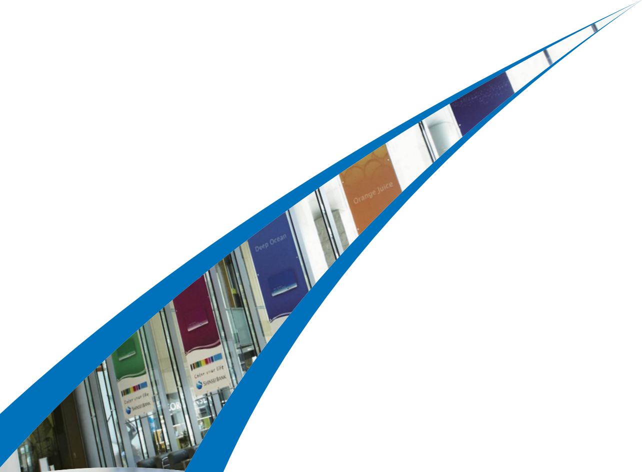
SHINSEI BANK



Gearing up for Growth

Annual Report 2012

For the fiscal year ended March 31, 2012

CONTENTS

Shinsei Bank is a leading diversified Japanese financial institution providing a full range of financial products and services to both institutional and individual customers. The Bank has total assets of ¥8.6 trillion (U.S.$105.0 billion) on a consolidated basis (as of March 2012) and a network of outlets throughout Japan. Shinsei Bank demands uncompromising levels of integrity and transparency in all its activities to earn the trust of customers, staff and shareholders. The Bank is committed to delivering long-term profit growth and increasing value for all its stakeholders.

Inclusion in Socially Responsible Investment (SRI) Indexes

In recognition of our CSR initiatives, transparent information disclosure and proactive stakeholder engagement, Shinsei Bank has been included in the Dow Jones Sustainability Asia Pacific Index since March 31, 2009.

Dow Jones Sustainability Indexes
Member 2011/12

FORWARD-LOOKING STATEMENTS

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

Gearing up for Growth

Shinsei Bank positioned fiscal year 2011, the second year of our Medium-Term Management Plan, as a year in which to shift gears and take initiatives to diversify our earnings through new business development. With "rebuilding the customer franchise in Japan" and "establishing a stabilized earnings base" as keywords, we leveraged the framework we had put in place in the previous year to go back on the offensive and strengthen our future earnings potential.

Fiscal year 2012, the final year of our Plan, will be a year in which our true value is tested. Financial institutions must take on an important role as new financial needs emerge from socioeconomic changes, and ongoing efforts are required to drive the post-earthquake recovery and revitalize regional economies in Japan. Shinsei Bank is committed to becoming a bank group with stable, long-term earnings power, which is truly valued by its customers, and grows alongside them. We are channeling all our energies into realizing this vision.

FINANCIAL HIGHLIGHTS

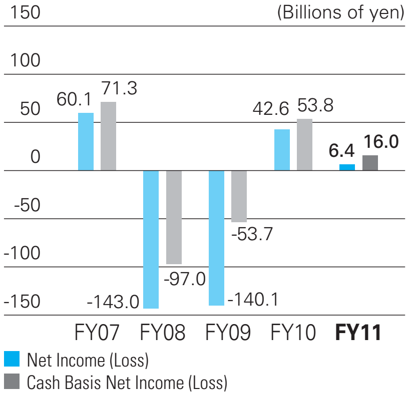
Shinsei Bank, Limited, and Consolidated Subsidiaries
For the fiscal years ended March 31, 2008, 2009, 2010, 2011 and 2012*1

	Billions of yen				
	2008	2009	2010	2011	**2012**
For the fiscal year:					
Net interest income	¥ 137.7	¥ 202.9	¥ 207.9	¥ 156.6	**¥ 116.9**
Non-interest income	124.9	(19.8)	56.2	106.0	**86.0**
Net fees and commissions	40.8	26.5	25.1	26.0	**25.1**
Net trading income (loss)	9.0	(4.6)	9.0	11.6	**13.6**
Net other business income (loss)	74.9	(41.7)	22.1	68.3	**47.2**
Total revenue	262.6	183.1	264.2	262.6	**202.9**
General and administrative expenses	158.7	182.0	170.8	145.3	**130.3**
Ordinary business profit (loss)	91.3	(16.4)	72.5	104.2	**60.6**
Net credit costs	73.5	129.0	112.2	68.3	**12.2**
Ordinary business profit (loss) after net credit costs	17.8	(145.5)	(39.7)	35.8	**48.3**
Net income (loss)	60.1	(143.0)	(140.1)	42.6	**6.4**
Cash basis net income (loss)*2	71.3	(97.0)	(53.7)	53.8	**16.0**
Balances at fiscal year-end:					
Securities	1,980.2	2,174.1	3,233.3	3,286.3	**1,873.4**
Loans and bills discounted	5,622.2	5,876.9	5,163.7	4,291.4	**4,136.8**
Total assets	11,525.7	11,949.1	11,376.7	10,231.5	**8,609.6**
Deposits and negotiable certificates of deposit	5,806.6	6,272.1	6,475.3	5,610.6	**5,362.4**
Debentures	662.4	675.5	483.7	348.2	**294.1**
Total liabilities	10,560.5	11,181.7	10,741.8	9,620.3	**7,982.0**
Total equity	965.2	767.4	634.9	611.1	**627.6**
Total liabilities and equity	¥ 11,525.7	¥ 11,949.1	¥ 11,376.7	¥ 10,231.5	**¥ 8,609.6**
	Yen				
Per share data:					
Common equity	¥ 364.35	¥ 284.95	¥ 232.72	¥ 205.83	**¥ 212.67**
Fully diluted equity*3	364.35	284.95	232.72	205.83	**212.67**
Basic net income (loss)	38.98	(72.85)	(71.36)	21.36	**2.42**
Diluted net income	32.44	—	—	21.36	**2.42**
Dividends	2.94	0.00	0.00	1.00	**1.00**
Cash basis per share data:					
Basic net income	¥ 46.31	¥ (49.39)	¥ (27.37)	¥ 26.96	**¥ 6.05**
Diluted net income	38.50	—	—	26.96	**6.05**
	%				
Ratios:					
Return on assets*4	0.5	(1.2)	(1.2)	0.4	**0.1**
Cash basis return on assets	0.6	(0.8)	(0.5)	0.5	**0.2**
Return on equity (fully diluted)*5	8.8	(22.4)	(27.6)	8.5	**1.2**
Cash basis return on equity (fully diluted)*6	13.8	(20.2)	(13.7)	12.4	**3.2**
Expense-to-revenue ratio	60.4	99.4	64.6	55.3	**64.2**
Total capital adequacy ratio	11.74	8.35	8.35	9.76	**10.27**
Tier I capital ratio	7.37	6.02	6.35	7.76	**8.80**
Risk weighted assets (billions of yen)	9,212.5	9,621.0	7,722.1	6,653.7	**6,102.5**

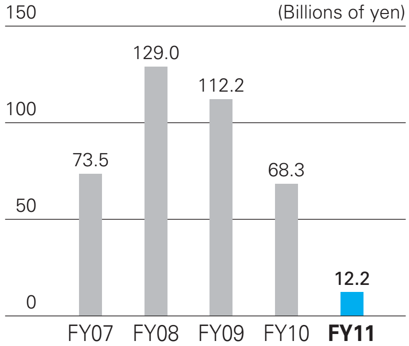
*1 Since all yen figures have been truncated rather than rounded, the totals do not necessarily equal the sum of the individual amounts.
*2 Cash basis net income is calculated by excluding impairment and amortization of goodwill and other intangible assets, net of tax benefit, from net income (loss) under Japanese Generally Accepted Accounting Principles (GAAP).
*3 Fully diluted equity per share is calculated by dividing equity at the end of the periods presented by the number of common shares that would have been outstanding had all securities convertible into or exercisable for common shares been converted or exercised with an applicable conversion or exercise price within the predetermined range at the end of the period.
*4 Return on assets is calculated by dividing net income (loss) by the average of total assets at the beginning and end of the period presented.
*5 Return on equity (fully diluted) is calculated by dividing net income (loss) by the average of fully diluted equity at the beginning and end of the period presented.
*6 Cash-basis return on equity (fully diluted) is calculated by dividing cash basis consolidated net income (loss) by the average of (total equity–goodwill–intangible assets acquired in business combinations (net of associated deferred tax liability)) at the beginning of the period and the same values at the end of period presented.

EARNINGS

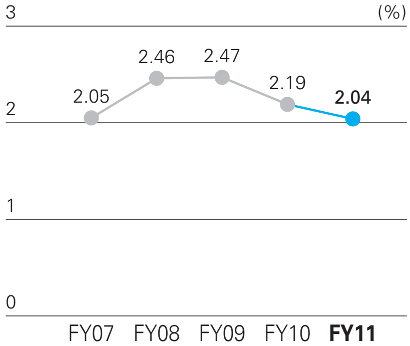
Net Income (Loss) and Cash Basis Net Income (Loss)



Net Credit Costs

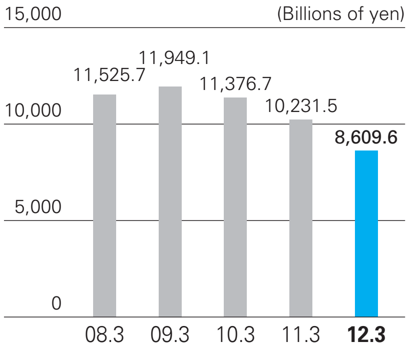


Net Interest Margin

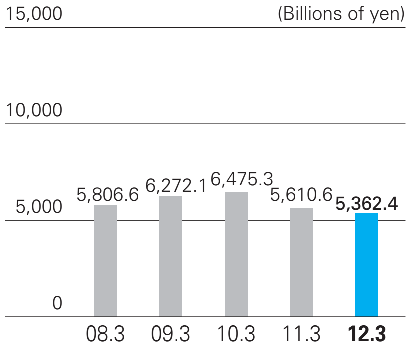


ASSETS AND LIABILITIES

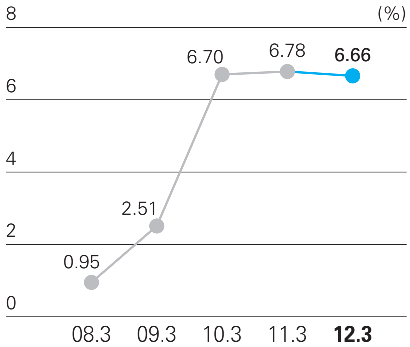
Total Assets



Deposits and Negotiable Certificates of Deposit

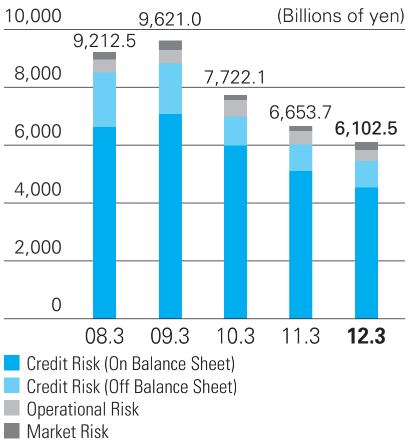


Ratio of Non-Performing Claims to Total Claims (Non-Consolidated)

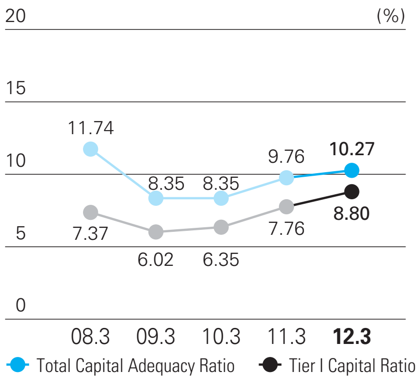


CAPITAL

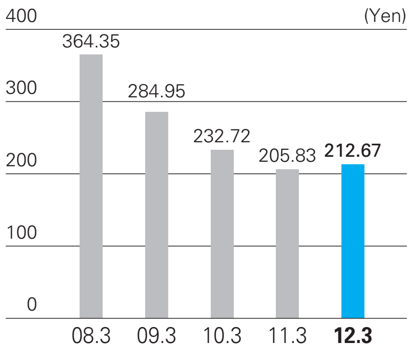
Risk Weighted Assets



Total Capital Adequacy Ratio and Tier I Capital Ratio



Common Equity per Share



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

TO OUR SHAREHOLDERS, CUSTOMERS AND EMPLOYEES

In fiscal year 2011, the second year of our Medium-Term Management Plan, we made steady progress towards stabilizing our earnings base by launching initiatives to diversify earnings through new business development, while taking action to eliminate downside risks. In fiscal year 2012, we will strive to achieve both the Plan's final-year goals as well as secure further growth into the future.

Shigeki Toma
President and Chief Executive Officer

Fiscal year 2011 was a challenging year as economic conditions both in Japan and overseas remained uncertain, due to the temporary economic slowdown in the wake of the Great East Japan Earthquake compounded by the prolonged strength of the yen, the European debt crisis and the catastrophic flooding in Thailand.

In fiscal year 2011, the second year of our Medium-Term Management Plan, Shinsei Bank shifted gears to go back on the offensive, implementing various initiatives in order to diversify our earnings base through new business development.

In our institutional business, we realigned our organization to create an Institutional Group and Global Markets Group, while establishing a dedicated organization to provide solutions to support the development of new business domains, and businesses that will lead to regional revitalization, including post-disaster recovery. In our individual business, we continued to provide attractive asset management and housing loan products, and worked to grow the number of accounts in our retail banking operations. In consumer finance, we successfully launched a bank-based, unsecured personal loan service under the *Shinsei Bank Card Loan—Lake* brand.

At the same time, we also took action to eliminate downside risks to future financial performance, making additional provisions for interest repayments at our consumer finance subsidiaries, in an effort to stabilize earnings. As a result, we recorded ¥6.4 billion in consolidated reported basis net income for fiscal year 2011– a decline from the ¥42.6 billion recorded in the previous term. However, I believe the actions that we have taken have positioned us well to achieve our target of ¥51.0 billion in consolidated reported basis net income in fiscal year 2012, the final year of our Medium-Term Management Plan.

The fact that we have been able to make steady progress towards establishing a stabilized earnings structure is due entirely to the understanding and support we have received from you, our stakeholders. Financial institutions must take on an important role as new financial needs emerge from socioeconomic changes, and ongoing efforts are required to drive the post-earthquake recovery and revitalize regional economies. Shinsei Bank is committed to becoming a bank group with stable, long-term earnings power, which is truly valued by its customers, and grows alongside them. We are channeling all our energies into realizing this vision.

I would like to thank our shareholders, customers and all other stakeholders for your continued support and guidance.

July 2012

Shigeki Toma
President and Chief Executive Officer

QUESTIONS & ANSWERS

Q Why was consolidated net income for fiscal year 2011 lower year-on-year, and lower than your initial forecast?

