b>	<b>\$ 57,118</b>	<b>\$ —</b>	<b>\$ 5,364,215</b>
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
<b>Total</b>	<b>\$ 8,678,170</b>	<b>\$ 118,522</b>	<b>\$ 18,576</b>	<b>\$ 8,778,116</b>

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
<b>Total</b>	¥ 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
<b>Total</b>	\$ 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
<b>Total</b>	<b>¥ 4,319,830</b>	<b>¥ 4,292,464</b>	<b>\$ 42,013,526</b>

## (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 cancellable 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
<b>Total</b>	<b>¥ 25,656</b>	<b>¥ 33,857</b>	<b>\$ 249,533</b>
Foreign exchange liabilities:			
Foreign bills sold	¥ —	¥ 146	\$ —
Foreign bills payable	34	25	339
Due to foreign banks	2	2	23
<b>Total</b>	<b>¥ 37</b>	<b>¥ 174</b>	<b>\$ 362</b>

**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
<b>Total</b>	<b>¥ 724,963</b>	<b>¥ 766,313</b>	<b>\$ 7,050,804</b>

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)
<b>Net book value</b>	<b>¥ 50,143</b>	<b>¥ 52,716</b>	<b>\$ 487,681</b>

**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
<b>Total</b>	<b>¥ 57,643</b>	<b>¥ 68,429</b>	<b>\$ 560,625</b>

**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
<b>Total</b>	<b>¥ 137,358</b>	<b>¥ 161,810</b>	<b>\$ 1,335,915</b>

**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
<b>Total</b>	<b>¥ 5,850,447</b>	<b>¥ 5,457,535</b>	<b>\$ 56,899,894</b>

## 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		Thousands of U.S. dollars
					2014	2013	2014
Shinsei Bank, Limited	Five-year coupon debentures <sup>1</sup>	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 <sup>2</sup>	Sept. 2004 to Aug. 2005	Sept. 2014 to Aug. 2020	0.00 to 3.00 <sup>3</sup>	1,800	1,900	17,507
	<b>Total</b>				<b>¥ 41,747</b>	<b>¥ 262,342</b>	<b>\$ 406,021</b>

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
<b>Total</b>	<b>¥ 41,747</b>	<b>\$ 406,021</b>

## 16. TRADING LIABILITIES

CONSOLIDATED

Trading liabilities as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	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
<b>Total</b>	<b>¥ 218,585</b>	<b>¥ 240,099</b>	<b>\$ 2,125,902</b>

## 17. BORROWED MONEY

CONSOLIDATED

(a) Borrowed money as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Subordinated debt	¥ 69,400	¥ 92,000	\$ 674,966
Other	574,031	627,292	5,582,881
<b>Total</b>	<b>¥ 643,431</b>	<b>¥ 719,292</b>	<b>\$ 6,257,847</b>

(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
<b>Total</b>	<b>¥ 643,431</b>	<b>\$ 6,257,847</b>

## 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		Thousands of U.S. dollars
					2014	2013	2014
Shinsei Bank, Limited	Unsecured straight bonds, payable in Euroyen <sup>1</sup>	Aug. 2006 to Aug. 2009	Sep. 2014 to Sept. 2037	0.00 to 10.00 <sup>5</sup>	¥ 4,551	¥ 4,951	\$ 44,262
	Unsecured subordinated bonds, payable in Yen <sup>2</sup>	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 <sup>3</sup>	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 <sup>4</sup>	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	—
<b>Total</b>					<b>¥ 177,248</b>	<b>¥174,286</b>	<b>\$ 1,723,869</b>

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
<b>Total</b>	<b>¥ 177,248</b>	<b>\$ 1,723,869</b>

**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
<b>Total</b>	<b>¥ 497,804</b>	<b>¥ 630,759</b>	<b>\$ 4,841,516</b>

**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)
<b>Total</b>	¥ (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
<b>Total</b>	<b>100.0%</b>

**20. EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN ASSETS (CONTINUED)**

CONSOLIDATED

(iii) 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	<b>1.00-1.75%</b>
Long-term expected rate of return on plan assets	<b>2.00-3.50%</b>

(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



**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	<b>¥ 358,414</b>	¥ 511,032	<b>\$ 3,485,849</b>

**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	<b>¥ 2,433</b>	¥ 2,727	<b>\$ 23,668</b>
Other monetary claims purchased	—	3,318	—
Trading assets	<b>8,814</b>	15,484	<b>85,728</b>
Monetary assets held in trust	<b>1,767</b>	4,171	<b>17,190</b>
Securities	<b>808,841</b>	892,437	<b>7,866,575</b>
Loans and bills discounted	<b>97,593</b>	134,590	<b>949,172</b>
Lease receivables and leased investment assets	<b>71,676</b>	84,140	<b>697,108</b>
Other assets	<b>48,212</b>	46,965	<b>468,899</b>
Premises and equipment	<b>2,285</b>	2,558	<b>22,225</b>
Liabilities collateralized:			
Deposits, including negotiable certificates of deposit	<b>¥ 692</b>	¥ 418	<b>\$ 6,737</b>
Call money	<b>180,000</b>	170,000	<b>1,750,632</b>
Payables under securities lending transactions	<b>306,843</b>	43,945	<b>2,984,277</b>
Borrowed money	<b>353,030</b>	446,563	<b>3,433,482</b>
Corporate bonds	<b>12,727</b>	15,659	<b>123,780</b>
Other liabilities	<b>58</b>	2,483	<b>567</b>
Acceptances and guarantees	<b>961</b>	914	<b>9,354</b>

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	<b>¥ 95,335</b>	¥ 86,953	<b>\$ 927,209</b>
Corporate bonds	<b>12,727</b>	15,659	<b>123,780</b>
Assets corresponding to nonrecourse debts:			
Cash and due from banks	<b>¥ 2,208</b>	¥ 2,561	<b>\$ 21,484</b>
Other monetary claims purchased	—	3,318	—
Securities	<b>121,026</b>	119,296	<b>1,177,068</b>
Loans and bills discounted	<b>44,955</b>	73,789	<b>437,220</b>
Other assets	<b>14,374</b>	4,666	<b>139,806</b>

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 <sup>1</sup>	Floating dividend start date	Type	Redemption date at the issuer's option	Millions of yen		Thousands of U.S. dollars
							2014	2013	2014
Shinsei Finance (Cayman) Limited	Feb. 2006	U.S.\$775	6.418%	Jul. 2016	step-up	Jul. 2016 <sup>2</sup>	¥ 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 <sup>3</sup>	1,767	1,616	17,187
Shinsei Finance III (Cayman) Limited	Mar. 2009	¥19,000	5.5%	Jul. 2014	non step-up	Jul. 2014 <sup>2</sup>	15,600	15,600	151,721
	Mar. 2009	¥20,100	5.0%	Jul. 2019	step-up	Jul. 2014 <sup>2</sup>	18,000	18,000	175,063
Shinsei Finance IV (Cayman) Limited	Mar. 2009	¥2,500	5.0%	Jul. 2019	step-up	Jul. 2014 <sup>2</sup>	2,500	2,500	24,314
	Mar. 2009	¥6,600	5.5%	Jul. 2014	non step-up	Jul. 2014 <sup>2</sup>	6,600	6,600	64,190
Shinsei Finance V (Cayman) Limited	Oct. 2009	¥4,000	5.5%	Jul. 2015	non step-up	Jul. 2015 <sup>2</sup>	4,000	4,000	38,903
	Oct. 2009	¥5,000	floating	—	non step-up	Jul. 2015 <sup>2</sup>	5,000	5,000	48,629
<b>Total</b>							<b>¥ 56,577</b>	<b>¥ 56,160</b>	<b>\$ 550,257</b>

<sup>1</sup> 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.

<sup>2</sup> 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").

<sup>3</sup> 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	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
<b>Fiscal year ended March 31, 2014:</b>		
Beginning of year	<b>2,750,346</b>	<b>96,427</b>
Increase	—	—
Decrease	—	—
End of year	<b>2,750,346</b>	<b>96,427</b>

**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)	—	—	—	—
<b>Fiscal year ended March 31, 2014</b>				
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	<b>4,798,000</b>	<b>250,000</b>	<b>2,108,000</b>	<b>1,496,000</b>
Vested during the year	—	—	—	—
Exercised during the year	—	—	—	—
Forfeited during the year	<b>133,000</b>	—	<b>72,000</b>	—
Exercisable at the end of the year	<b>4,665,000</b>	<b>250,000</b>	<b>2,036,000</b>	<b>1,496,000</b>
Exercise price (Yen)	<b>684</b>	<b>551</b>	<b>601</b>	<b>601</b>
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)	—	—	—	—
<b>Fiscal year ended March 31, 2014</b>				
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	<b>451,000</b>	<b>170,000</b>	<b>108,000</b>	<b>36,000</b>
Vested during the year	—	—	—	—
Exercised during the year	—	—	—	—
Forfeited during the year	<b>17,000</b>	—	—	—
Exercisable at the end of the year	<b>434,000</b>	<b>170,000</b>	<b>108,000</b>	<b>36,000</b>
Exercise price (Yen)	<b>601</b>	<b>601</b>	<b>697</b>	<b>697</b>
Weighted average stock price at the date of exercise (Yen)	—	—	—	—

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## 26. STOCK ACQUISITION RIGHTS (CONTINUED)

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	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)	—	—	—	—
<b>Fiscal year ended March 31, 2014</b>				
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	<b>2,053,000</b>	<b>1,717,000</b>	<b>449,000</b>	<b>19,000</b>
Vested during the year	—	—	—	—
Exercised during the year	—	—	—	—
Forfeited during the year	<b>78,000</b>	—	<b>19,000</b>	—
Exercisable at the end of the year	<b>1,975,000</b>	<b>1,717,000</b>	<b>430,000</b>	<b>19,000</b>
Exercise price (Yen)	<b>825</b>	<b>825</b>	<b>825</b>	<b>825</b>
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)	—	—	—	—
<b>Fiscal year ended March 31, 2014</b>				
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	<b>1,224,000</b>	<b>805,000</b>	<b>140,000</b>	<b>1,174,000</b>
Vested during the year	—	—	—	—
Exercised during the year	—	—	—	—
Forfeited during the year	—	—	—	<b>3,000</b>
Exercisable at the end of the year	<b>1,224,000</b>	<b>805,000</b>	<b>140,000</b>	<b>1,171,000</b>
Exercise price (Yen)	<b>555</b>	<b>555</b>	<b>527</b>	<b>416</b>
Weighted average stock price at the date of exercise (Yen)	—	—	—	—

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**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)	—	—	—
<b>Fiscal year ended March 31, 2014</b>			
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	<b>42,000</b>	<b>188,000</b>	<b>54,000</b>
Vested during the year	—	—	—
Exercised during the year	—	—	—
Forfeited during the year	—	—	—
Exercisable at the end of the year	<b>42,000</b>	<b>188,000</b>	<b>54,000</b>
Exercise price (Yen)	<b>416</b>	<b>407</b>	<b>221</b>
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)
<b>Total</b>	<b>¥ 13,975</b>	<b>¥ 20,029</b>	<b>\$ 135,919</b>



**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
<b>Total</b>	<b>¥ 5,972</b>	<b>¥ (985)</b>	<b>\$ 58,090</b>

**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)
<b>Total</b>	<b>¥ 279</b>	<b>¥ 5,522</b>	<b>\$ 2,715</b>

**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
<b>Total</b>	<b>¥ (11,922)</b>	<b>¥ 2,187</b>	<b>\$ (115,953)</b>

**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	<b>38.0%</b>	38.0%
Increase (decrease) in taxes resulting from:		
Permanently tax-exempt income	<b>(2.8)</b>	(0.3)
Amortization and impairment of goodwill	<b>5.3</b>	5.0
Equity in net income/loss of affiliates	<b>(2.2)</b>	0.9
Other nondeductible expenses	<b>0.6</b>	0.7
Foreign tax	<b>0.1</b>	0.1
Change in valuation allowance	<b>(57.3)</b>	(51.5)
Effect of tax rate reduction	<b>2.4</b>	—
Expiration of tax loss carryforwards	<b>24.2</b>	8.8
Other	<b>(4.7)</b>	(3.1)
Actual effective tax rate	<b>3.6%</b>	(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:

Fiscal year ended March 31	Amount		Date of expiry
	Millions of yen	Thousands of U.S. dollars	
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
<b>Total</b>	¥ 181,960	\$ 1,769,698	

**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
	<b>Total</b>	¥ 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
	<b>Total</b>	¥ 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
	<b>Total</b>	¥ 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 common 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)
<b>For the fiscal year ended March 31, 2014:</b>				
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
<b>Unrealized gain (loss) on available-for-sale securities:</b>			
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)
<b>Total</b>	<b>2,803</b>	<b>4,266</b>	<b>27,270</b>
<b>Deferred gain (loss) on derivatives under hedge accounting:</b>			
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
<b>Total</b>	<b>2,835</b>	<b>148</b>	<b>27,582</b>
<b>Foreign currency translation adjustments:</b>			
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)
<b>Total</b>	<b>(655)</b>	<b>2,889</b>	<b>(6,379)</b>
<b>Share of other comprehensive income in affiliates:</b>			
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	—	—	—
<b>Total</b>	<b>(153)</b>	<b>794</b>	<b>(1,493)</b>
<b>Total other comprehensive income</b>	<b>¥ 4,830</b>	<b>¥ 8,098</b>	<b>\$ 46,980</b>

**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
<b>Total</b>	<b>¥ 227,764</b>	<b>¥ 203,590</b>	<b>\$ 2,215,176</b>

## 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
<b>Total</b>	<b>¥ 66,340</b>	<b>\$ 645,211</b>	<b>¥ 180,008</b>	<b>\$ 1,750,719</b>

## (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
<b>Total</b>	<b>¥ 20,316</b>	<b>¥ 21,695</b>	<b>\$ 197,589</b>

## 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
<b>Total</b>	<b>¥ 24,137</b>	<b>¥ 23,597</b>	<b>\$ 234,759</b>

## 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

Fiscal year ended March 31, 2014	Millions of yen						
	Institutional Group				Global Markets Group		
	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 <sup>1</sup>	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 <sup>2</sup>	¥ 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	¥ —

Fiscal year ended March 31, 2014	Millions of yen						
	Individual Group				Corporate/Other		
	Retail Banking Sub-Group	Consumer Finance Sub-Group			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 <sup>1</sup>	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 <sup>2</sup>	¥ 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

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## 35. SEGMENT INFORMATION (CONTINUED)

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Fiscal year ended March 31, 2013	Millions of yen						
	Institutional Group				Global Markets Group		
	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 <sup>1</sup>	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 <sup>2</sup>	¥ 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

Fiscal year ended March 31, 2013	Millions of yen						
	Retail Banking Sub-Group	Consumer Finance Sub-Group			Corporate/Other		
		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 <sup>1</sup>	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 <sup>2</sup>	¥ 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

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		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 <sup>1</sup>		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 <sup>2</sup>		\$ 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		
Fiscal year ended March 31, 2014		Retail Banking Sub-Group	Consumer Finance Sub-Group			Treasury Sub-Group	Other	Total
			Shinsei Financial	APLUS FINANCIAL	Other			
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 <sup>1</sup>		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 <sup>2</sup>		\$ 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 leased 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.