A In fiscal year 2011, we took steps to eliminate future downside risks in order to ensure stable earnings in fiscal year 2012, the final year of the Bank's Medium-Term Management Plan. These included making additional provisions for interest repayments at our consumer finance subsidiaries. As a result of these measures, net income decreased substantially.

In fiscal year 2011, efforts to expand our customer franchise began to bear fruit and our core businesses performed steadily. However, net interest income declined due to factors such as the reduction of primarily non-core assets and the lower loan balance in the consumer finance business. On the other hand, non-interest income was lower due to the absence of non-recurring factors recorded in fiscal year 2010, such as the ¥29.4 billion gain on repurchases of capital securities, compounded by the downturn in financial markets.

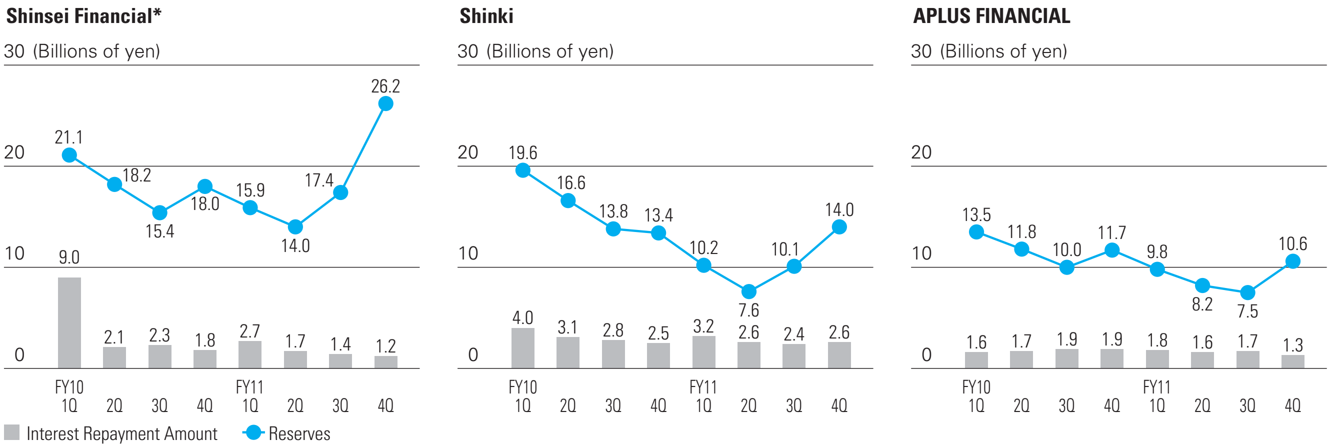
However, our intensive efforts to reduce expenses and limit net credit costs have proven extremely successful. Net credit costs, in particular, decreased significantly compared to fiscal year 2010. Despite recording ¥18.8 billion in provisions of specific reserves for loan losses in our specialty finance business, net credit costs decreased overall as a result of continued divestiture of non-core assets; stricter credit management and enhanced collection systems at our consumer finance subsidiaries as well as an improvement in asset quality following the introduction of the income-linked borrowing limitation in June 2010; the lower overall balance of loans; the contribution from recoveries of written-off claims; in addition to a large-scale credit recovery. However, the decrease in expenses and net credit costs was not sufficient to offset the decline in revenue, and as a result we recorded ordinary business profit after net credit costs of ¥62.7 billion for fiscal year 2011, a decrease of 22.5% year-on-year.

In addition to the provisions of specific reserves for loan losses recorded in our specialty finance business, we also took other important measures to eliminate downside risks to our earnings. Specifically, the Bank made additional provisions of ¥32.8 billion for interest repayments at our consumer finance subsidiaries. Our objective in doing so was to bring these reserves to lifetime levels in our aim to eradicate any so-called "grey zone risks" in the future, in consideration of the impact of full-scale implementation of the revised Money Lending Business Law in June 2010, and the bankruptcy filing of a major consumer finance company in September of the same year.

Shinsei Financial made an additional reserve of ¥15.9 billion resulting in a total balance of ¥26.2 billion in reserves for losses on interest repayment as of March 31, 2012. These additional provisions were recorded for the portion of the company's portfolio not covered by the GE indemnity included in the purchase agreement when we acquired Shinsei Financial from GE. Shinki and APLUS FINANCIAL also made additional reserves of ¥11.5 billion and ¥5.3 billion respectively, bringing the total balance of their reserves for losses on interest repayment to ¥14.0 billion and ¥10.6 billion respectively as of March 31, 2012. Despite making these provisions, APLUS FINANCIAL recorded ¥5.3 billion in consolidated reported basis net income for fiscal year 2011, achieving the forecast it originally announced on May 12, 2011.

As a result of this series of actions, Shinsei Bank's consolidated reported basis net income declined ¥36.2 billion, or 84.9%, from ¥42.6 billion in fiscal year 2010 to ¥6.4 billion in fiscal year 2011. However, I am confident that these measures have positioned us well to achieve our fiscal year 2012 targets of ¥51.0 billion in consolidated reported basis net income and ¥60.0 billion in consolidated cash basis net income as set out in our Medium-Term Management Plan, and will lead to a stabilized earnings base going forward.

Amount of Interest Repayment and Reserve for Losses



* Interest repayment amount is net of refunds subject to GE indemnification

Q Your non-performing claims ratio still seems very high. Have you really cleaned up your balance sheet?

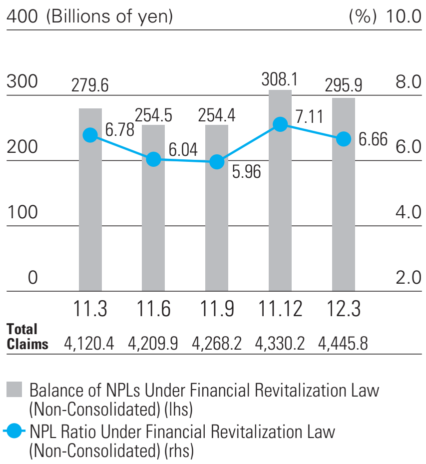
A Our non-performing claims ratio has declined despite a rise in the actual balance of non-performing claims year-on-year as we made provisions of specific reserves for loan losses in our specialty finance business in order to eliminate downside risks to future earnings.

As of March 31, 2012, Shinsei Bank's non-performing claims ratio for claims classified under the Financial Revitalization Law on a non-consolidated basis was 6.66%, down from 6.78% a year earlier. The chief reason for the decline was the bottoming out of the Bank's total claims balance on a non-consolidated basis in fiscal year 2011. As a result, our non-performing claims ratio improved despite a rise in the overall balance of our non-performing claims on a non-consolidated basis from ¥279.6 billion at March 31, 2011 to ¥295.9 billion at March 31, 2012. The rise in non-performing claims reflects a strict assessment of LBO assets in our specialty finance business, conducted in the third quarter of fiscal year 2011, which resulted in an increase of ¥53.0 billion in non-performing claims in this business. However, I would like to emphasize that this increase is related to a small number of individual deals, and does not reflect an overall decline in the quality of our specialty finance portfolio. Going forward, we will continue to provide specialty finance as one of our core businesses, while avoiding exposure to large-scale, individual deals.

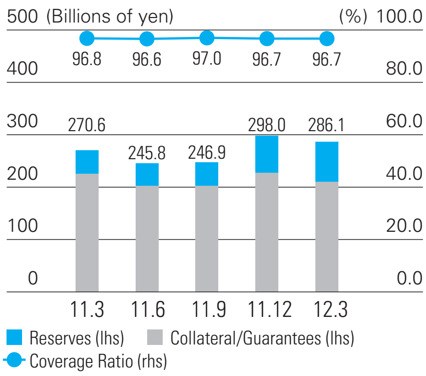
Meanwhile, on a quarter-on-quarter basis, the balance of our non-performing claims actually fell in the fourth quarter of fiscal year 2011 as we disposed of non-performing claims in our real estate non-recourse finance and other businesses.

Together with the reduction in non-core assets, I believe that the efforts we have made in fiscal year 2011 have gone a long way to eliminating downside risks related to asset quality in the Bank's portfolio. In addition, our coverage ratio, which represents the percentage of a loan's value that is backed by collateral, guarantees or reserves, still remains one of the highest in the industry at 96.7%.

Balance of Non-Performing Loans (NPL), NPL Ratio



NPL Coverage



Q Please explain the reasons for the computer system problems that occurred on January 10, 2012, and what measures you have taken to ensure such problems do not reoccur in the future.

A I wish to offer my sincere apologies for the immense inconvenience caused to customers as a result of the computer system problems we encountered earlier this year. We are working in earnest to ensure that no such problems reoccur in the future.

Shinsei Bank would like to offer its deepest apologies to all customers affected by the system problems which occurred on January 10, 2012, and which resulted in delays to the processing of a portion of outbound funds transfer transactions to other banks. The problems occurred in the process of relocating our data center from Tokyo to Osaka in fiscal year 2011. After relocating our *Zengin* domestic exchange system from Tokyo to our data center in Osaka over January 8–9, 2012, we experienced a slowdown in our system processing capabilities on the morning of January 10. As a result, a total of 34,309 outbound transfer transactions to other banks were not processed until the following day.

Following a thorough investigation, we found that the system problem was caused by a flaw in the network configuration when the Bank transferred the *Zengin* domestic exchange remittance system to the data center in Osaka. We reviewed our network configuration, and regained ample processing speed in our systems on January 11, 2012, the day after the system problems first occurred.

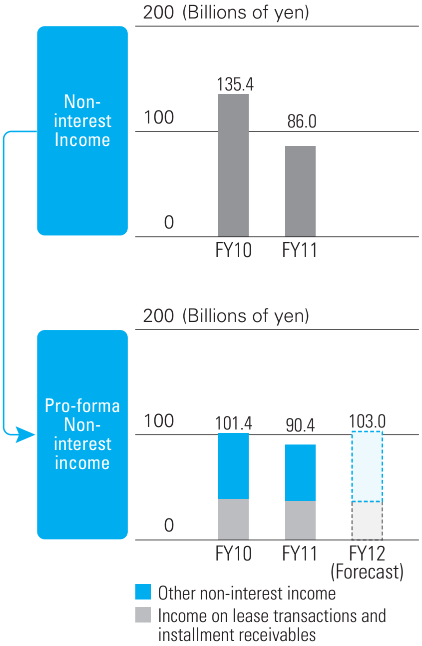
Shinsei Bank is taking the utmost care to ensure stable system operation going forward. When making major modifications to our systems, for example, we are taking measures to prevent a recurrence of such problems by ensuring we undertake thorough tests and pre-verification of operational procedures and the extent of the impact that such modifications would have. Additionally, we have undertaken a review of our organization and built a framework, centered on a system error headquarters, that will work rapidly to restore system operation and ensure the Bank responds appropriately to customers in the event that any such system problems should reoccur in the future. By implementing these measures, we will work hard to regain customers' trust in Shinsei Bank.

Q How do you expect to be able to achieve your Medium-Term Management Plan final year consolidated reported basis net income target of ¥51.0 billion even though revenues are decreasing?

A We believe we are well positioned to achieve our targets, as we anticipate a bottoming out in revenues and rebound in loan balance, with improving asset quality as a result of the measures taken in previous fiscal years. As such, we envisage achieving stable, normal earnings, free from the impact of non-recurring items going forward.

In fiscal year 2012, we expect slightly higher revenues of ¥218.0 billion, an increase of ¥15.1 billion from ¥202.9 billion in fiscal year 2011. We expect interest income of ¥116.9 billion, on a par with the ¥115.0 billion recorded in fiscal year 2011. This reflects our view that the ongoing decline in the balance of operating assets in our consumer finance business will slow down, and that a bottoming out is in sight. In addition, we believe that a rebound in our overall loan balance is also on the horizon, as we saw the balance of corporate loans at the Bank grow in the fourth quarter of fiscal year 2011, while our housing loan balance is also increasing steadily.

Pro-forma Non-interest Income



Pro-forma non-interest income refers to non-interest income excluding non-recurring items. It has been calculated by subtracting out "positive" non-recurring items, and adding back "negative" non-recurring items for each period.

If fiscal year 2012 net interest income will only be on a par with the previous year, then what are your plans for increasing non-interest income?

We recorded ¥86.0 billion in non-interest income in fiscal year 2011. While this represents a decrease of ¥49.4 billion, or 36.5%, from the ¥135.4 billion recorded in the previous term, we must remember that non-interest income in fiscal year 2010 included gains from the repurchase of capital securities and other non-recurring items. If these non-recurring items are excluded, non-interest income was ¥101.4 billion in fiscal year 2010 and ¥90.4 billion in fiscal year 2011. In other words, the difference was only ¥11.0 billion. Non-interest income suffered in fiscal year 2011 due to a slow-down in transactions and sales of risk products. However, in fiscal year 2012 we expect non-interest income to recover to a level comparable with the ¥101.4 billion recorded in fiscal year 2010 excluding non-recurring items. We will achieve this through leveraging our expanded customer base, increasing our line-up of products to meet customer needs, and promoting cross-Group collaboration to increase transaction volume at the Bank, in addition to the contribution from installment sales, credit card and leasing income from our group companies.

At the same time, we will continue to maintain strict expense discipline, and expect expenses to come in at ¥133.0 billion.

As the quality of our assets has improved, we also anticipate credit costs to normalize at ¥18.0 billion in fiscal year 2012.

As we have also taken various steps to eliminate the downside risks to our earnings, we believe that the forecast for ¥51.0 billion in consolidated reported basis net income for fiscal year 2012 is well within our reach.

Q It looks like it will take a while before we will see any concrete results from the Venture Banking Initiative. How do you propose to grow revenues in the Institutional Group?

A We are planting the seeds of future business through our Venture Banking Initiative. Given that our level of activity has increased and our customer base is expanding, I am confident about the Institutional Group's prospects in fiscal year 2012 and beyond.

The Institutional Group's efforts to rebuild our customer franchise in Japan have resulted in an increase in borrower numbers, primarily among middle-market and SMEs, that exceeded our initial plans. Going forward, the Institutional Group will continue to approach new customers, and enhance consultancy services for middle-market and SMEs, aiming to develop multi-faceted transactional relationships, rather than offering loans alone. We are also striving to achieve a leading position in certain industries and sectors where we can demonstrate Shinsei's strengths and where we expect rising societal demand or growth potential. These included specialized project finance, healthcare finance, ship finance and corporate restructuring—all areas where we are ramping up our operations and have already won a variety of business. In addition, we continue to promote and grow our franchises in structured finance, including real estate non-recourse finance and M&A finance, as well as credit trading and advisory. Looking specifically at real estate non-recourse finance, we have made progress in replacing the assets in our portfolio over the past fiscal year, and believe that we are close to seeing a bottoming out in the loan balance in this business. Meanwhile, Showa Leasing, our leasing subsidiary that forms part of the Institutional Group, has been working to strengthen its business base alongside its traditional strengths in providing leasing services to middle-market and SME customers for industrial machinery and machine tools. In fiscal year 2011, Showa Leasing took initiatives in its environmental businesses in areas including LED lighting, wind power and solar power generation for corporate customers, financing for semiconductor equipment, while strengthening its supplier alliances and expanding its asset finance operations. The increase in non-interest income which we expect in fiscal year 2012 includes the contribution from an increase in leasing revenues at Showa Leasing.