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## 35. SEGMENT INFORMATION (CONTINUED)

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## (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:

Fiscal Year ended March 31	Millions of yen		Thousands of U.S. dollars
	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:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	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:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	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)

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## (B) RELATED INFORMATION

## (a) INFORMATION BY SERVICES

Income regarding major services for the fiscal years ended March 31, 2014 and 2013 was as follows:

Fiscal Year ended March 31	Millions of yen		Thousands of U.S. dollars
	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

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Related party transactions for the fiscal years ended March 31, 2014 and 2013 were as follows:

Related party	Description of the transaction	Amount of the transaction			Account name	Balance at the end of fiscal year		
		Millions of yen		Thousands of U.S. dollars		Millions of yen		Thousands of U.S. dollars
		2014	2013	2014		2014	2013	2014
<b>Companies in which a majority of the voting rights is owned by directors (including their subsidiaries)</b>								
J.C. Flowers II L.P. <sup>1</sup>	Receipt of management fee <sup>2</sup>	¥ —	¥ 89	\$ —	—	¥ —	¥ —	\$ —
	Investment <sup>3</sup>	22	161	218	—	—	—	—
	Dividend	163	878	1,594	—	—	—	—
J.C. Flowers III L.P. <sup>1</sup>	Investment <sup>4</sup>	394	426	3,833	—	—	—	—
	Dividend	414	362	4,028	—	—	—	—

<sup>1</sup> The fund is operated by J.C. Flowers & Co. LLC, of which J. Christopher Flowers, a director of the Bank, serves as chairman.

<sup>2</sup> 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.

<sup>3</sup> The committed investment amounts are U.S.\$200 million based on the limited partnership agreement.

<sup>4</sup> The committed investment amounts are U.S.\$34,975 thousand based on the limited partnership agreement.

## 37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

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**(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."



## 37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED)

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## (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.

## 37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED)

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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 <sup>(1)</sup>	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 <sup>(1)</sup>	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 <sup>(2)</sup>	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 <sup>(1)</sup>	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
<b>Total</b>	<b>¥ 8,213,618</b>	<b>¥ 8,312,351</b>	<b>¥ 98,732</b>	<b>¥ 7,627,249</b>	<b>¥ 7,725,806</b>	<b>¥ 98,557</b>
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
<b>Total</b>	<b>¥ 7,311,664</b>	<b>¥ 7,323,488</b>	<b>¥ (11,824)</b>	<b>¥ 6,929,344</b>	<b>¥ 6,940,172</b>	<b>¥ (10,829)</b>
Derivative instruments <sup>(3)</sup> :						
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)	—
<b>Total</b>	<b>¥ (25,943)</b>	<b>¥ (25,943)</b>	<b>¥ —</b>	<b>¥ (34,255)</b>	<b>¥ (34,255)</b>	<b>¥ —</b>
Other:						
	Contract amount	Fair value		Contract amount	Fair value	
Guarantee contracts <sup>(4)</sup>	¥ 358,414	¥ (3,171)		¥ 511,032	¥ (4,460)	

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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 <sup>(1)</sup>	516,845	524,248	7,403
(6) Trading assets			
Securities held for trading purposes	139,690	139,690	—
(7) Monetary assets held in trust <sup>1</sup>	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 <sup>2</sup>	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 <sup>1</sup>	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
<b>Total</b>	<b>\$ 79,883,475</b>	<b>\$ 80,843,717</b>	<b>\$ 960,242</b>
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)
<b>Total</b>	<b>\$ 71,111,306</b>	<b>\$ 71,226,306</b>	<b>\$ (115,000)</b>
Derivative instruments <sup>3</sup> :			
Hedge accounting is not applied	\$ (173,773)	\$ (173,773)	\$ —
Hedge accounting is applied	(78,551)	(78,551)	—
<b>Total</b>	<b>\$ (252,324)</b>	<b>\$ (252,324)</b>	<b>\$ —</b>

	Contract amount	Fair value
Other:		
Guarantee contracts <sup>4</sup>	\$ 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)

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(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

## 37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED)

CONSOLIDATED

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		Thousands of U.S. dollars
	2014	2013	2014
Equity securities without readily available market price <sup>1,2</sup>	¥ 11,501	¥ 12,819	\$ 111,856
Investment in partnerships and others <sup>1,2</sup>	63,292	57,681	615,563
<b>Total</b>	<b>¥ 74,793</b>	<b>¥ 70,501</b>	<b>\$ 727,419</b>

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
<b>Total</b>	<b>¥ 2,964,007</b>	<b>¥ 1,398,354</b>	<b>¥ 1,534,463</b>	<b>¥ 1,896,843</b>

## 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
<b>Total</b>	<b>\$ 28,827,151</b>	<b>\$ 13,600,023</b>	<b>\$ 14,923,787</b>	<b>\$ 18,448,201</b>

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
<b>Total</b>	<b>¥ 5,630,869</b>	<b>¥ 618,014</b>	<b>¥ 868,802</b>	<b>¥ 179,721</b>

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
<b>Total</b>	<b>\$ 54,764,341</b>	<b>\$ 6,010,645</b>	<b>\$ 8,449,747</b>	<b>\$ 1,747,927</b>

Note: The cash flow of demand deposits is included in "1 year or less."



## 38. DERIVATIVE FINANCIAL INSTRUMENTS

CONSOLIDATED

## (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)
<b>Total</b>			¥ 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)
<b>Total</b>			\$ 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)
<b>Total</b>			¥ (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)
<b>Total</b>			\$ (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
<b>Total</b>			¥ 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)
<b>Total</b>			\$ 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)
<b>Total</b>			¥ (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	—	—	—	—
<b>Total</b>			\$ (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)
<b>Total</b>			¥ (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	—	—	—	—
<b>Total</b>			\$ (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)
<b>Total</b>			<b>¥ (7,317)</b>			<b>¥ (9,793)</b>
	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)			
<b>Total</b>			<b>\$ (71,173)</b>			

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	<b>¥ 2,653</b>	<b>\$ 25,811</b>

**(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



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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.



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
<b>ASSETS</b>			
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)
<b>Total assets</b>	<b>¥ 8,486,745</b>	<b>¥ 8,307,655</b>	<b>\$ 82,539,835</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities:</b>			
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
<b>Total liabilities</b>	<b>7,787,262</b>	<b>7,641,761</b>	<b>75,736,842</b>
<b>Equity:</b>			
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)
<b>Total equity</b>	<b>699,483</b>	<b>665,893</b>	<b>6,802,993</b>
<b>Total liabilities and equity</b>	<b>¥ 8,486,745</b>	<b>¥ 8,307,655</b>	<b>\$ 82,539,835</b>

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.

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# 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
<b>Total interest income</b>	<b>112,486</b>	<b>96,029</b>	<b>1,094,010</b>
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
<b>Total interest expenses</b>	<b>32,969</b>	<b>35,895</b>	<b>320,656</b>
<b>Net interest income</b>	<b>79,516</b>	<b>60,133</b>	<b>773,354</b>
Fees and commissions income	20,194	17,004	196,402
Fees and commissions expenses	16,121	11,865	156,796
<b>Net fees and commissions</b>	<b>4,072</b>	<b>5,139</b>	<b>39,606</b>
<b>Net trading income</b>	<b>5,394</b>	<b>14,579</b>	<b>52,462</b>
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
<b>Net other business income (loss)</b>	<b>11,588</b>	<b>12,421</b>	<b>112,703</b>
<b>Total revenue</b>	<b>100,570</b>	<b>92,273</b>	<b>978,125</b>
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
<b>Total general and administrative expenses</b>	<b>71,381</b>	<b>69,701</b>	<b>694,234</b>
<b>Net business profit</b>	<b>29,189</b>	<b>22,571</b>	<b>283,891</b>
Net credit costs (recoveries)	(7,270)	(1,256)	(70,707)
Other gains (losses), net	(614)	(421)	(5,974)
<b>Income (loss) before income taxes</b>	<b>35,845</b>	<b>23,406</b>	<b>348,624</b>
Income taxes (benefit):			
Current	(348)	(789)	(3,391)
Deferred	(260)	(460)	(2,529)
<b>Net income (loss)</b>	<b>¥ 36,454</b>	<b>¥ 24,656</b>	<b>\$ 354,544</b>
		Yen	U.S. dollars (Note)
<b>Basic net income (loss) per common share</b>	<b>¥ 13.73</b>	<b>¥ 9.29</b>	<b>\$ 0.13</b>
<b>Diluted net income (loss) per common share</b>	<b>¥ 13.73</b>	<b>¥ —</b>	<b>\$ 0.13</b>

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
<b>Common stock:</b>			
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
<b>Capital surplus:</b>			
Balance at beginning of the year	79,465	79,465	772,865
Balance at end of the year	79,465	79,465	772,865
<b>Stock acquisition rights:</b>			
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
<b>Retained earnings:</b>			
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
<b>Unrealized gain (loss) on available-for-sale securities:</b>			
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
<b>Deferred gain (loss) on derivatives under hedge accounting:</b>			
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)
<b>Treasury stock, at cost:</b>			
Balance at beginning of the year	(72,558)	(72,558)	(705,687)
Balance at end of the year	(72,558)	(72,558)	(705,687)
<b>Total equity</b>			
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 obligation or 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 SUBSIDIARIES 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

Type of Exposures	Corporate Exposures (Shinsei Bank, and Showa Leasing (large amount exposures))	
	(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)	(e) Specialized Lending
Structure of Internal Rating System	<p>A obligor rating system benchmarked against external ratings (R&amp;I) which reflects credit status of obligor is in place.</p> <p>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.</p> <p>Obligor ratings for Sovereign/Bank exposures are assigned based on specific rules.</p>	<p>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.</p> <p>Ratings are assessed according to facility type as follows.</p> <ul style="list-style-type: none"> <li>• Real estate nonrecourse loans are decided by adding qualitative adjustments to quantitative index based on the LTV.</li> <li>• 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.</li> </ul>
Usage of Various Estimated Value (Use Test)	Obligor rating and facility rating are used in the standards of credit approval authority procedures, pricing, portfolio management, and allocating Risk Capital.	
Management of Internal Rating System, and Rating Assignment Procedures	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.	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.
Validation Procedures	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.	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.
Estimation of Parameters	<p><b>Definition of Default</b> Obligor categorization under self assessment falls to sub-standard (9B) or lower, etc.</p> <p><b>PD</b> Long-term averages are calculated based on internal data, and margin for estimation error is added to derive estimates.</p> <p><b>LGD/EAD</b> Parameters are not estimated as a bank using Fundamental Internal Ratings-Based Approach.</p>	Internal ratings are allocated to slotting criteria, and parameters are not estimated.

## 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	<p>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.</p> <p>Pool classification is established by purchased portfolios, where each exposure is assigned to Normal, Delinquent or Default pool.</p>	<p>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).</p> <p>Each exposure is assigned to an appropriate pool as part of the credit approval process.</p> <p>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:</p> <ul style="list-style-type: none"> <li>• Installment sales credit receivables ... Obligor risk grade, and type of asset financed</li> <li>• Unsecured personal loans/credit cards ... situation of card utilization, exposure amount, credit limit, borrowing status, and repayment status</li> <li>• Small-lot lease receivables ... Obligor Rating (mainly determined by external evidence), and type of asset leased</li> </ul>
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	<p>Key methodologies of validation are as follows:</p> <ul style="list-style-type: none"> <li>• PD: Validation of accordance between PD estimates and historical PD, and comparison with historical PD of other housing loan portfolios</li> <li>• 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</li> </ul>	<p>Key methodologies of validation are as follows:</p> <ul style="list-style-type: none"> <li>• PD: Validation of accordance between PD estimates and historical PD, and validation of PD and rating goodness of fit</li> <li>• LGD: Validation if gap between LGD estimates and historical LGD remain within a certain confidence level</li> <li>• Pool classification: Validation on default predictive power</li> </ul>
Estimation of Parameters	<p><b>Definition of Default</b> Any of the following:</p> <ol style="list-style-type: none"> <li>past due three months or more,</li> <li>relaxation of terms and conditions,</li> <li>legal bankruptcy,</li> <li>payment in subrogation by guarantors, etc.</li> </ol> <p><b>PD/LGD/EAD</b> 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.</p>	<p><b>Definition of Default</b> Any of the following:</p> <ol style="list-style-type: none"> <li>past due three months or more,</li> <li>relaxation of terms and conditions,</li> <li>legal bankruptcy, etc.</li> </ol> <p><b>PD/LGD/EAD</b> 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.</p>

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## 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+	
3B	A	
3C	A-	High capability to meet its financial commitments on the obligations and some good factors.
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
<b>Core capital: instruments and reserves (1)</b>		
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	
<b>Core capital: instruments and reserves (A)</b>	¥ 889,571	
<b>Core capital: regulatory adjustments (2)</b>		
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 that rely on future profitability excluding those 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)	—	—
<b>Core capital: regulatory adjustments (B)</b>	¥ 71,953	
<b>Capital (consolidated)</b>		
Capital (consolidated)((A)-(B))(C)	¥ 817,618	
<b>Risk-weighted assets (3)</b>		
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	—	
<b>Total amount of Risk-weighted assets (D)</b>	¥ 6,016,771	
<b>Capital ratio (consolidated)</b>		
Capital ratio (consolidated)((C)/(D))	13.58%	

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**COMPOSITION OF CAPITAL DISCLOSURE (CONSOLIDATED) (continued)**

Shinsei Bank and subsidiaries		Millions of yen (except percentages)
As of March 31 Items		2013 Basel II (Domestic Standard)
<b>Basic items (Tier I)</b>		
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 (-)		—
<b>Total Tier I (A)</b>	¥	608,832
of which: step-up preferred securities		24,073
<b>Supplementary items (Tier II)</b>		
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
<b>Total Tier II (B)</b>	¥	178,770
<b>Deduction</b>		
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 (-)		—
<b>Total amount of Deduction (C)</b>	¥	71,795
<b>Capital (consolidated)</b>		
Capital (consolidated)((A)+(B)-(C))(D)	¥	715,807
<b>Risk-weighted assets</b>		
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		—
<b>Total amount of Risk-weighted assets (E)</b>	¥	5,847,783
<b>Capital ratio (consolidated)</b>		
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	2014	2014	Amounts excluded
Items	Basel III	(Domestic Standard)	under transitional
			arrangements
<b>Core capital: instruments and reserves (1)</b>			
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)	—		
	¥ 924,396		
<b>Core capital: instruments and reserves (A)</b>			
<b>Core capital: regulatory adjustments (2)</b>			
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)	—	—	
	¥ 34,387		
<b>Core capital: regulatory adjustments (B)</b>			
<b>Capital (nonconsolidated)</b>			
Capital (nonconsolidated)((A)-(B))(C)	¥ 890,009		
<b>Risk-weighted assets (3)</b>			
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	—		
	¥ 5,801,833		
<b>Total amount of Risk-weighted assets (D)</b>			
<b>Capital ratio (nonconsolidated)</b>			
Capital ratio (nonconsolidated)((C)/(D))	15.34%		