In fiscal year 2011, we also planted seeds for new business in our efforts to diversify earnings. Specifically, we made organizational changes within the Institutional Group to launch our Venture Banking Initiative (VBI). Through VBI, the Institutional Group as a whole will aim to provide multi-faceted solutions for management issues, targeting companies whose technology or business model holds latent growth potential, and support the development of new business domains, and businesses that will lead to regional revitalization, including post-disaster recovery. While VBI will take some time to produce results, when I consider the fact that we have completed the process of derisking our earnings, coupled with our increased level of activity and the shift in gears from a passive to an active stance across the organization, as well as the steady progress we have made in rebuilding our customer base, I am confident about our prospects for fiscal year 2012 and beyond.

Q You have started a bank-based unsecured personal loan business, even though loan balances continue to fall across the industry, and you appear to lack the scale of the major industry players. What chance have you of success?

A By leveraging the Lake brand and its top-level track record, and combining Lake's convenience and speed with the reassurance of Bank service, we aim to establish Shinsei as the leading bank within this industry, serving sound individual needs for small-lot personal finance.

Due to the ongoing impact of the revised Money Lending Business Law (MLBL), the outstanding balance of Shinsei Bank Group's unsecured personal loans continued to decline in fiscal year 2011. However, looking at the industry as a whole, the pace in decline of the overall loan balance at consumer finance companies slowed, and there were signs of a pick up in the market as we entered 2012 as new application numbers turned positive at major consumer finance companies. The overall balance of unsecured personal loans provided by banks also remained steady.

Against this backdrop, the new bank-based *Shinsei Bank Card Loan—Lake* service which we launched in October 2011 has shown strong initial performance in terms of both loan disbursements and new customer acquisition. As we aim to expand the business to serve both first-time borrowers, as well as current consumer finance users, I believe that we are close to seeing a bottoming out in the combined balance of outstanding unsecured personal loans at Shinsei Financial and the Bank in the near future on the back of solid consumer needs for small-lot personal finance.

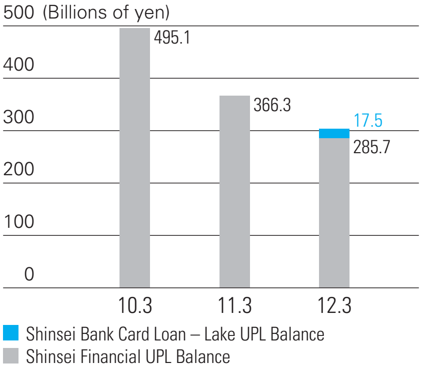
In terms of profitability, I believe we have largely eliminated future downside risk in this business with our decision in fiscal year 2011 to bring reserves for losses on "grey zone" interest repayments at our consumer finance subsidiaries to lifetime levels in consideration of the impact of the income-linked borrowing limitation that came into effect following full-scale implementation of the revised MLBL in June 2010 and the bankruptcy filing of a major consumer finance company in September of the same year. We also continue to enjoy a unique GE-guaranteed indemnity agreement against such liabilities on a portion of existing loans at Shinsei Financial.

Furthermore, we continue to see credit costs decrease in each of our subsidiaries, reflecting the positive impact on overall asset quality of the income-linked borrowing limitation and interest rate ceiling caps stipulated in the revised MLBL, as well as our own stricter credit control and improved collections.

In addition, we are keeping our expenses well in check; for example, general and administrative expenses on a combined basis for Shinsei Financial and *Shinsei Bank Card Loan—Lake*, actually declined year-on-year even as we increased marketing activity for the new Bank-based business.

For these reasons, we are confident that we can build a profitable unsecured personal loan business, even under the new interest rate regime stipulated by the revised MLBL.

Shinsei Bank Card Loan—Lake and Shinsei Financial Unsecured Personal Loan (UPL) Balance



But what relative advantage do you have over your competitors?

As the megabanks and other competitors ramp up their unsecured personal loan operations, we believe that with the launch of *Shinsei Bank Card Loan—Lake*, we have established a unique positioning within the market, as the first provider in the industry to combine the convenience, speed and product offerings of a consumer finance company with the reassurance of Bank service. Please see our special feature on pages 22-23 for more details.

Q There is a lot of uncertainty in the global economy, especially with the European debt crisis. Is there a risk that you will sustain losses from your remaining non-core assets?

A We have reduced the balance of our non-core assets substantially over the past two years, and met our Medium-Term Management Plan target ahead of schedule. We believe that further reductions of non-core assets will have only a limited impact on earnings.

In the first year of our Medium-Term Management Plan, we divided our operations into "core" and "non-core" businesses. Core businesses are customer-centric or niche fields where we possess definite strengths, and we are working to expand and develop these businesses further. Non-core businesses, on the other hand, are those which are highly volatile or where we were at a relative disadvantage in terms of proprietary knowledge and expertise. Next, we set ourselves the goal of reducing divestible non-core assets by approximately 50% by the end of the Plan, and we have worked hard to achieve this target while carefully considering the risks, costs and impact on our capital position that such asset disposals may entail. As a result, over the course of two years we have succeeded in disposing of approximately ¥420.0 billion in non-core assets, to bring the balance down to ¥463.5 billion as of March 31, 2012. Thus, we achieved our Medium-Term Management Plan goal (a balance of ¥543.0 billion) well ahead of schedule.

In the process of divesting these assets, we have also been able to record gains on the sale of asset-backed investments (ABI), asset-backed securities (ABS) and collateralized loan obligations (CLO).

As a result of our efforts to eliminate downside risks to future earnings over the period between fiscal year 2010 and fiscal year 2011, the loans included in our remaining non-core assets are appropriately covered by reserves or collateral, while we recorded an evaluation gain on divestible securities with a readily available market value in the portfolio at the end of fiscal year 2012. Furthermore, the majority of the European exposure in our divestible non-core assets is to Germany and the U.K., and we do not hold any European sovereign debt.

Going forward, we will take a cautious approach to dealing with our remaining non-core assets, paying close attention to the European debt crisis and other movements in the financial markets. Accordingly, while we will continue to reduce the balance of these assets, I expect only limited impact to our earnings as a result of that process.

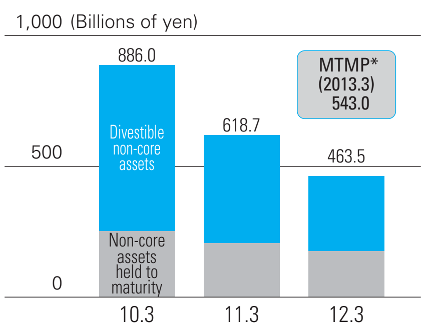
Non-core Assets Composition by Asset Type and Region

Consolidated, Billions of yen

	Balance (2012.3)			Region			
		Loans	Securities	U.S.	Europe	Asia, Others	Japan
Divestible*1	287.1	70.0	217.1	65.7	110.3	48.6	62.5
Held to maturity*2	176.5	—	176.5	31.8	9.8	—	134.9
Non-core Assets Total	**463.5**	**70.0**	**393.6**	**97.5**	**120.1**	**48.6**	**197.3**

*1 Investment-grade corporate bonds, ABI, PE fund investment, Real estate investment, Others
*2 Housing loan warehousing, CLO

Outstanding Balance of Non-core Assets



* Reduce divestible non-core assets by approximately 50% by end of MTMP (March 31, 2013)

Q Are you prepared for the upcoming introduction of the new (Basel III) capital regulations?

A Shinsei is aiming for a total capital adequacy ratio of at least 10%, Tier I capital ratio of at least 7% and common equity Tier I ratio of at least 5% on a Basel III basis by March 31, 2013, and we believe we are well on track.

We consider compliance with the new capital regulations an important part of our Medium-Term Management Plan. While Basel III, which will be implemented progressively from 2013, calls for a common equity Tier I ratio of at least 3.5%, a Tier I ratio of at least 4.5% and a total capital adequacy ratio of at least 8%, we are aiming for a common equity Tier I ratio of at least 5%, a Tier I capital ratio of at least 7% and a total capital adequacy ratio of at least 10% by the end of March 2013 in our Medium-Term Management Plan. As of March 31, 2012, we estimate* our common equity Tier I ratio to be 7.7%, our Tier I ratio to be 7.7% and our total capital adequacy ratio to be 9.5% on a Basel III basis. Each of these ratios exceeds the minimum requirement under Basel III and the common equity Tier I and Tier I ratios exceed the targets we set in our Medium-Term Management Plan.

In fiscal year 2010, we took measures, including a new issuance of common shares and repurchases of capital securities, to strengthen our capital position. In addition, we also worked to reduce deductions from capital, through the disposal of non-performing claims and amortization of goodwill and intangible assets, while also reducing risk weighted assets through divesting non-core assets and prudent management of our real estate non-recourse finance loan balance. We continued to optimize our risk weighted assets throughout fiscal year 2011.

We expect our risk weighted assets to increase somewhat under Basel III compared with Basel II. This is largely due to the fact that under Basel III, unrated securitized products, which were previously a capital deduction item, will be treated as risk weighted assets, and exposure to major financial institutions will incur a higher risk weighting. However, in fiscal year 2010 we took various measures to boost our common equity Tier I position, and we continued to take provisions against capital-impairing downside risks to earnings in fiscal year 2011. Going forward, we envisage achieving stable, normal earnings, free from the impact of non-recurring items as a result of the initiatives taken to date. And by steadily accumulating these earnings, we intend to strengthen our capital position further. As we work to build our operating assets, we will at the same time manage our risk weighted assets appropriately and continue to dispose of non-performing claims, to ensure we are in compliance with the new capital regulations.

* Estimates have been made by Shinsei Bank based on information available at the time point. The estimate for March 31, 2012 is based on the international standard.

Capital Composition

Consolidated, Billions of yen

	2011.3 (Basel II)	2012.3 (Basel II)*1	2012.3 (Basel III Estimate)*2	MTMP*3 (Target) (Basel III)
Common Equity Tier I			**524.9**	
Other Tier I				
Basic Item (Tier I)	516.7	**537.1**	**524.9**	
Amount Eligible for Inclusion in Capital (Tier II)	231.8	**197.0**	**123.6**	
Deduction	(98.6)	**(107.2)**		
Total Capital	649.9	**626.9**	**648.5**	
Risk Weighted Assets	6,653.7	**6,102.5**	**6,857.2**	
Common Equity Tier I Capital Ratio			**7.7%**	**5%**
Tier I Capital Ratio	7.76%	**8.80%**	**7.7%**	**7%**
Capital Adequacy Ratio	9.76%	**10.27%**	**9.5%**	**10%**

*1 Reflected stressed VaR as stipulated in "Basel 2.5"
*2 Estimates have been made by Shinsei Bank based on information available at each time point. Estimate for March-end 2012 is based on the international standard
*3 Medium-Term Management Plan

Q Please explain your dividend policy.

A I believe that decisions regarding dividends should be based on three perspectives: capital sufficiency, stability of earnings and shareholder returns.

Shinsei Bank resumed paying dividends in fiscal year 2010, and resolved to pay a year-end dividend of ¥1 per common share for fiscal year 2011. We are also forecasting a year-end dividend of ¥1 for fiscal year 2012. Shinsei Bank's basic policy on earnings distribution is to prioritize shareholders, while taking into consideration our earnings trends and other business performance indicators and future projections. However, stability and retained earnings are an important element which must be factored into the equation, while we must also consider our Revitalization Plan when taking these decisions, as a bank that is in receipt of public funds.

In other words, I believe that decisions regarding dividends should be based on three perspectives: capital sufficiency, stability of earnings and shareholder returns. However, for the time being, we are looking to build our retained earnings to ensure stability and so that we expand our capacity to make investments to build up our business base. By increasing our earnings, and maintaining a solid financial base, we will work to improve the Bank's credit profile and share price performance.

Q In the overbanked Japanese market, what are Shinsei Bank's strengths and in which businesses can you differentiate yourself from rivals? What is the Bank's future direction?

A We aim to carve out our own position by responding swiftly with distinctive services to fulfill new financial needs.

To my mind, banks' role is not simply to side with the so-called "winners" in the business world. Rather, it is to help customers become the winners of the future by supporting their growth and providing the various financial services that they need along the way. I believe that Shinsei differs from traditional banks in our commitment to growing together with our customers—this is Shinsei's *raison d'etre*.

In our institutional businesses, we will continue to serve our customers' needs through the product-based businesses in which we excel, such as real estate nonrecourse finance and credit trading, as well as offering traditional corporate finance. We are also responding to new social needs through our healthcare finance and corporate restructuring businesses. In March 2012, we established a division dedicated to supporting the development of new industries and regional revitalization. These are businesses which require time, but we are committed to pursuing them as each represents an important role that banks will be required to play in the future.

Turning to our individual businesses, in retail banking, I believe that we have already established a solid position in the industry by combining high levels of convenience—such as fee-free ATMs that are available 24 hours a day 365 days a year—with appealing products such as our Two Week Maturity Deposit and unique housing loans that offer guarantee fee waivers and a free-of-charge early repayment facility.

In consumer finance, we have been providing sales finance, credit cards, settlement services and unsecured personal loans primarily through our group companies. From October 2011, however, we have launched a full-scale, bank-based unsecured personal loan service. This is a demonstration of our commitment to responsible unsecured consumer lending.

While Shinsei cannot compare to the megabanks in terms of size, I believe that our ability to respond quickly to new financial needs brought about by socioeconomic changes is one of key strengths. By fostering close collaboration between the Bank and our group companies, and leveraging our synergies to provide distinctive services, Shinsei will continue to carve out a unique position on the Japanese banking landscape.

SPECIAL FEATURE: TOWARDS ACHIEVEMENT OF OUR MEDIUM-TERM MANAGEMENT PLAN

Basic Concepts of the Medium-Term Management Plan

- Period: Three years from fiscal year 2010 to fiscal year 2012 (ending March 31, 2013)
- Focus on rebuilding customer franchise, stabilizing earnings and cost reductions, having reflected on lessons learned and past events
- Targets at the end of management plan*1
  - Achieve external credit ratings of A/A-
  - Aim for total consolidated capital adequacy ratio of over 10%*2, a Tier I capital ratio of over 7%*2 and a common equity Tier I capital ratio of over 5%*2
- Goals for each fiscal year
  - Fiscal year 2010: Lay groundwork for stabilized earnings
  - Fiscal year 2011: Measures for diversification of revenues through new businesses
  - Fiscal year 2012: Record stable earnings at operating speed
- Enhance management control (including renewal of corporate governance structure)
- Establish an organizational framework to devise detailed plans for the repayment of public funds
  - Speedy and stringent execution to ensure the achievement of the targets set in the financial projection
  - Foster healthy organizational culture with emphasis on the importance of compliance

*1 Reflects revisions to original Medium-Term Management Plan that were announced on September 28, 2010
*2 On a Basel III basis

Management Principles

- A banking group that has stable earnings power, is truly depended upon by customers and that contributes to the development of both domestic and international industrial economies
- A banking group that has built on its past experiences and history, values diverse talents and cultures and continually takes on new challenges
- A banking group that strives for transparent management, valued and trusted by all stakeholders, including customers, investors and employees

Key Initiatives under the Medium-Term Management Plan

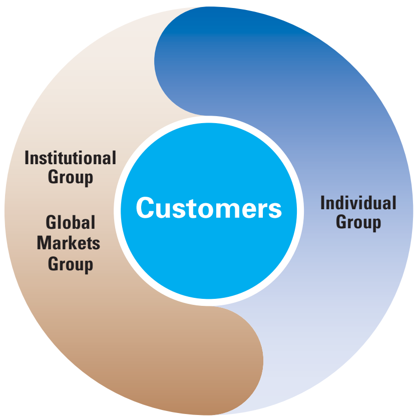
In fiscal year 2012, the final year of our Medium-Term Management Plan, we will continue working on initiatives pursued in fiscal years 2010 and 2011, and developing core businesses. In addition, we will also pursue the following new initiatives in FY2012.

FY2010
Lay groundwork for stabilized earnings

FY2011
Measures for diversification of revenues through new businesses

FY2012
Record stable earnings at operating speed

- Expanding Client Franchise
  - Growing domestic and overseas assets in areas centered on infrastructure-related project finance
  - Continuously promoting new business development
  - Strengthening consultancy for middle-market and SMEs
- Further Strengthening Shinsei's Distinctive Business Approach
  - Develop business incubation operations aiming for proactive engagement in new business domains and regional revitalization, and to provide management solutions to growth companies, as part of VBI*
- Promoting Multi-faceted Transactions with Financial Institution Customers
  - Promoting co-work in new business domains and regional revitalization
  - Providing solutions with financial products



- Retail Banking
  - Further expanding funding base in yen and foreign currencies
  - Building loan assets through further new housing loan disbursements
  - Promoting asset management services through providing diverse range of investment products
- Consumer Finance
  - Increasing new customers and loan balance for *Shinsei Bank Card Loan – Lake*
  - Further promotion of Shinsei Financial's guarantee business
  - Expanding APLUS FINANCIAL's shopping credit, credit card and settlement businesses

* Venture Banking Initiative (VBI)

Approaching the Final Year of the Medium-Term Management Plan

Consolidated, Billions of yen

	FY2012 MTMP Targets	FY2010 Results	FY2011 Results	FY2012 Forecast
Earnings				
Revenue	258.0	292.1	202.9	218.0
Net interest income		156.6	116.9	115.0
Non-interest income		135.4	86.0	103.0
Expenses	140.0	142.8	127.9	133.0
Net credit costs*1	49.0	68.3	12.2	18.0
Provisions for interest repayments		11.0	32.8	—
Net income	51.0	42.6	6.4	51.0
Cash basis net income*2	60.0	53.8	16.0	60.0
Profitability				
ROE	Above 8%	8.5%	1.2%	Near 9%
ROE (cash basis)*3	Above 10%	12.4%	3.2%	Above 10%
Assets				
Non-core asset balance	543.0	618.7	463.5	
Capital				
Total capital adequacy ratio	10%	9.76%	9.5%	
Tier I capital ratio	7%	7.76%	7.7%	
Common equity Tier I ratio	5%	—	7.7%	
	Basel III Basis		Basel III Basis*4	

*1 Net credit cost figures for the MTMP and FY2010 results do not include recoveries of written-off claims

*2 Cash-basis figures are calculated by excluding amortization and impairment of goodwill and other intangible assets, net of tax benefit

*3 When the MTMP was drawn up, cash basis ROE was calculated as: (total capital at the beginning of period (net assets – share warrants – minority interests) + total capital at the end of the period)/2. However, in order to reflect the cash basis standard more fully, results for fiscal year 2010 and 2011 have been calculated by dividing cash basis consolidated net income (loss) by the average value of (total capital – goodwill – intangible assets acquired in business combinations (net of associated deferred tax liability)) at the beginning of the period and the same values at the end of the period. However, the MTMP figures have not been revised

*4 Estimates have been made by Shinsei Bank based on information available at each time point. The estimate for March-end 2012 is based on the international standard

- We expect an increase in **revenue** year-on-year in fiscal year 2012. We expect net interest income to remain on a par with fiscal year 2011 as continuing efforts to further grow our customer franchise offset the impact of the decline in operating assets seen in fiscal year 2011. Specifically, we envisage new loan disbursements and growth in key operating assets in our institutional businesses; steady growth in housing loans; and a bottoming out in the consumer finance loan balance. Non-interest income will be less affected by non-recurring items such as the investment-related losses of previous years, and gains related to disposal of non-core assets and the repurchase of capital securities. At the same time, we expect an increase in non-interest income due to transaction growth in core businesses. This includes income from both institutional and individual customer transactions as we leverage the Bank's customer base, which grew in fiscal year 2011, as well as lease, credit card and installment sales income from group companies.

  Specifically, we expect non-interest income opportunities in the following business areas in fiscal year 2012:
  - derivative and foreign currency transactions in advisory business, Shinsei Securities and customer-related transactions, centered around the Global Markets Group
  - sales of insurance and investment trust products in retail banking
  - income from APLUS FINANCIAL's credit card and shopping credit businesses, and leasing income from operating asset growth through new partnerships forged by Showa Leasing

  While our revenue projection differs from the MTMP, this reflects actions taken to improve the quality of the Bank's assets, primarily in the areas of non-core assets and real estate non-recourse finance, in order to stabilize earnings. As a result, we believe that in fiscal year 2011 we finished making provisions for downside risks to future earnings related to these assets.
- **Expenses** have been lower than MTMP targets as a result of intensive rationalization and right-sizing in consumer finance businesses. While continuing to work to reduce expenses, we expect a slight increase year-on-year in fiscal year 2012 as we make investments in our systems and for business expansion.
- We forecast ¥18.0 billion in **net credit costs** in fiscal year 2012. Due to the preventative actions taken thus far, including the provisions of specific reserves for loan losses related to specialty finance, asset quality has greatly improved and we expect net credit costs to be lower than MTMP targets, even when recoveries of written-off claims are excluded.
- In fiscal year 2011, we made additional **provisions for interest repayments** in our aim to eliminate any so-called grey zone risks in the future.
- We believe these measures have positioned us well to achieve our fiscal year 2012 targets of ¥51.0 billion in consolidated reported basis **net income** and ¥60.0 billion in consolidated cash basis net income as we envisage achieving stable normalized earnings going forward, free from the impact of non-recurring items as a result of the measures taken to date.
- We have reduced the balance of **non-core assets** by almost 50% in two years and achieved our MTMP target ahead of schedule. We will continue to dispose of these assets, but expect only limited impact on earnings from this process.
- Regarding **capital adequacy ratios**, our common equity Tier I ratio and Tier I ratio (both estimates)*4 were above MTMP targets as of March 2012 on a Basel III basis due to steady accumulation of retained earnings and continued optimization of risk weighted assets. We will continue to accumulate earnings and manage risk weighted assets appropriately in order to further enhance our capital position going forward.

SPECIAL FEATURE:
MEASURES FOR DIVERSIFICATION OF REVENUES THROUGH NEW BUSINESSES

Initiatives in our Business Groups

In fiscal year 2011, each business group took steps to diversify earnings through new business development while continuing the work begun in fiscal year 2010 to stabilize our earnings.

Institutional Group, Global Markets Group

FY2011 Key Initiatives

Continue with FY2010 initiatives centered around customer base expansion and non-core asset reduction, as well as:

- Aligning organization with customer attributes to unlock further business synergy and create more agile sales structure
- Preparing and taking action to provide support for development of new industries
- Making proactive efforts to support recovery after Great East Japan Earthquake
- Setting to work on concrete development of Asia-related business
- Enhancing asset management proposals for institutional customers
- Advancing ALM capabilities through strengthening Markets business

Key Achievements

2011	April	**Institutional Business:** Reorganized institutional business groups
		Showa Leasing: Expanded ESCO Financing Business with Watami Group
	September	**Corporate Restructuring:** Provided financing for construction of factory in Vietnam by Corona Kogyo Corporation
		Financial Institutions Business: Assisted The Daito Bank, Ltd. in arranging syndicated loan for a company impacted by the Great East Japan Earthquake
	October	**Showa Leasing:** Started business in secondary market for sale and leasing of semiconductor equipment through partnership with Boston Semi K.K.
		Showa Leasing: Announced provision of financing facility for wind power generation project run by Watami Group
	December	**Markets:** Established Osaka Business Department
		Showa Leasing: Business alliance with Fuji Furukawa Engineering & Construction Co., Ltd. in development of solar power generation system installment schemes
2012	January	**Showa Leasing:** Signed financial instruments agency agreement with Juroku Bank to promote JOL business
		Shinsei Investment Management: Received a Morningstar Fund of the Year 2011 Award
	March	**Institutional Business:** Commencement of new strategy in institutional business through creation of VBI Promotion Division
		Showa Leasing: Alliance with Microsoft Japan as official financial partner for Microsoft Financing in Japan

In September 2011, Shinsei participated as co-arranger and contributed to the smooth arrangement of the first syndicated loan in which Daito Bank acted as lead arranger and agent. Seven financial institutions participated in the syndicate, which issued a loan to KOURAKUEN CORPORATION, a restaurant chain which suffered earthquake damage

Showa Leasing forged an alliance with Boston Semi K.K. in October 2011

Corona Kogyo Corporation's Vietnam factory, financed by Shinsei Bank's Corporate Support Division, started operations in April 2012

Next Challenges

- Leveraging the organizational and other changes made over the first two years of the Medium-Term Management Plan to improve earnings.

Individual Group

FY2011 Key Initiatives

Continuing FY2010 initiatives to promote low-cost, stable funding, strengthen the asset management business and taking appropriate measures to comply with the revised Money Lending Business Control and Regulation Law, in addition to:

Retail Banking

- Enhancing asset management business and development of investment products that meet individual customers' needs
- Enhancing asset management consulting services targeting retirement-aged customers
- Further strengthening housing loan business through expanding new disbursements

Consumer Finance

- Leveraging Group companies' credit assessment and marketing expertise, and integrating them into Bank to meet sound demand for personal loans
- Realizing greater synergies including further development of credit guarantee business by fully leveraging Bank's network with financial institutions
- Implementing more efficient marketing activities, including effective campaigns

Key Achievements

2011	May	**APLUS FINANCIAL:** Launched *APLUS (Shopping) Credit with T Points*
	June	**Retail Banking:** Opened Urawa Consulting Spot
		APLUS FINANCIAL: Forged alliance with The Hokkaido Bank in *APLUS Bridge Loan* business
		Shinsei Financial: Partnered with Tomato Bank in guarantee business for unsecured personal loans
	August	**Shinsei Financial:** Expanded partnership with Towa Bank in guarantee business for unsecured personal loans
	October	**Lake Business:** Launched *Shinsei Bank Card Loan—Lake* service
		Retail Banking: Launched smartphone-optimized website
	November	**Retail Banking:** Ramped up insurance business with introduction of new products
	December	**Retail Banking:** Launched pre-authorized purchase plans for investment trusts
		Shinsei Financial: Partnered with The Sagakyoei Bank, Limited in guarantee business for unsecured personal loans
2012	February	**APLUS FINANCIAL:** Launched official Facebook page
		Retail Banking: Received UCDA Certification for *PowerSmart Home Mortgage* application form
	April	**APLUS FINANCIAL:** Launched jointly branded Shinsei Bank Group credit cards, *Shinsei APLUS Gold Card* and *Shinsei APLUS Card*

Urawa Consulting Spot opened in June 2011

DAITO BANK
TOWA 東和銀行
富山銀行
THE TOYAMA BANK, Ltd.
筑波銀行
BANK トマト銀行
TOMATO BANK
佐賀共栄銀行
THE SAGAKYOEI BANK, LIMITED

Shinsei Financial made alliances in guarantee business with two regional banks (in June and December 2011), bringing total number of alliances to six

Shinsei APLUS Gold Card launched in April 2012 (Visa and MasterCard versions also available)

Next Challenges

- Retail Banking: Providing smooth access to financial services with a balanced line-up of asset management, deposit and loan products, while striving to differentiate Shinsei through offering unique products and services that meet individual customers' needs
- Consumer Finance: Growing the loan balance by effectively communicating the true value of a bank-based unsecured personal loan service to customers

Promoting the Venture Banking Initiative (VBI)

In March 2012, Shinsei Bank unveiled a new strategy for its institutional business which focuses on contributing to the "growth of customers, the economy and society, and creating and enhancing new productivity," and put in place a framework under which the Institutional Group as a whole will continuously develop, improve and implement financial products and financing schemes. The Bank has named this series of new measures "Venture Banking Initiative" ("VBI"), and will promote the initiative throughout the entire Shinsei Bank Group, aiming to continuously expand our customer franchise, and grow earnings over the medium- to long-term.

Key Pillars of VBI

Specific VBI measures will consist of the following two pillars:

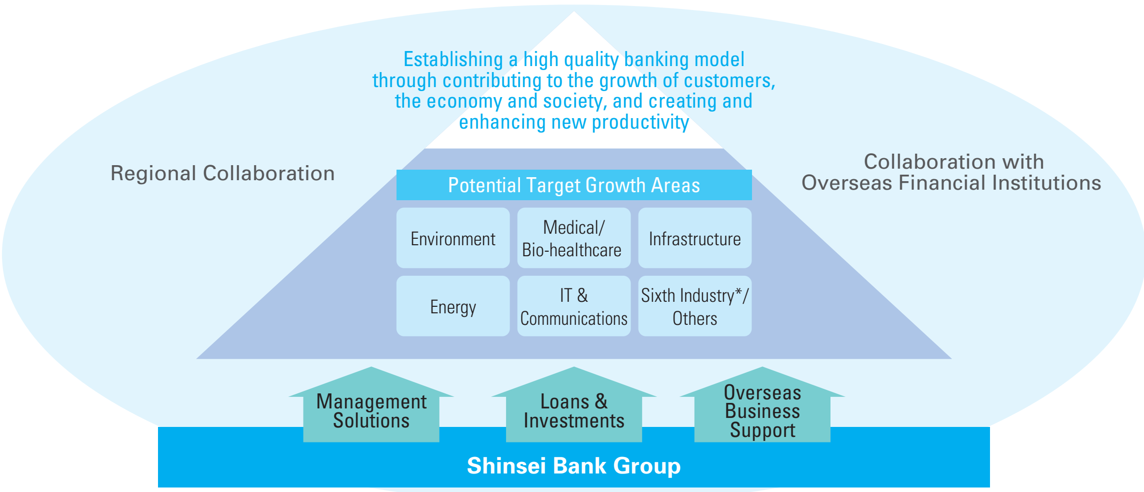
(1) Ongoing, Cross-organizational Business *Kaizen* Process

- Conduct regular reviews of all business domains, products and services, and move quickly to introduce new operations, products and services, and to improve or abandon existing ones as necessary, in order to nurture a corporate culture and organization in line with the societal changes that accompany technological innovation and the creation of new value
- Introduction of an internal suggestions system to solicit proposals for further business improvement

(2) Business Incubation

- Provide multi-faceted solutions for management issues that encompass support in areas such as human resources, business functions, and strategy development and execution, in addition to provision of financing, to middle-market and SMEs (small- and medium-sized enterprises) whose technology or business model holds latent growth potential. Support these companies to realize their maximum growth potential, including overseas expansion
- Two individual teams in the Business Incubation Department focus respectively on development of new business domains in growth areas that will arise due to changes in the operating environment, and on regional revitalization projects that will be promoted in tandem with the strengthening of Shinsei's regional branch network

The Principles Behind VBI



* Sixth industry refers to collaboration between the agricultural, forestry and fishing industry (primary industry = 1), the processing industry (secondary industry = 2), and the logistics industry (tertiary industry) to engage in new business. Multiplying the figures that represent each industry (1 x 2 x 3) gives six, hence the name "Sixth Industry."