**COMPOSITION OF CAPITAL DISCLOSURE (NONCONSOLIDATED) (continued)**

Shinsei Bank	Millions of yen (except percentages)
As of March 31 Items	2013 Basel II (Domestic Standard)
<b>Basic items (Tier I)</b>	
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 (-)	—————
<b>Total Tier I (A)</b>	<b>¥ 690,494</b>
of which: step-up preferred securities	24,073
of which: preferred securities issued by foreign SPC	57,547
<b>Supplementary items (Tier II)</b>	
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
<b>Total Tier II (B)</b>	<b>¥ 172,240</b>
<b>Deduction</b>	
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
<b>Total amount of Deduction (C)</b>	<b>¥ 39,014</b>
<b>Capital (nonconsolidated)</b>	
Capital (nonconsolidated)((A)+(B)-(C))(D)	¥ 823,720
<b>Risk-weighted assets</b>	
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	—
<b>Total amount of Risk-weighted assets (E)</b>	<b>¥ 5,754,668</b>
<b>Capital ratio (nonconsolidated)</b>	
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	<b>Required capital amount</b>	Required capital amount
Shinsei Bank	¥ 43,397	¥ 39,224
Subsidiaries <sup>1</sup>	5,980	25,865

<sup>1</sup> Shinsei Financial Co., Ltd. and SHINKI Co., Ltd. had shifted to the F-IRB approach since March 31, 2014. The total amount of required 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	<b>Required capital amount</b>	Required capital amount
Corporate (Excluding Specialized Lending) <sup>1</sup>	¥ 170,472	¥ 183,548
Specialized Lending <sup>2</sup>	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 <sup>3</sup>	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	—	
<b>Total</b>	<b>¥ 675,805</b>	<b>¥ 684,748</b>

<sup>1</sup> "Corporate" includes "Small and Medium-sized Entities."

<sup>2</sup> "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.

<sup>3</sup> "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	<b>Required capital amount</b>	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	
<b>Total</b>	<b>¥ 29,755</b>	<b>¥ 11,212</b>

#### (3) AMOUNT OF REQUIRED CAPITAL FOR REGARDED-METHOD EXPOSURE UNDER IRB

	Millions of yen	
	2014	2013
As of March 31	<b>Required capital amount</b>	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
<b>Total</b>	<b>¥ 27,707</b>	<b>¥ 27,544</b>

**QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)****(4) AMOUNT OF REQUIRED CAPITAL FOR MARKET RISK**

	Millions of yen	
	2014	2013
As of March 31	<b>Required capital amount</b>	Required capital amount
The Standardized Approach	<b>¥ 659</b>	¥ 1,491
Interest rate risk	<b>482</b>	810
Equity position risk	<b>0</b>	210
FX risk	<b>79</b>	243
Securitization risk	<b>96</b>	227
The Internal Models Approach (IMA) (General Market Risk)	<b>9,385</b>	16,771

**(5) AMOUNT OF REQUIRED CAPITAL FOR OPERATIONAL RISK**

	Millions of yen	
	2014	2013
As of March 31	<b>Required capital amount</b>	Required capital amount
The Standardized Approach	<b>¥ 27,558</b>	¥ 29,487

**(6) TOTAL REQUIRED CAPITAL (DOMESTIC STANDARD)**

	Millions of yen	
	2014	2013
As of March 31		
Total Required Capital (Risk Assets x 4%)	<b>¥ 240,670</b>	¥ 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. <sup>1</sup>	Securities <sup>2</sup>	Derivatives <sup>3</sup>	Total	Loans, etc. <sup>1</sup>	Securities <sup>2</sup>	Derivatives <sup>3</sup>
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	—	—
<b>Domestic Total</b>	<b>7,993,341</b>	<b>6,669,220</b>	<b>1,269,010</b>	<b>55,110</b>	<b>7,384,584</b>	<b>5,770,410</b>	<b>1,546,438</b>	<b>67,736</b>
Foreign	669,638	388,151	100,191	181,295	711,180	407,714	120,130	183,335
<b>Total</b>	<b>¥ 8,662,980</b>	<b>¥ 7,057,372</b>	<b>¥ 1,369,202</b>	<b>¥ 236,405</b>	<b>¥ 8,095,765</b>	<b>¥ 6,178,125</b>	<b>¥ 1,666,568</b>	<b>¥ 251,071</b>
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	—
<b>Total</b>	<b>¥ 8,662,980</b>	<b>¥ 7,057,372</b>	<b>¥ 1,369,202</b>	<b>¥ 236,405</b>	<b>¥ 8,095,765</b>	<b>¥ 6,178,125</b>	<b>¥ 1,666,568</b>	<b>¥ 251,071</b>

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	
	2014	2013
	Default Exposure	Default Exposure
As of March 31		
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
<b>Domestic Total</b>	<b>326,220</b>	<b>453,708</b>
Foreign	41,249	37,594
<b>Total</b>	<b>¥ 367,470</b>	<b>¥ 491,303</b>

**(3) AMOUNT OF LOAN LOSS RESERVES (GENERAL, SPECIFIC AND COUNTRY RISK) BEFORE PARTIAL WRITE-OFF**

	Millions of yen					
	2014			2013		
	Start Amount	Change Amount	End Amount	Start Amount	Change Amount	End Amount
As of March 31						
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
<b>Total</b>	<b>¥ 311,454</b>	<b>¥ (24,166)</b>	<b>¥ 287,288</b>	<b>¥ 346,625</b>	<b>¥ (35,171)</b>	<b>¥ 311,454</b>

Geographic

	Millions of yen							
	2014				2013			
	Reserve Amount				Reserve Amount			
As of March 31	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
<b>Total</b>	<b>¥ 287,288</b>	<b>¥ 59,809</b>	<b>¥ 227,478</b>	<b>¥ 0</b>	<b>¥ 311,454</b>	<b>¥ 67,707</b>	<b>¥ 243,746</b>	<b>¥ 0</b>

**QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)**

Industries	Millions of yen	
	2014	2013
	Reserve Amount	Reserve Amount
As of March 31		
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
<b>Total</b>	<b>¥ 287,288</b>	<b>¥ 311,454</b>

**(4) AMOUNT OF WRITE-OFFS**

Industries	Millions of yen	
	FY2013	FY2012
	Amount of write-off	Amount of write-off
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
<b>Total</b>	<b>¥ 34,958</b>	<b>¥ 53,367</b>

**(5) AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)**

As of March 31	Millions of yen			
	2014		2013	
	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%	—	—	—	—
<b>Total</b>	<b>¥ 59,354</b>	<b>¥ 1,319,718</b>	<b>¥ 81,109</b>	<b>¥ 1,462,797</b>

**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

As of March 31	Millions of yen	
	2014	2013
Risk weight ratio	<b>Amount of Exposure</b>	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
<b>Total</b>	<b>¥ 489,212</b>	<b>¥ 486,723</b>

Specialized lending for high-volatility commercial real estate

As of March 31	Millions of yen	
	2014	2013
Risk weight ratio	<b>Amount of Exposure</b>	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
<b>Total</b>	<b>¥ 78,657</b>	<b>¥ 135,437</b>

Equity exposure under Market-Based Simplified Method

As of March 31	Millions of yen	
	2014	2013
Risk weight ratio	<b>Amount of Exposure</b>	Amount of Exposure
300%	¥ 2,019	¥ 492
400%	4,301	3,836
<b>Total</b>	<b>¥ 6,320</b>	<b>¥ 4,329</b>

**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					
	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					
	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					
	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 &amp; 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		2013	
	Eligible financial collateral	Other eligible FIRB collateral	Eligible financial collateral	Other eligible FIRB collateral
Corporate	¥ 935	¥ 182,677	¥ 1,386	¥ 177,230
Sovereign	—	—	—	—
Bank	53,216	—	78,507	—
<b>Total</b>	<b>¥ 54,141</b>	<b>¥ 182,677</b>	<b>¥ 79,894</b>	<b>¥ 177,230</b>

**(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	2014		2013	
	Protection-buy	Protection-sell	Protection-buy	Protection-sell
Notional amount	—	—	—	—
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	<b>Amount of original assets</b>	Amount of original assets
Residential mortgages	¥ 155,191	¥ 205,596
Consumer loans	—	—
Commercial real estate loans	—	—
Corporate loans	26,318	33,998
Others	—	—
<b>Total</b>	<b>¥ 181,510</b>	<b>¥ 239,594</b>