VBI Organizational Framework

VBI Promotion Division (under direct management of Institutional Group Head)	Monitoring business improvement plans of each Sub-Group in the Bank
Business Incubation Department	Supporting companies with growth potential
New Sector Project Team	Focusing on growth areas such as changes in the energy supply structure, and advancement of environmental technologies
Regional Development Project Team	Working to solve regional issues and increase productivity through effective utilization of resources
Overseas Business Promotion Department	Planning Shinsei Bank's overseas business strategy and supporting middle-market and SMEs' overseas business expansion planning

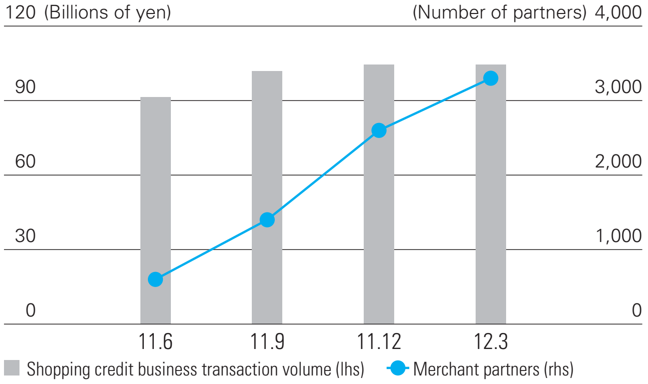
Initiatives at Shinsei Bank Group Companies

In fiscal year 2011, Shinsei Bank Group companies also progressed with new business development to meet customer needs in their respective business domains. Despite concerns about dampened consumer sentiment and reductions in corporate capital expenditure, APLUS GROUP and Showa Leasing forged partnerships that are bringing new value to customers.

APLUS GROUP

In May 2011, APLUS Co., Ltd. teamed up with Culture Convenience Club Co., Ltd. to introduce a new service that rewards customers with T points when they make purchases on installment sales credit. As of March 2012, over 3,300 merchant partners are offering the service and APLUS has successfully established a completely new business model.

FY2011 Shopping Credit Transaction Volume and No. of Merchant Partners Offering *APLUS (Shopping) Credit with T Points*



In the installment sales credit business, it is common for merchant partners to offer customers services from multiple providers, and the choice of which provider to recommend depends largely on individual salespeople. However, *APLUS (Shopping) Credit with T Points* brings the appeal of Japan's biggest shared loyalty point program to an industry where it is difficult to achieve product differentiation. We expect the service both to draw T point customers to our merchant partners as well as to provide an incentive for customers to choose APLUS FINANCIAL's installment sales credit. At APLUS FINANCIAL, we are committed to achieving further market penetration for this service, and becoming a sales finance company chosen by customers in the truest sense of the word.

Masahiko Uchita, General Manager (left) and Akihiro Harada, Manager (right), Business Administration Group, APLUS Co., Ltd.

Showa Leasing Co., Ltd.

In March 2012, Showa Leasing received accreditation as a financial partner for Microsoft Financing*1, a program that Microsoft Corporation offers to its corporate clients. As one of only two companies in Japan to receive such accreditation, Showa Leasing can now provide clients with volume licenses*2 for Microsoft products - for which leasing or rental is otherwise prohibited - while complying with Microsoft's product license agreements.

*1 In the past, customers had either to make a lump-sum payment at the time of contract, or pay in annual installments when deploying Microsoft products under licensing contracts. However, the Microsoft Financing program enables customers to enjoy flexible payment plans including monthly payment programs and the ability to change payment dates, so that they can align their IT deployment plans to their budget requirements

*2 Volume licensing is a program which eliminates the need for customers to conclude and manage individual licenses, subject to a minimum number of licenses purchased

Through this new alliance, Showa Leasing can provide Microsoft products and services in a way that enables customers to make IT investments through flexible payment schedules. Given the penetration rate of Microsoft products in Japan, this alliance opens up a wealth of business opportunities. Going forward, we plan to proactively promote the Microsoft Financing program, not only to existing customers, but also through the wider network of the Shinsei Bank Group.

Kazuya Kikuchi, General Manager, Information and Telecommunications Business Division, Showa Leasing Co., Ltd. (second from left)

SPECIAL FEATURE: THE LAUNCH OF *SHINSEI BANK CARD LOAN—LAKE*

Aiming to strengthen mid-to-long-term earnings power through full-scale launch of a bank-based unsecured personal loan service

A First in Japanese Banking

Shinsei Bank began offering a new unsecured personal card loan service, *Shinsei Bank Card Loan—Lake*, from October 1, 2011. Following the transfer of a portion of consolidated subsidiary Shinsei Financial's unsecured personal loan business to the Bank effective the same day, Shinsei Bank acquired the Lake brand, the entire network of unstaffed branches and automated contract machines (ACM) and Card Loan—Lake ATMs, and other assets necessary to operate this business directly from the Bank. As such, Shinsei became the first bank in Japan to offer full-scale unsecured personal card loan services through a large-scale unstaffed branch network.

Through this initiative, Shinsei Bank aims to provide small-lot personal finance more smoothly and flexibly to individual customers whom it was unable to serve adequately at the Bank level in the past, and to contribute to the development of a sound and healthy market as the leading bank in this sector.

Andrew Hoshino, General Manager (left) and
Tatsushirou Aoki, Joint General Manager (right), Lake Business Division, Shinsei Bank

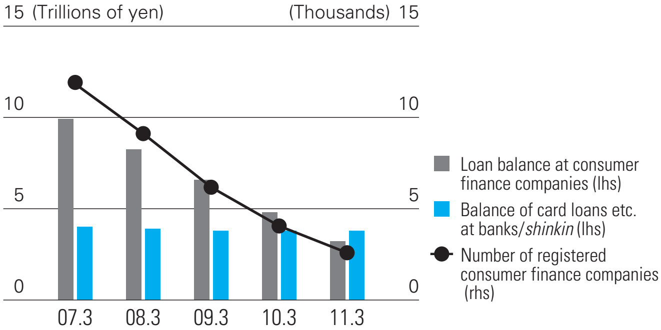
Current State of the Japanese Unsecured Personal Loan Market

Full-scale implementation of the revised Money Lending Business Control and Regulation Law in 2010 has improved the transparency and social value of the Japanese unsecured personal loan (UPL) market. However, it has also brought the market to an unprecedented turning point.

As shown in the adjacent chart, over the past four years, consumer finance companies' UPL market has contracted by approximately 70%, while the number of market participants has declined from approximately 12,000 to fewer than 3,000, as lenders shut down their operations. Although Shinsei Bank expects the number of players to continue to decline, we believe that this market will remain between ¥2 to ¥3 trillion in size. On the other hand, while bank-based card loans have also been declining due to slumping consumption and other factors, the decline is smaller than at consumer finance companies.

As megabanks and other banks ramp up their UPL operations, we believe that competition among lenders to provide UPL services not only to current users, but also to potential borrowers who have legitimate financial needs but have never used UPL services, will lead to the formation and growth of a healthy consumer finance market.

Japanese UPL Market



(Source) Statistics from Bank of Japan and Japanese Financial Services Association

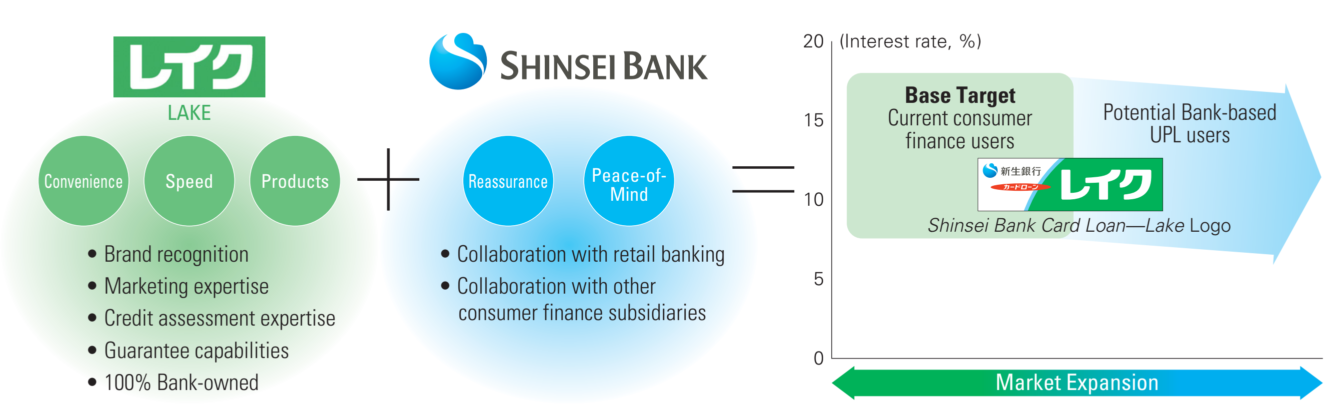
The Value of "Lake"

While competition in the UPL market is set to intensify, at Shinsei Bank, we believe that we possess a great strength in the Lake brand. Originally operated by Shinsei Financial, Lake boasts a network of approximately 790 unstaffed branches nationwide (as of March 2012). With "simplicity and convenience" as its watchword, Lake launched the Japanese consumer finance industry's first* entirely Web-based UPL new application and contract process in fiscal year 2010 through a partnership with fellow Shinsei Bank Group company, APLUS Co., Ltd. This was followed by the introduction in 2011 of a product that offered up to 180 days interest-free credit with a first contract, as Lake worked to differentiate itself with products that would appeal to first-time borrowers and further enhance customer convenience.

Shinsei Bank has utilized these strengths in developing *Shinsei Bank Card Loan—Lake*, which is based on a unique business model that incorporates the convenience and speedy service of consumer finance into a bank-based card loan product.

* According to a survey of lenders registered with the Finance Bureau conducted by Shinsei Financial

Shinsei Bank's Medium-Term Strategy and Business Development Image



We believe that the launch of *Shinsei Bank Card Loan—Lake* will allow us to serve a larger number of customers as the service combines the same speed and convenience provided until now by Shinsei Financial—including immediate loan disbursement, a no-branch-visit application process, fee-free usage of partner ATMs and a nationwide network of approximately 790 proprietary unstaffed branches—with the peace-of-mind and reassurance of Bank service.

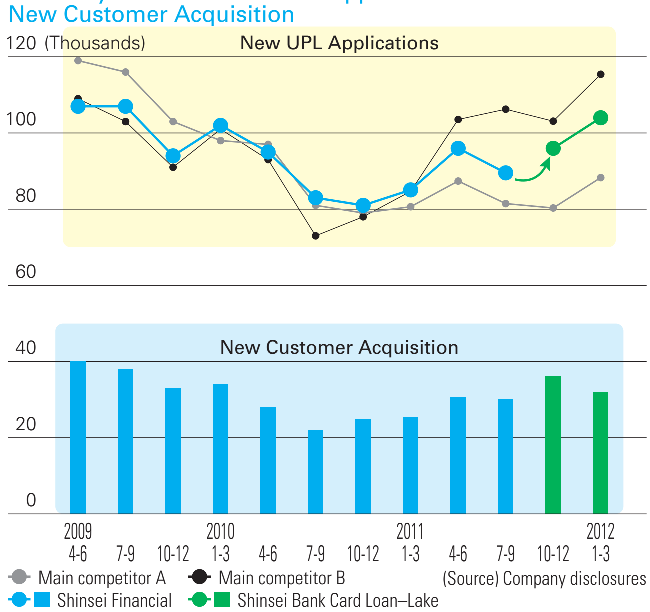
Meanwhile, Shinsei Financial will strive to continue generating stable earnings and pursue further growth by serving its existing customer base and through expansion of its credit guarantee business for the *Shinsei Bank Card Loan—Lake* service and for other financial institutions.

Shinsei Bank Card Loan—Lake's Performance to Date

Since its launch at the beginning of the second half of fiscal year 2011, *Shinsei Bank Card Loan—Lake* has shown a strong start across all service channels (Internet, call center, unstaffed branches etc.). While it is difficult to make direct comparisons with the service offered by Shinsei Financial and still too early to judge performance on a stand-alone basis, we believe that we have already made solid progress in expanding our customer base, while continuing to win business from Lake's traditional customer profile.

We will continue reaching out to a wider spectrum of customers, including Shinsei's retail banking customers as we strive to grow the *Shinsei Bank Card Loan—Lake* business further going forward.