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	<b>Amount of Default</b>	Amount of Default
Residential mortgages	¥ 4,571	¥ 4,783
Consumer loans	—	—
Commercial real estate loans	—	—
Corporate loans	26,318	26,898
Others	—	—
<b>Total</b>	<b>¥ 30,889</b>	<b>¥ 31,681</b>

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	<b>Amount of Exposure</b>	Amount of Exposure
Residential mortgages	¥ 62,271	¥ 78,071
Consumer loans	—	—
Commercial real estate loans	—	—
Corporate loans	19,518	25,015
Others	—	—
<b>Total</b>	<b>¥ 81,790</b>	<b>¥ 103,086</b>

**QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)**

Resecuritization As of March 31	Millions of yen	
	2014	2013
Type of original assets	<b>Amount of Exposure</b>	Amount of Exposure
Residential mortgages	¥ 845	¥ 875
Consumer loans	—	—
Commercial real estate loans	—	—
Corporate loans	—	—
Others	—	—
<b>Total</b>	<b>¥ 845</b>	<b>¥ 875</b>

## (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	<b>Amount</b>	<b>Required capital amount</b>	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%	—	—	—	—
<b>Total</b>	<b>¥ 81,790</b>	<b>¥ 1,867</b>	<b>¥ 103,086</b>	<b>¥ 2,575</b>

## Resecuritization exposure

As of March 31	Millions of yen			
	2014		2013	
Band of risk weight ratio	<b>Amount</b>	<b>Required capital amount</b>	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%	—	—	—	—
<b>Total</b>	<b>¥ 845</b>	<b>¥ 36</b>	<b>¥ 875</b>	<b>¥ 37</b>

## (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	<b>Amount</b>	Amount
Residential mortgages	¥ 9,414	¥ 9,555
Consumer loans	—	—
Commercial real estate loans	—	—
Corporate loans	—	—
Others	—	—
<b>Total</b>	<b>¥ 9,414</b>	<b>¥ 9,555</b>

**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	<b>Amount</b>	Amount
Residential mortgages	¥ 5,717	¥ 4,953
Consumer loans	—	—
Commercial real estate loans	—	—
Corporate loans	—	—
Others	—	—
<b>Total</b>	<b>¥ 5,717</b>	<b>¥ 4,953</b>

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

As of March 31	Millions of yen	
	2014	2013
Type of original assets	<b>Amount of Exposure</b>	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
<b>Total</b>	<b>¥ 103,235</b>	<b>¥ 144,385</b>

As of March 31	Millions of yen	
	2014	2013
Type of original assets	<b>Amount of Exposure</b>	Amount of Exposure
Residential mortgages	¥ —	¥ —
Consumer loans	—	—
Commercial real estate loans	—	—
Corporate loans	16,588	20,519
Others	—	—
<b>Total</b>	<b>¥ 16,588</b>	<b>¥ 20,519</b>

**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		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
<b>Total</b>	<b>¥ 103,235</b>	<b>¥ 14,127</b>	<b>¥ 144,385</b>	<b>¥ 18,278</b>

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%	¥ 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%	—	—	—	—
<b>Total</b>	<b>¥ 16,588</b>	<b>¥ 311</b>	<b>¥ 20,519</b>	<b>¥ 414</b>

(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	—	—
<b>Total</b>	<b>¥ 96</b>	<b>¥ 607</b>

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

As of March 31	Millions of yen	
	2014	2013
Type of original assets	<b>Amount of exposure</b>	Amount of exposure
Residential mortgages	¥ 1,575	¥ 12,914
Consumer loans	—	—
Commercial real estate loans	—	—
Corporate loans	—	—
Others	—	—
<b>Total</b>	<b>¥ 1,575</b>	<b>¥ 12,914</b>

Resecuritization exposure

As of March 31	Millions of yen	
	2014	2013
Type of original assets	<b>Amount of exposure</b>	Amount of exposure
Residential mortgages	¥ 2,232	¥ 662
Consumer loans	—	—
Commercial real estate loans	—	—
Corporate loans	—	—
Others	—	—
<b>Total</b>	<b>¥ 2,232</b>	<b>¥ 662</b>

(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		2013	
Band of risk weight ratio	<b>Amount</b>	<b>Required capital amount</b>	Amount	Required capital amount
1.6%	¥ 1,575	¥ 25	¥ 12,914	¥ 206
4%	—	—	—	—
8%	—	—	—	—
28%	—	—	—	—
<b>Total</b>	<b>¥ 1,575</b>	<b>¥ 25</b>	<b>¥ 12,914</b>	<b>¥ 206</b>

Resecuritization exposure

As of March 31	Millions of yen			
	2014		2013	
Band of risk weight ratio	<b>Amount</b>	<b>Required capital amount</b>	Amount	Required capital amount
3.2%	¥ 2,232	¥ 71	¥ 662	¥ 21
8%	—	—	—	—
18%	—	—	—	—
52%	—	—	—	—
<b>Total</b>	<b>¥ 2,232</b>	<b>¥ 71</b>	<b>¥ 662</b>	<b>¥ 21</b>

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**

As of March 31	Millions of yen	
	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**

As of March 31	Millions of yen	
	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**

As of March 31	Millions of yen	
	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**

	Millions of yen	
As of March 31	2014	2013
Unrealized gain (loss)	<b>¥ 6,415</b>	¥ 5,831

**(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)	<b>¥ 4,744</b>	¥ 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**

	Millions of yen	
As of March 31	2014	2013
Regarded exposure (fund)	<b>¥ 63,890</b>	¥ 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:

	Billions of yen	
As of March 31	2014	2013
JPY	<b>¥ (57.8)</b>	¥ (73.3)
USD	<b>(2.2)</b>	(0.7)
Others	<b>(2.7)</b>	(2.9)
<b>Total</b>	<b>¥ (62.8)</b>	¥ (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	<b>Required capital amount</b>	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	<b>Required capital amount</b>	Required capital amount
Corporate (Excluding Specialized Lending) <sup>1</sup>	¥ 158,756	¥ 170,826
Specialized Lending <sup>2</sup>	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 <sup>3</sup>	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	—	—
<b>Total</b>	<b>¥ 538,205</b>	<b>¥ 598,998</b>

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	<b>Required capital amount</b>	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	—
<b>Total</b>	<b>¥ 149,074</b>	<b>¥ 133,633</b>

#### (3) AMOUNT OF REQUIRED CAPITAL FOR REGARDED-METHOD EXPOSURE UNDER IRB

	Millions of yen	
	2014	2013
As of March 31	<b>Required capital amount</b>	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
<b>Total</b>	<b>¥ 19,568</b>	<b>¥ 20,764</b>

**QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)**
**(4) AMOUNT OF REQUIRED CAPITAL FOR MARKET RISK**

	Millions of yen	
	2014	2013
	Required capital amount	Required capital amount
As of March 31		
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**

	Millions of yen	
	2014	2013
	Required capital amount	Required capital amount
As of March 31		
The Standardized Approach	¥ 13,894	¥ 13,797

**(6) TOTAL REQUIRED CAPITAL (DOMESTIC STANDARD)**

	Millions of yen	
	2014	2013
	Required capital amount	Required capital amount
As of March 31		
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. <sup>1</sup>	Securities <sup>2</sup>	Derivatives <sup>3</sup>	Total	Loans, etc. <sup>1</sup>	Securities <sup>2</sup>	Derivatives <sup>3</sup>
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	—	—	—	—	—	—	—	—
<b>Domestic Total</b>	<b>6,497,525</b>	<b>5,160,554</b>	<b>1,284,314</b>	<b>52,656</b>	<b>5,904,623</b>	<b>4,281,488</b>	<b>1,564,150</b>	<b>58,984</b>
Foreign	654,039	352,604	119,849	181,585	691,890	370,939	137,324	183,627
<b>Total</b>	<b>¥ 7,151,565</b>	<b>¥ 5,513,159</b>	<b>¥ 1,404,163</b>	<b>¥ 234,242</b>	<b>¥ 6,596,514</b>	<b>¥ 4,652,427</b>	<b>¥ 1,701,474</b>	<b>¥ 242,612</b>
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	—
<b>Total</b>	<b>¥ 7,151,565</b>	<b>¥ 5,513,159</b>	<b>¥ 1,404,163</b>	<b>¥ 234,242</b>	<b>¥ 6,596,514</b>	<b>¥ 4,652,427</b>	<b>¥ 1,701,474</b>	<b>¥ 242,612</b>