Quarterly Trends in New UPL Applications and New Customer Acquisition



Shinsei Bank Card Loan—Lake Post-Launch Initiatives

October 2011	Direct mailing to retail banking customers
	Introduction of service offering first-time borrowers 30 days interest-free credit, or 180 days interest-free credit on loan balances of up to ¥50,000
March 2012	Preferential interest rate campaign targeting retail banking customers
April 2012	Lake ACMs installed in Shinsei Bank ATM corners (installed in 2 locations in Tokyo on trial basis)
May-June 2012	Lake-related information shown on screen when retail banking customers use Seven Bank ATMs

Shinsei Bank Card Loan—Lake Performance (Oct. 2011-Mar. 2012)

	Oct.-Dec. 2011	Jan.-Mar. 2012
New Customers Acquired	approx. 36,000	approx. 32,000
UPL Balance (quarter-end)	¥8.9 billion	¥17.5 billion

SPECIAL FEATURE:
SUMMARY OF MAJOR EVENTS

2000	March	Launched as an innovative Japanese bank under new management and new ownership
	June	Changed name from The Long-Term Credit Bank of Japan, Limited (LTCB), to Shinsei Bank, Limited
2001	May	Commenced operations of Shinsei Securities Co., Ltd.
2003	April	Commenced operations of Shinsei Investment Management Co., Ltd.
2004	February	Listed the Bank's common shares on the First Section of the Tokyo Stock Exchange
	April	Converted the Bank's long-term credit bank charter to an ordinary bank charter
	May	Achieved one million retail accounts
	June	Converted to a Company with Committees board model
	September	Acquired a controlling interest in APLUS Co., Ltd.
2005	March	Acquired a controlling interest in Showa Leasing Co., Ltd.
	May	Commenced operations of Shinsei International Limited
2006	July	Commenced resolution of public funds
2007	April	Achieved two million retail accounts
	July	Launched new *Shinsei Platinum Services*
	December	Acquired a controlling interest in SHINKI Co., Ltd.
2008	January	Reached a mutual agreement with Seven Bank, Ltd. to share sales channels and develop products and services together
	February	Completed a tender offer bid for the Bank's common shares and a third-party allotment of new common shares of the Bank to the investor group led by J.C. Flowers & Co. LLC and affiliates
	April	Launched *Shinsei Mobile Banking*
	September	Acquired GE Consumer Finance Co., Ltd. (Changed company name to Shinsei Financial Co., Ltd. on April 1, 2009)
2009	January	Launched *Shinsei Step Up Program*
	March	Concluded tender offer for the shares of common stock of SHINKI Co., Ltd.
	June	Opened first Shinsei Consulting Spots
		Launched *Two Weeks Maturity Deposit*
	October	Issued JPY-denominated preferred securities
	November	Issued non-dilutive subordinated bonds to retail investors
2010	March	Partially repurchased and cancelled Tier I preferred securities
		Received "Best Retail Bank in Japan" award from *The Asian Banker* for the fourth time, following awards in 2005, 2006 and 2009
	June	Moved to a "Company with Board of Statutory Auditors" board model
	November	Announced business alliance with YES BANK LIMITED in Japan-India cross-border M&A business
		Formed business alliance with Baoviet Holdings to support Japanese institutional customers in the Vietnamese market
		Established corporate restructuring investment subsidiary, Shinsei Corporate Support Finance Co., Ltd.
2011	January	Commenced operations at new head office
	March	Issued new shares through international common share offering
		Signed memorandum of understanding on business collaboration with Taiwanese equity-method affiliate, Jih Sun Financial Holding Co., Ltd.
		Expanded joint ATM installations with Seven Bank, Ltd.
	April	Reorganized institutional business groups
	September	Corporate Support Division provided financing for Corona Kogyo Corporation's construction of factory in Vietnam
		Assisted The Daito Bank, Ltd. in arranging its first syndicated loan
	October	Commenced unsecured personal card loan service under the Lake brand
	November	Began offering Cardif Assurance Vie's *MediReturn Shinsei*, a medical insurance product with a maturity benefit, to Shinsei Bank female account holders via direct telemarketing
2012	March	Established VBI Promotion Division in the Institutional Group
	April	Added "Shinsei APLUS Gold Card" and "Shinsei APLUS Card" to credit card line-up
	June	Reached an agreement to take over overseas remittance business of Lloyds TSB Bank plc in Japan

REVIEW OF OPERATIONS

AT A GLANCE

INSTITUTIONAL GROUP/ GLOBAL MARKETS GROUP

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

Major Business

Institutional Group

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

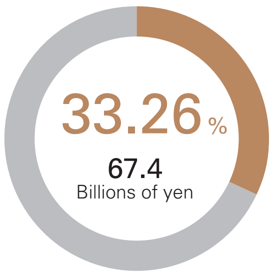
Global Markets Group

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

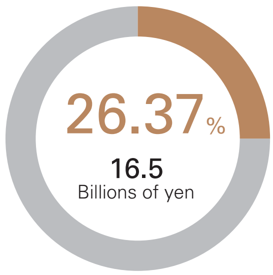
* Effective July 1, 2012, the Bank transferred its treasury operations to the Finance Group. However, presentation of the Bank's financial results in this report are based on previous business segmentation.

Contribution(Note)

Total Revenue



Ordinary Business Profit after Net Credit Costs



INDIVIDUAL GROUP

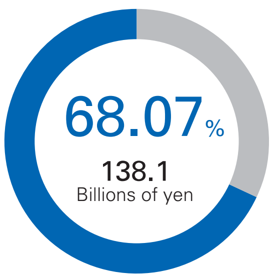
The Individual Group serves six million core customers in its retail banking, and unsecured personal loan, installment sales and other consumer finance businesses, offering products and services ranging from asset management to loans

Major Business

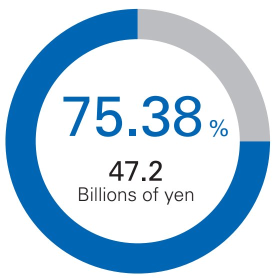
- Retail Banking
  - Deposit related products (saving deposits, time deposits, structured deposits, foreign currency deposits)
  - Asset management (consultation, mutual funds, annuity products)
  - Housing loans
- Consumer Finance
  - Unsecured personal loans (Shinsei Bank, Shinsei Financial, Shinki)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

Contribution(Note)

Total Revenue

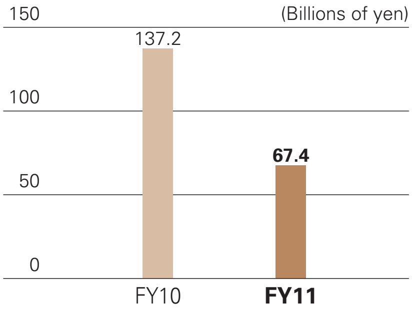


Ordinary Business Profit after Net Credit Costs

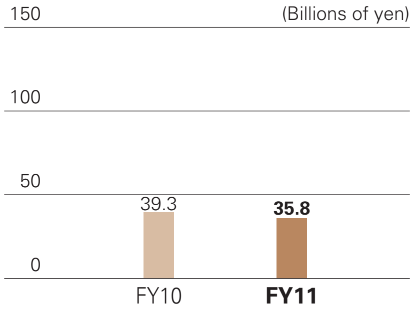


(Note) The percentage figures do not add up to 100 because Corporate/Other was negative.

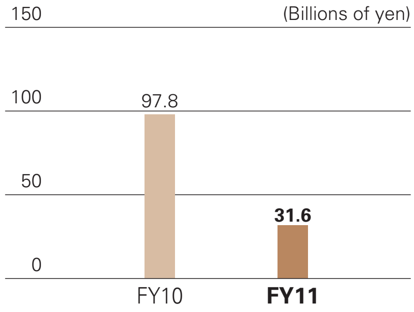
Total Revenue



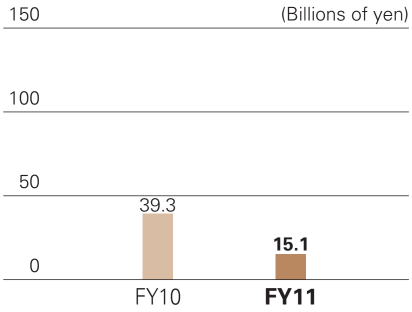
General and Administrative Expenses



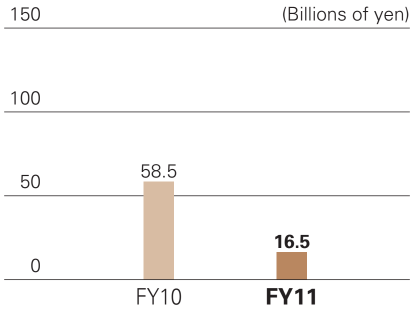
Ordinary Business Profit



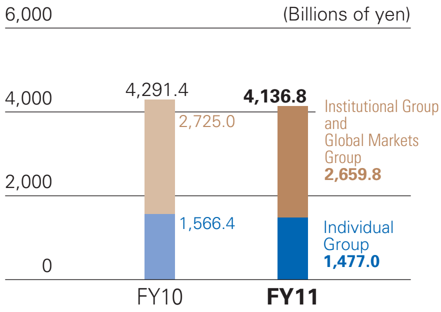
Net Credit Costs



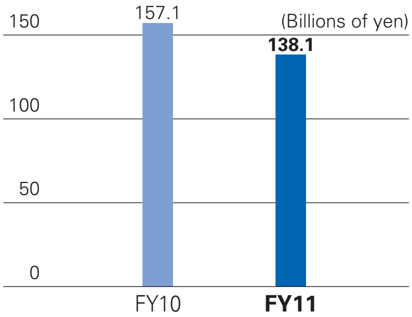
Ordinary Business Profit after Net Credit Costs



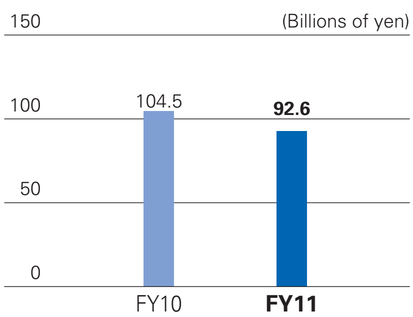
Total Loans and Bills Discounted



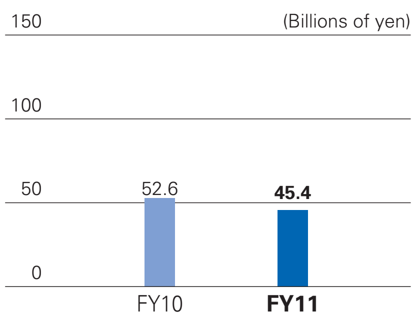
Total Revenue



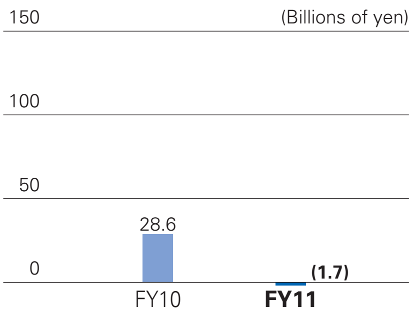
General and Administrative Expenses



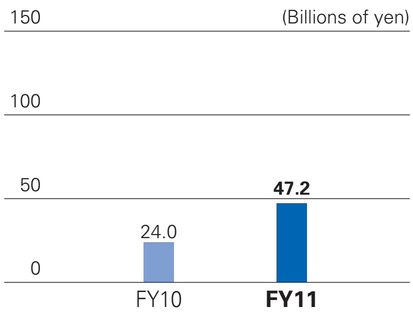
Ordinary Business Profit



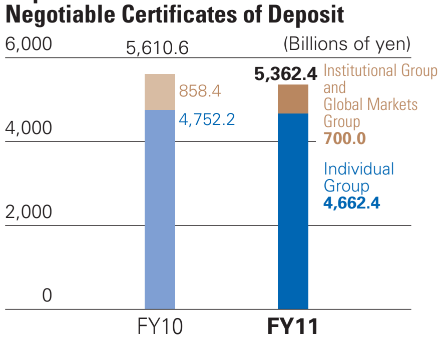
Net Credit Costs



Ordinary Business Profit after Net Credit Costs



Deposits and Negotiable Certificates of Deposit



INSTITUTIONAL GROUP

GLOBAL MARKETS GROUP

Akira Watanabe
Managing Executive Officer
Head of Global Markets Group

Hitomi Sato
Senior Managing Executive Officer
Head of Institutional Group

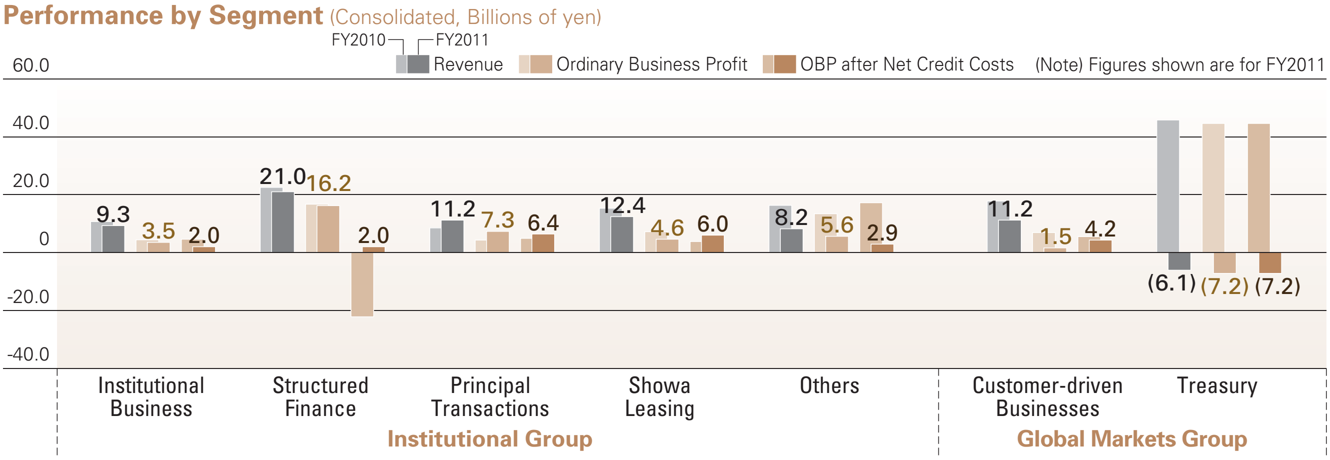
The Institutional Group, which focuses primarily on corporate and public sector finance and advisory business, and the Global Markets Group, which concentrates on financial markets business and serving financial institution clients, have been working in close cooperation, while clarifying each Group's roles and responsibilities, to proactively promote the Bank's institutional business. Operating conditions in fiscal year 2011 were challenging due to the impact of the Great East Japan Earthquake compounded by the delay in the recovery process, as well as the slump in economies and financial markets both in Japan and overseas precipitated by the Eurozone debt crisis and other factors. However, we made progress in core businesses, expanding our transaction and customer base, revitalizing our portfolio with high quality assets, and making inroads into new business domains. At the same time, we succeeded in meeting our Medium-Term Management Plan target for non-core asset reduction 1.5 years ahead of schedule, and produced tangible results through initiatives to "rebuild the customer franchise in Japan" and "establish a stabilized earnings base" as we shifted gears to go back on the offensive in fiscal year 2011.

Results

In fiscal year 2011, the Institutional Group's ordinary business profit after net credit costs rose to ¥19.4 billion, improving significantly from ¥8.3 billion in the previous year, as the customer franchise expanded with an increase in borrower numbers, core businesses including real estate non-recourse finance and credit trading businesses performed strongly, and net credit costs declined substantially year-on-year. The Global Markets Group recorded an ordinary business loss after net credit costs of ¥2.9 billion in fiscal year 2011, compared to a profit of ¥50.1 billion in the previous fiscal year. This was due in large part to the absence of gains on repurchases of capital securities and bond sales recorded as part of the treasury operations in fiscal year 2010, compounded by the stagnation in financial markets due to the Eurozone debt crisis and the Great East Japan Earthquake. However, when losses recorded in treasury operations due to high subordinated debt and other costs are excluded, the Global Markets Group recorded an ordinary profit after net credit costs of ¥4.2 billion.

(Note) Effective July 1, 2012, the Bank transferred its treasury operations to the Finance Group. However, presentation of the Bank's financial results in this report are based on previous business segmentation.