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

	Millions of yen	
	2014	2013
	Default Exposure	Default Exposure
As of March 31		
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	—	—
<b>Domestic Total</b>	<b>211,114</b>	<b>295,101</b>
Foreign	41,249	37,594
<b>Total</b>	<b>¥ 252,364</b>	<b>¥ 332,695</b>

**(3) AMOUNT OF LOAN LOSS RESERVES (GENERAL, SPECIFIC AND COUNTRY RISK) BEFORE PARTIAL WRITE-OFF**

	Millions of yen					
	2014			2013		
	Start Amount	Change Amount	End Amount	Start Amount	Change Amount	End Amount
As of March 31						
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
<b>Total</b>	<b>¥ 164,711</b>	<b>¥ (17,698)</b>	<b>¥ 147,013</b>	<b>¥ 196,183</b>	<b>¥ (31,472)</b>	<b>¥ 164,711</b>

Geographic

	Millions of yen							
	2014				2013			
	Total	General	Specific	Country	Total	General	Specific	Country
As of March 31								
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
<b>Total</b>	<b>¥ 147,013</b>	<b>¥ 19,937</b>	<b>¥ 127,075</b>	<b>¥ 0</b>	<b>¥ 164,711</b>	<b>¥ 28,522</b>	<b>¥ 136,187</b>	<b>¥ 0</b>

## QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

Industries	Millions of yen	
	2014	2013
	Reserve Amount	Reserve Amount
As of March 31		
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	—	—
<b>Total</b>	<b>¥ 147,013</b>	<b>¥ 164,711</b>

## (4) AMOUNT OF WRITE-OFFS

Industries	Millions of yen	
	FY2013	FY2012
	Amount of write-off	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	—	—
<b>Total</b>	<b>¥ 8,141</b>	<b>¥ 22,018</b>

## (5) AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)

As of March 31	Millions of yen			
	2014		2013	
	Rated	Unrated	Rated	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%	—	—	—	—
<b>Total</b>	<b>¥ —</b>	<b>¥ 1,243,568</b>	<b>¥ —</b>	<b>¥ 1,074,394</b>

**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	<b>Amount of Exposure</b>	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
<b>Total</b>	<b>¥ 482,324</b>	<b>¥ 479,038</b>

Specialized lending for high-volatility commercial real estate

As of March 31	Millions of yen	
	2014	2013
Risk weight ratio	<b>Amount of Exposure</b>	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
<b>Total</b>	<b>¥ 78,657</b>	<b>¥ 135,473</b>

Equity exposure under Market-Based Simplified Method

As of March 31	Millions of yen	
	2014	2013
Risk weight ratio	<b>Amount of Exposure</b>	Amount of Exposure
300%	¥ 1,958	¥ 441
400%	17,773	14,480
<b>Total</b>	<b>¥ 19,732</b>	<b>¥ 14,922</b>

**QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (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%	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 &amp; 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		2013	
	Eligible financial collateral	Other eligible FIRB collateral	Eligible financial collateral	Other eligible FIRB collateral
Corporate	¥ 935	¥ 182,677	¥ 1,386	¥ 177,230
Sovereign	—	—	—	—
Bank	53,216	—	78,507	—
<b>Total</b>	<b>¥ 54,141</b>	<b>¥ 182,677</b>	<b>¥ 79,894</b>	<b>¥ 177,230</b>

**(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	
	Protection-buy	Protection-sell	Protection-buy	Protection-sell
Notional amount				
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	<b>Amount of original assets</b>	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
<b>Total</b>	<b>¥ 541,782</b>	<b>¥ 650,745</b>

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	<b>Amount of Default</b>	Amount of Default
Residential mortgages	¥ 4,571	¥ 4,783
Consumer loans	—	—
Commercial real estate loans	—	—
Corporate loans	26,318	26,898
Others	—	—
<b>Total</b>	<b>¥ 30,889</b>	<b>¥ 31,681</b>

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	<b>Amount of Exposure</b>	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
<b>Total</b>	<b>¥ 344,018</b>	<b>¥ 406,472</b>

**QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)**

## Resecuritization exposure

As of March 31	Millions of yen	
	2014	2013
Type of original assets	<b>Amount of Exposure</b>	Amount of Exposure
Residential mortgages	¥ 845	¥ 875
Consumer loans	—	—
Commercial real estate loans	—	—
Corporate loans	—	—
Others	—	—
<b>Total</b>	<b>¥ 845</b>	<b>¥ 875</b>

## (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	<b>Amount</b>	<b>Required capital amount</b>	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%	—	—	—	—
<b>Total</b>	<b>¥ 344,018</b>	<b>¥ 7,046</b>	<b>¥ 406,472</b>	<b>¥ 9,044</b>

## Resecuritization exposure

As of March 31	Millions of yen			
	2014		2013	
Band of risk weight ratio	<b>Amount</b>	<b>Required capital amount</b>	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%	—	—	—	—
<b>Total</b>	<b>¥ 845</b>	<b>¥ 36</b>	<b>¥ 875</b>	<b>¥ 37</b>

## (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	<b>Amount</b>	Amount
Residential mortgages	¥ 9,414	¥ 9,555
Consumer loans	—	—
Commercial real estate loans	—	—
Corporate loans	—	—
Others	—	—
<b>Total</b>	<b>¥ 9,414</b>	<b>¥ 9,555</b>

**QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)**

(6) Amount of securitization exposure applied risk weight 1,250%

As of March 31	Millions of yen	
	2014	2013
Type of original assets	<b>Amount</b>	Amount
Residential mortgages	¥ 5,717	¥ 4,953
Consumer loans	—	—
Commercial real estate loans	—	—
Corporate loans	—	—
Others	—	—
<b>Total</b>	<b>¥ 5,717</b>	<b>¥ 4,953</b>

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	Millions of yen	
	2014	2013
Type of original assets	<b>Amount of Exposure</b>	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
<b>Total</b>	<b>¥ 103,235</b>	<b>¥ 144,385</b>

Resecuritization exposure

As of March 31	Millions of yen	
	2014	2013
Type of original assets	<b>Amount of Exposure</b>	Amount of Exposure
Residential mortgages	¥ —	¥ —
Consumer loans	—	—
Commercial real estate loans	—	—
Corporate loans	16,588	20,519
Others	—	—
<b>Total</b>	<b>¥ 16,588</b>	<b>¥ 20,519</b>

**QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)**

(2) Amount of securitization exposure and required capital for the Bank by risk weight ratio

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%	¥ 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
<b>Total</b>	<b>¥ 103,235</b>	<b>¥ 14,127</b>	<b>¥ 144,385</b>	<b>¥ 18,278</b>

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%	¥ 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%	—	—	—	—
<b>Total</b>	<b>¥ 16,588</b>	<b>¥ 311</b>	<b>¥ 20,519</b>	<b>¥ 414</b>

(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	—	—
<b>Total</b>	<b>¥ 96</b>	<b>¥ 607</b>

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**

As of March 31	Millions of yen	
	2014	2013
VaR at term end	<b>¥ 1,189</b>	¥ 1,627
VaR through this term		
High	<b>3,242</b>	2,724
Mean	<b>1,701</b>	1,498
Low	<b>713</b>	988

**(2) STRESSED VAR AT THE END OF MARCH 2013 AND MARCH 2014 AND THE HIGH, MEAN AND LOW VAR**

As of March 31	Millions of yen	
	2014	2013
VaR at term end	<b>¥ 2,188</b>	¥ 3,681
VaR through this term		
High	<b>4,249</b>	5,685
Mean	<b>2,759</b>	3,472
Low	<b>1,318</b>	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**

As of March 31	Millions of yen	
	2014	2013
Market-based approach		
Listed equity exposure	<b>¥ 2,040</b>	¥ 441
Unlisted equity exposure	<b>17,773</b>	14,480
PD/LGD method		
Listed equity exposure	<b>10,202</b>	14,031
Unlisted equity exposure	<b>450,852</b>	425,313

**(2) GAIN OR LOSS ON SALE OR DEPRECIATION OF EQUITY EXPOSURE**

	Millions of yen	
	FY2013	FY2012
Gain (loss) on sale	<b>¥ 3,286</b>	¥ 3,024
Loss of depreciation	<b>34</b>	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**

As of March 31	Millions of yen	
	2014	2013
Unrealized gain (loss)	<b>¥ 3,817</b>	¥ 4,444

**(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)	<b>¥ 16,420</b>	¥ 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**

As of March 31	Millions of yen	
	2014	2013
Regarded exposure (fund)	<b>¥ 40,478</b>	¥ 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:

As of March 31	Billions of yen	
	2014	2013
JPY	<b>¥ (22.4)</b>	¥ (45.0)
USD	<b>(2.2)</b>	(0.7)
Others	<b>(2.7)</b>	(2.9)
<b>Total</b>	<b>¥ (27.4)</b>	¥ (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				Total amount of variable remuneration				Retirement allowance	Other
			Basic remuneration	Stock option given as compensation	Other	Basic remuneration	Bonus	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."



## MAJOR SUBSIDIARIES AND AFFILIATES

Name	Location	Main business
<b>Major Domestic Subsidiaries</b>		
Showa Leasing Co., Ltd.	Tokyo, Japan	Leasing <sup>1</sup>
Shinsei Trust & Banking Co., Ltd.	Tokyo, Japan	Trust banking <sup>1</sup>
Shinsei Securities Co., Ltd.	Tokyo, Japan	Securities <sup>2</sup>
Shinsei Investment Management Co., Ltd.	Tokyo, Japan	Investment trust and discretionary investment advising <sup>2</sup>
Shinsei Principal Investments Ltd.	Tokyo, Japan	Financial instruments business <sup>1</sup>
Shinsei Corporate Investment Limited	Tokyo, Japan	Investment <sup>1</sup>
Shinsei Investment & Finance Limited	Tokyo, Japan	Finance <sup>1</sup>
Shinsei Servicing & Consulting Limited	Tokyo, Japan	Servicing business <sup>1</sup>
Shinsei Property Finance Co., Ltd.	Tokyo, Japan	Real estate collateral finance <sup>3</sup>
APLUS FINANCIAL Co., Ltd.	Osaka, Japan	Holding company <sup>3</sup>
APLUS Co., Ltd.	Osaka, Japan	Installment credit <sup>3</sup>
APLUS Personal Loan Co., Ltd.	Osaka, Japan	Finance <sup>3</sup>
Zen-Nichi Shinpan Co., Ltd.	Okayama, Japan	Installment credit <sup>3</sup>
Shinsei Financial Co., Ltd.	Tokyo, Japan	Finance <sup>3</sup>
SHINKI Co., Ltd.	Tokyo, Japan	Financing for individuals and small businesses <sup>3</sup>
Shinsei Information Technology Co., Ltd.	Tokyo, Japan	Information technology <sup>4</sup>
<b>Major Overseas Subsidiaries</b>		
Shinsei International Limited	London, UK	Securities <sup>1</sup>
Shinsei Finance (Cayman), Limited	Grand Cayman, Cayman Islands	Finance <sup>4</sup>
Shinsei Finance II (Cayman), Limited	Grand Cayman, Cayman Islands	Finance <sup>4</sup>
Shinsei Finance III (Cayman), Limited	Grand Cayman, Cayman Islands	Finance <sup>4</sup>
Shinsei Finance IV (Cayman), Limited	Grand Cayman, Cayman Islands	Finance <sup>4</sup>
Shinsei Finance V (Cayman), Limited	Grand Cayman, Cayman Islands	Finance <sup>4</sup>
<b>Major Affiliates Accounted for Using the Equity Method</b>		
Comox Holdings Ltd.	Hamilton, Bermuda	Holding company <sup>2</sup>
Jih Sun Financial Holding Co., Ltd.	Taipei, Taiwan	Finance <sup>1</sup>

1 Institutional Group 2 Global Markets Group 3 Individual Group 4 Corporate/Other

## EMPLOYEES

	2012	2013	2014
<b>Consolidated</b>			
Number of Employees	4,830	4,863	<b>5,064</b>
<b>Nonconsolidated</b>			
Number of Employees	1,895	1,931	<b>2,030</b>
Male	1,044	1,063	<b>1,141</b>
Female	851	868	<b>889</b>
Average age	40 years 6 months	40 years 3 months	<b>40 years 3 months</b>
Average years of service	12 years 1 months	11 years 8 months	<b>11 years 5 months</b>
Average monthly salary	¥489 thousand	¥487 thousand	<b>¥482 thousand</b>

"Average monthly salary" includes overtime wages but excludes annual bonus.

## AS OF MARCH 31, 2014

## Equity stake held by Shinsei Bank and consolidated subsidiaries (%)

Capital (in millions)	Established	Acquired		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

**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

Date	1,000 shares, millions of yen						Notes
	Shares outstanding		Capital		Capital surplus		
	Change	Balance	Change	Balance	Change	Balance	
July 29, 2003	(1,358,537)	2,033,065 <sup>1</sup>	—	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 <sup>1</sup>	—	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 <sup>1</sup>	—	451,296	—	18,558	Cancellation of treasury shares (common) -85,000 thousand shares
August 1, 2007	(100,000)	1,748,098 <sup>1</sup>	—	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 <sup>1</sup>	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

<sup>1</sup> Figures include number of preferred shares outstanding

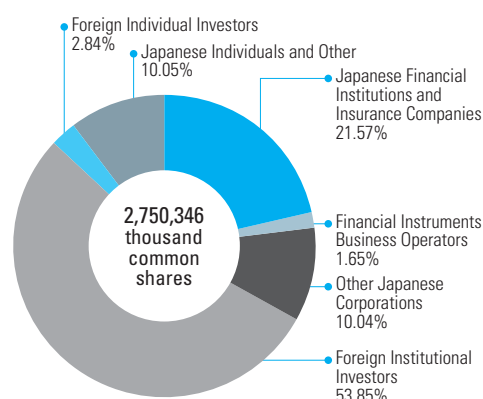
## Largest Shareholders

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

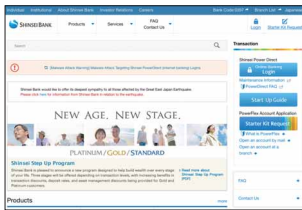
AS OF JULY 1, 2014

	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.

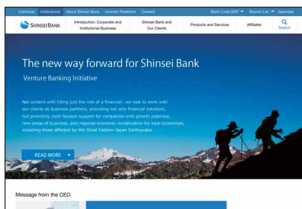
## INDIVIDUAL



<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

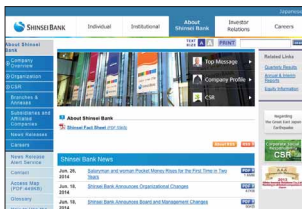


<http://www.shinseibank.com/institutional/en/>

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.