Performance by Segment (Consolidated, Billions of yen)



Businesses with higher revenues and higher OBP after net credit costs year-on-year:

- **Principal Transactions:** Strong performance in credit trading and other businesses

Businesses with lower revenues, higher OBP after net credit costs year-on-year:

- **Structured Finance:** Increased profit as net credit costs declined despite a fall in interest income due to reduction of the real estate non-recourse finance balance in fiscal year 2010 as part of risk weighted asset optimization efforts. New disbursements contributed to asset accumulation in real estate non-recourse finance in fiscal year 2011, while asset replacement also progressed
- **Showa Leasing:** Increased profit through strict credit and expense management, despite faltering growth in operating assets

Business with lower revenues and lower OBP after net credit costs year-on-year:

- **Institutional Banking:** Recorded impairment on listed securities due to slowdown in financial markets, even though borrower numbers increased and efforts to rebuild the customer franchise progressed
- **Others:** Fewer gains related to sales or valuation of non-core assets
- **Customer-driven Businesses (Financial Institutions Business, Markets):** Although we saw strong transaction flow with financial institutions customers, Markets recorded lower profit as gains on sales of non-core assets (CLO) recorded in fiscal year 2010 were absent in fiscal year 2011, and transaction volume weakened due to the slowdown in financial markets
- **Treasury:** Absence of gains on repurchase of capital securities recorded in fiscal year 2010, and fewer gains on trading of Japanese government bonds held for ALM purposes

OBP after Net Credit Costs (Loss) (Consolidated, Billions of yen)

	FY2010	FY2011
Institutional Group	8.3	**19.4**
Global Markets Group	50.1	**(2.9)**

Strategy

Key Points of Institutional Business Strategy

- Expanding Client Franchise
  - Building customer base by growing domestic and overseas assets in areas centered on infrastructure-related project finance; continuously promoting new business development; and strengthening consultancy for middle-market and SMEs
  - Further enhancing the provision of solutions for corporate, financial institutions and public sector customers by leveraging product development capabilities
  - Enhancing asset management proposals for institutional customers
- Further Strengthening Shinsei's Distinctive Business Approach
  - Developing business incubation operations aimed at proactive engagement in new business domains and regional revitalization, and providing management solutions to growth companies, as part of VBI
  - Proactive efforts to support recovery after Great East Japan Earthquake
  - Concrete development of Asia-related business
- Continuing reduction of non-core assets while building up high quality assets in core businesses
- Strengthening markets business

Progress

Institutional Group

Institutional Business and Showa Leasing

Financial products and services for corporate and public sector customers, healthcare finance, ship finance, promotion of VBI, leasing business

As the result of a continuing branch-wide campaign to approach new customers, the growth of our client base has outpaced Medium-Term Management Plan targets. As demand for funding in Japan showed some signs of recovering, the balance of our corporate loans increased quarter-on-quarter in the final quarter of fiscal year 2011. Our division specializing in support for the development of new industries identified areas of focus, which include new recycling technologies, renewable energy and power generation, and teamed up with Group companies to begin marketing activities. Subsequently, in March 2012, we established the VBI Promotion Division to implement the Venture Banking Initiative, centered around the principle of contributing to the "growth of customers, the economy and society, and creating and enhancing new productivity" across the Institutional Group. While continuing our existing activities, the new division will also focus on providing support for the development of new business domains and regional revitalization.

In Healthcare Finance, we have continued to expand our networks in the nursing home sector and with real estate securitization investors.

Showa Leasing has been working to strengthen its business base alongside its traditional strengths in the leasing of industrial equipment and machine tools to middle-market and SMEs. In fiscal year 2011, Showa Leasing took initiatives in its environmental businesses in areas including LED lighting, wind power and solar power generation for corporate customers and financing for semiconductor equipment, while strengthening its supplier alliances and expanding its asset finance operations. Alongside these ongoing efforts to establish next-generation core businesses through enhancing its product and service range, Showa Leasing is working in close collaboration with the Bank's institutional banking business to expand the client base further.

Structured Finance

Real estate related non-recourse and corporate finance, M&A and other specialty finance, Corporate restructuring, Trust business

Despite a harsh operating environment in the wake of the Great East Japan Earthquake, we continued to dispose of non-performing claims related to real estate finance, while restarting full-scale operations in our real estate non-recourse finance business and lending proactively to real estate companies and J-REITs (for details, please see page 36). In M&A related finance, we have built up our track record through working on a wide range of deals. Going forward, we are considering proactive development of project finance operations, where new business opportunities are growing centered around the Asia-Pacific region, including Japan. In the corporate restructuring business, our Corporate Support Division has provided financing for numerous business restructuring cases since its establishment in September 2010. One example of particular note is the financing we extended to Corona Kogyo Corporation, a company selected to receive assistance from the Enterprise Turnaround Initiative Corporation of Japan. We remain committed to providing consultancy services going forward. Meanwhile, Shinsei Trust & Banking is working proactively both on business within the Shinsei Bank Group as well as for external clients.

Principal Transactions

Credit Trading, Private Equity

In Credit Trading, our domestic business has continued to perform strongly despite difficult operating conditions in fiscal year 2011, as we pursued unique strategies, including arranging special situation finance in collaboration with our subsidiary. In our overseas credit trading business, we restarted investment in the Korean distressed debt market in September 2011 for the first time in approximately 3 years, and have produced steady results.

In Private Equity, we are actively pursuing opportunities to provide growth financing through pre-IPO investment in unlisted stock of mid-to-late stage ventures that are planning a stock market listing in the future. At the same time, we are also working on initiatives to meet the growing succession needs of small-and-medium enterprises.

Advisory

(included within "Others" in financial results)

Our Advisory business won various M&A related mandates in fiscal year 2011, including advising on the sale of a high-end supermarket chain. We have also provided advisory services that demanded advanced expertise in corporate restructuring, such as sourcing a sponsor for a major consumer finance company.

We are actively utilizing the partnerships forged in fiscal year 2010 with financial institutions in India, Vietnam and Taiwan to support Japanese companies' growing needs for overseas expansion and cross-border M&A.

Global Markets Group

Markets

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

The strong yen and decline in equity markets and interest rates made for a challenging operating environment, as customer demand for primarily investment-related products was delayed. Nevertheless, we succeeded in winning new customers by ramping up provision of credit-linked loans, and funding and currency exchange-related products in the second half of fiscal year 2011. In addition, we also began supporting regional financial institutions in arranging syndicated loans, as well as providing new investment opportunities to customers through loan arrangement.

Additionally, in October 2011, we opened the Osaka Business Department in our Markets Sub-Group to offer greater support to our customers in western Japan.

While we expect the operating environment to remain severe in fiscal year 2012, we intend to expand our business through promoting credit-linked loans and foreign exchange related products, and approaching new customers.

Financial Institutions Business

Products and services for financial institutions

Working ever more closely with the Markets Sub-Group, our Financial Institutions business is providing investment products, including structured loans, structured deposits and credit-linked loans, to regional financial institutions in search of yield amidst the low-interest-rate environment. We also continue to promote our "white label business" in which partner financial institutions sell structured deposits and other financial products developed by Shinsei Bank under their own brands, and won new contracts in fiscal year 2011. In addition, we have also been engaged for advisory on revenue enhancement strategies, in areas such as M&A and expense reduction, and assistance with balance sheet restructuring through asset replacement, as part of the wide range of services we offer to financial institution customers.

Asset Management

Investment trusts, Wealth management

We established our new Asset Management Sub-Group in April 2011, and have since begun full-scale marketing activities in preparation for the launch of a privately offered investment trust specifically geared for the needs of financial institution customers. We are also enhancing the level of support we provide to Retail Banking sales staff, while working with subsidiary Shinsei Investment Management on a cross-organizational project to expand our investment trust sales channels to include institutional and wealth management customers. In fiscal year 2012, we plan to approach these customers with asset management product proposals.

In March 2012, Shinsei Investment Management launched the "Gold Target Fund," the first unit-type investment trust in Japan to offer exposure to gold with a target auto redemption feature. Going forward, the company will continue to plan and develop new products in line with customer needs.

INDIVIDUAL GROUP

Katsumi Tsuyama
Head of Retail Banking Sub-Group

Sanjeev Gupta
Senior Managing Executive Officer,
Head of Individual Group

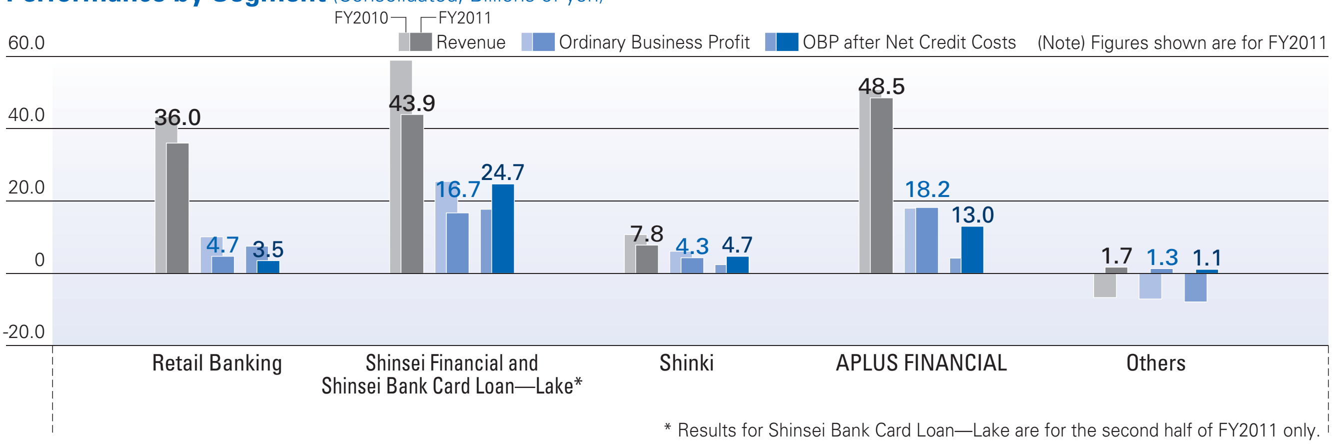
Masayuki Nankouin
Executive Officer,
Head of Consumer Finance Sub-Group

Shinsei Bank's Individual Group combines Shinsei's retail banking operations with the major consumer finance subsidiaries Shinsei Financial, Shinki, and APLUS FINANCIAL under a single management structure to provide a wide range of financial products and services for our individual customers. As of October 1, 2011, Shinsei Bank took over a portion of the Lake-branded unsecured personal loan business previously operated by Shinsei Financial to launch *Shinsei Bank Card Loan—Lake*, a new, full-scale, bank-based unsecured card loan service. As a result, Shinsei Bank now offers a full range of financial products and services, from retail banking to consumer finance, directly from the Bank, to better meet the ever-changing needs of our individual customers.

Results

In fiscal year 2011, the Individual Group's ordinary business profit after net credit costs increased to ¥47.2 billion from ¥24.0 billion in the previous fiscal year. This reflected a decline in net credit costs due to stricter credit management and enhanced collection systems in our unsecured personal loan business as well as an improvement in asset quality following the introduction of the income-linked borrowing limitation and the overall decline in the loan balance. The improvement in net credit costs offset lower interest income at our major consumer finance subsidiaries.

Performance by Segment (Consolidated, Billions of yen)



* Results for Shinsei Bank Card Loan—Lake are for the second half of FY2011 only.

Businesses with higher revenues and higher OBP after net credit costs year-on-year:

- **Shinsei Financial and *Shinsei Bank Card Loan—Lake*:** offset a decline in interest income at Shinsei Financial with lower net credit costs reflecting improvements in asset quality, stricter credit standards and enhanced collections, and lower expenses
- **Shinki:** offset a decline in interest income with lower expenses and lower net credit costs
- **APLUS FINANCIAL:** covered a decline in loan income with a strong performance in the credit card and shopping credit businesses, coupled with lower expenses and net credit costs

Businesses with lower revenues and lower OBP after net credit costs year-on-year:

- **Retail banking:** showed steady performance in the housing loan business but recorded lower deposit-related interest income due to the prevailing low-interest rate environment, and lower non-interest income from investment products as a slowdown in the financial markets due to the European debt crisis and other factors depressed sales

OBP after Net Credit Costs (Consolidated, Billions of yen)

	FY2010	**FY2011**
Individual Group Total	24.0	**47.2**

Strategy

Retail Banking

- Strengthening Internet banking, call center and other convenient remote channels
- Continuing the roll-out of compact-sized Shinsei Consulting Spots while optimizing the branch network to meet customer needs through alterations to branch services and other initatives
- Enhancing our asset management product development and consultation services to assist customers in finding the optimal financial solutions for their individual needs
- Further building out our business in housing loan products with unique features, such as guarantee fee waivers and a free-of-charge early repayment facility
- Offering a wide range of distinctive deposit products that contribute to stabilizing the Bank's funding base and lowering funding costs

Consumer Finance

- Acquiring new customers and building up loan assets through the launch of *Shinsei Bank Card Loan—Lake*
- Maximizing Shinsei Bank Financial Institutions Sub-Group's relationships with regional banks to win new partnerships in the unsecured personal loan guarantee business
- Continuing to grow high-quality assets in the installment sales credit and credit card businesses through differentiation, and strict management of credit costs and expenses

Operating Environment & Progress

Retail Banking

In retail banking, total account numbers continued to grow steadily, topping 2.6 million as of March 31, 2012. The deposit balance declined slightly on March 2011 to ¥4.6 trillion, as time deposits sold in previous campaigns reached maturity. As a result, however, deposit-based funding costs were lower year-on-year on a consolidated basis. As of March 31, 2012, retail banking had ¥5.7 trillion in assets under management.

In fiscal year 2011 there was a deterioration in consumer sentiment and investment appetite, while individuals' tendency towards risk aversion strengthened due to the uncertain market situation, as stock markets languished, the yen remained at historically high levels and financial markets were roiled by the European debt crisis and other factors. As a result, sales of investment trusts and other asset management products were weak, although there was continued demand for unique Shinsei products such as our housing loan and Two Week Maturity Deposit.

Buoyed by the strong yen, we also saw an increase in foreign currency deposit transactions in fiscal year 2011. In July 2011, we launched a "Foreign Exchange Commission Discount Time" campaign which offers customers lower foreign exchange commission rates for certain currencies for a limited period on a given day. We are also offering customers the choice to make transactions in an ever wider menu of foreign currencies, as we began handling the renminbi, Brazilian real and Turkish lira in June 2012. In addition, in June 2012 the Bank reached an agreement with Lloyds TSB Bank plc ("Lloyds TSB") in which Lloyds TSB will transfer ownership of its overseas remittance business to Shinsei, subject to the approval of the Financial Services Agency of Japan. Through this business transfer, Shinsei Bank will take over the customer base and service offering built up by Lloyds TSB, and aim to commence provision of a new overseas remittance service by December 2012.

We have also worked to expand our line-up of asset management products by, for example, introducing a new unit-type investment trust that offered exposure to gold with a target auto redemption feature, and a yen-denominated fixed annuity product to meet the needs of customers looking for stable investment options.

In our housing loan business, both new disbursements and the overall loan balance have trended strongly as we strived to provide even higher standards of service for both potential new customers, and customers considering refinancing (for details, please see page 36). In addition, we received certification from the Universal Communication Design Association for our *PowerSmart* Home Mortgage product, following revisions to the form's layout, color scheme and other features to improve accessibility for customers of varying color perceptions and for senior customers.

Through continually reviewing our branch network and the service offering at each branch in line with customer traffic, we are endeavoring to respond ever more flexibly to our customers' asset management needs. From November 2011, we have also begun offering medical insurance via telemarketing as part of efforts to deepen relationships with customers who have previously had few opportunities to visit a branch. At the same time, we are striving to achieve even higher levels of satisfaction among retirement-age and other customers who prefer face-to-face asset management consultation at our branches, by ensuring that we provide thorough explanations of the financial products we offer.

Consumer Finance Business

In our consumer finance operations, although the effects of full-scale implementation of the revised Money-Lending Business Law (MLBL) have begun to subside, the market continues to contract and the overall balance of Shinsei Bank Group's unsecured personal loans declined again in fiscal year 2011. However, we have seen the number of new unsecured personal loan customers turn positive year-on-year, and the newly launched *Shinsei Bank Card Loan—Lake* has got off to a strong start. Meanwhile, disclosure claims, the leading indicator for "grey zone" interest repayment losses, have declined substantially year-on-year. As the impact of the regulatory changes implemented in June 2010, and the bankruptcy filing of a major consumer finance company in September of the same year became clearer, the Bank made substantial additional provisions for interest repayments at consumer finance subsidiaries at the end of fiscal year 2011, aiming to eradicate any so-called "grey zone risks" in the future. However, our ongoing indemnification agreement with GE continues to limit the risks related to a portion of the "grey zone" interest repayment liabilities at Shinsei Financial.

Shinsei Bank Card Loan—Lake

Following the transfer to Shinsei Bank of a portion of the unsecured personal loan business previously operated by Shinsei Financial, the Bank launched the *Shinsei Bank Card Loan—Lake* in October 2011. The business has attracted approximately 68,000 new customers, and accumulated a balance of ¥17. 5 billion in unsecured personal loans to date, performing steadily in line with initial projections. Going forward, we will focus both on Lake's traditional customer profile, as well as serving the needs of retail banking customers. As a result of these initiatives, we anticipate a rebound in the Group's overall unsecured personal loan balance in the near future, and plan to grow the business into an important contributor to profitability over the mid-to-long-term.

Shinsei Financial

With the transfer of the Lake brand to Shinsei Bank in October 2011, Shinsei Bank has taken over new customer acquisition in the unsecured personal loan business. Going forward, Shinsei Financial will continue serving it approximately 600,000 existing unsecured personal loan customers while providing credit guarantee services for the *Shinsei Bank Card Loan—Lake* service and for other financial institutions. As of March 31, 2012, Shinsei Financial currently has credit guarantee agreements with six regional financial institutions. In August 2011, the company announced an expansion of its partnership with The Towa Bank, Ltd. ("Towa Bank") to provide the bank with core card loan systems on an ASP (application service provider) basis. This arrangement allows Towa Bank to develop new products drawing on Shinsei Financial's wide-ranging expertise without having to build its own proprietary systems. By providing ASP-based systems together with the marketing expertise developed during its years as a loan provider, Shinsei Financial will strive to grow its credit guarantee business further.

APLUS FINANCIAL

During fiscal year 2011, APLUS FINANCIAL, one of Japan's three largest listed *shinpan* (sales finance) companies, has continued to make steady progress in its three major businesses—installment sales credit, credit cards and settlement services—as it works towards its medium-term management plan vision of "becoming a *shinpan* company chosen by customers, supported by business partners, and fit for the new age," and breaking away from dependence on consumer finance loan income.

In installment sales credit, a key business, APLUS FINANCIAL has continued to pursue transaction growth both in its core auto sales finance business as well as in other areas, for example, through ongoing efforts to grow its housing-related business including finance for products such as solar power generation systems and EcoCute energy-efficient water heating systems. In addition, the company has secured powerful differentiation in this commoditized market through a new service launched in May 2011 that allows customers to acquire T points* with APLUS' installment sales credit. As of March 2012 over 3,300 companies have already begun offering the service and transaction volumes are increasing steadily.

In the credit card business, transaction volume growth has outpaced the industry average. In April 2012, APLUS Co., Ltd. and Shinsei Bank integrated the cards they previously each offered separately and launched "Shinsei APLUS Gold Card" and "Shinsei APLUS Card" as jointly branded Shinsei Bank Group credit cards. APLUS FINANCIAL will continue to pursue further growth in transaction volume by introducing distinctive, new credit card products.

The settlement service business continues to perform steadily and in fiscal year 2011, APLUS FINANCIAL partnered with the Bank's Institutional Group to win new customers for its rent guarantee business.

* The T Point Loyalty Program is an integrated loyalty point program, operated by Culture Convenience Club Co., Ltd. ("CCC"), which allows holders of a T card to accumulate T points when making purchases at participating retailers. Points can be redeemed across a spectrum of retailers including convenience stores and supermarkets. APLUS FINANCIAL has an alliance with CCC in the credit card business, where it offers the credit-enabled "T Card Plus" card.

Building up Operating Assets

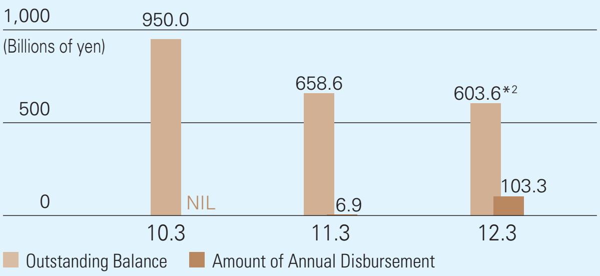
Shinsei Bank's loan balance showed a quarter-on-quarter increase as of March 2012, the first increase in two-and-a-half years since September 2009. In addition to our corporate lending and *Shinsei Bank Card Loan—Lake* businesses, we are committed to increasing new disbursements and growing the loan balance in our real estate non-recourse finance and housing loan businesses too, by providing unique products and services aligned with customer needs.

Real Estate Non-Recourse Finance

A pioneer in non-recourse finance in Japan

Immediately after the Great East Japan Earthquake, there was a slowdown in new disbursements in our real estate non-recourse finance business, as investors postponed or cancelled deals. However, once the market began to settle after the second quarter of fiscal year 2011, we leveraged our extensive network and succeeded in finding opportunities to issue new loans. As a result, new disbursements in fiscal year 2011 totaled ¥103.3 billion, a figure that clearly shows the progress we have made since restarting this business in January 2011 (the Bank made no new disbursements in real estate non-recourse finance in fiscal year 2009, and issued only ¥6.9 billion in new loans in the final quarter of fiscal year 2010). We also progressed with the disposal of non-performing claims related to past investments and made good headway in replacing the assets in our real estate non-recourse finance portfolio.

Real Estate Non-recourse Finance*1



*1 Real estate non-recourse finance includes bonds (including other monetary claims purchased)
*2 Excludes the portion (¥24.5 billion) eliminated through consolidation in FY2011

According to a survey by the Japanese Ministry of Land, Infrastructure, Transport and Tourism, land price declines narrowed for the second consecutive year as of January 1, 2012, as real estate prices in Japan showed signs of bottoming out. Meanwhile, there were also new movements in the market as foreign funds restarted investment activities. While we expect increased competition amidst this environment, we also see certain discrepancies among competitors' approach to small- and medium-sized deals, and operational assets such as logistics and commercial facilities. As a pioneer in the Japanese non-recourse finance market, we believe that by leveraging our proven end-to-end execution capabilities, spanning the spectrum of assessment, contracting, appraisal/due diligence, disbursement and management—there is ample opportunity for Shinsei Bank to win new business in this market.

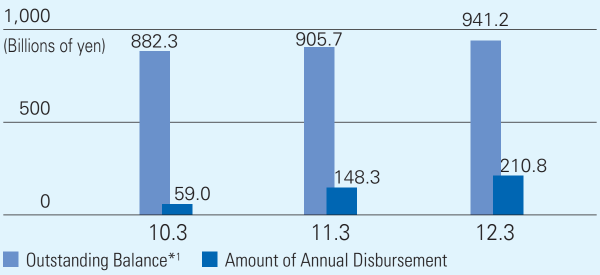
Housing Loans

The *PowerSmart* Housing Loan—a mortgage chosen for its unique product features

While the balance of housing loans at Japanese banks reached a record of ¥105 trillion as of December 31, 2011, according to Bank of Japan statistics, the ongoing low interest rate environment that is rooted in the lackluster domestic economy has fuelled intense competition on interest rates in the housing loan market.

In fiscal year 2011, new disbursements in Shinsei Bank's housing loan business were strong and the overall balance reached ¥941.2 billion, its highest-ever level.

Retail Housing Loans



*1 A portion of housing loans was sold in the second quarter of FY2011

In the current market environment, there is a general tendency for home-buyers to choose their mortgage provider by comparing upfront interest rates primarily on variable interest rate mortgages. At Shinsei, however, we encourage customers to think about the total cost of a mortgage, which includes not only the interest payable, but other costs such as guarantee fees and early repayment charges.

At Shinsei Bank, we charge no guarantee fee for our *PowerSmart* housing loan, and we also waive group life insurance fees, enabling customers to reduce the initial costs of borrowing or refinancing. In addition, we provide free-of-charge facilities that allow customers to request that any excess savings above a certain pre-set balance are automatically used to pay off their mortgage, or to make individual repayments over the Internet. These convenient product features that help reduce the burden on borrowers have not only proved popular with customers, but have also helped the Bank avoid excessive competition on interest rates. Going forward, Shinsei will continue working to expand its housing loan business through increasing new disbursements.

GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

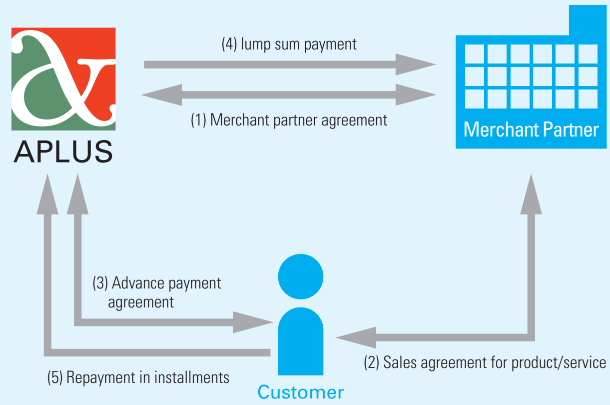
Exposure
Exposure refers to an amount of assets or an amount of money that is exposed to foreign exchange, price fluctuations or other risks as a result of loans and investments.

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

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

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

Installment Sales Credit/Shopping Credit System



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

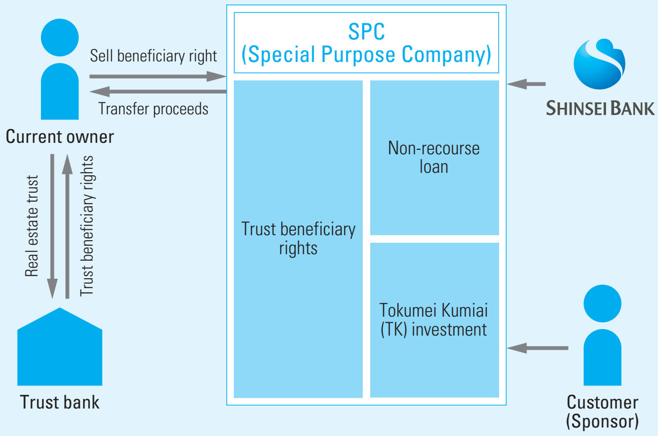
Japanese Operating Lease (JOL)
Japanese Operating Leases (JOL) offer investors the opportunity to enjoy benefits similar to those derived from owning large-scale, depreciable assets, through investment in major leasing arrangements for assets such as aircraft, ship, and freight containers, in return for a share in the income generated by the operator (lessor) of the assets.

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

MANAGEMENT STRUCTURE

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

DIRECTORS AND EXECUTIVES

As of July 1, 2012

BOARD OF DIRECTORS (6)

Shigeki Toma

Representative Director, President

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

Yukio Nakamura

Representative Director, Senior Managing Executive Officer

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

J. Christopher Flowers*1

Director,

Chairman, J. C. Flowers & Co. LLC

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

Shigeru Kani*1,3

Director,

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

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

Jun Makihara*1,3

Director,

Chairman of the Board, Neoteny Co., Ltd.

Jun. 2011	Director, Shinsei Bank, Limited (Current)
Jun. 2006	Director, Monex Group, Inc. (Current)
Mar. 2005	Director, RHJ International SA (Current)
Jul. 2000	Chairman of the Board, Neoteny Co., Ltd. (Current)
Nov. 1996	Co-Head of the Equities Division and Co-Branch Manager, Goldman Sachs Japan Ltd.
Nov. 1992	Partner, Goldman Sachs & Co.
Sep. 1981	Joined Goldman Sachs & Co.

Hiroyuki Takahashi*1,3

Director,

Former Director, Japan Corporate Auditors Association

Jun. 2007	Statutory Auditor, Kyowa Hakko Kogyo Co., Ltd. (Predecessor of Kyowa Hakko Kirin Co., Ltd.) (Current)
Jun. 2006	Statutory Auditor, Matsushita Electric Industrial Co., Ltd. (Predecessor of Panasonic Corporation) (Current)
Jun. 2006	Director, Shinsei Bank, Limited (Current)
Oct. 2005	Director, Japan Corporate Auditors Association
Oct. 2000	Executive Managing Director and Secretary-General, Japan Corporate Auditors Association
Jun. 2000	Counselor, Mitsui & Co., Ltd.
Jun. 1997	Corporate Auditor, Mitsui & Co., Ltd.
Jun. 1996	Executive Managing Director, General Manager, Personnel Division, Mitsui & Co., Ltd.
Apr. 1959	Joined Mitsui & Co., Ltd.

STATUTORY AUDITORS (3)

Shinya Nagata

Standing Statutory Auditor

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

Kozue Shiga*2,3

Statutory Auditor

Lawyer

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

Tatsuya Tamura*2,3

Statutory Auditor

Former Executive Director, The Bank of Japan, and President, Global Management Institute, Inc.

Jun. 2010	Statutory Auditor, Shinsei Bank, Limited (Current)
Jun. 2008	Director, Autobacs Seven Co., Ltd. (Current)
Mar. 2003	Chairman, Japan Independent Directors Network (Predecessor of Japan Corporate Governance Network) (Current)
May 2002	President, Global Management Institute Inc. (Current)
Apr. 1996	Chairman, A.T. Kearney
Jan. 1992	Executive Director, The Bank of Japan
Apr. 1961	Joined The Bank of Japan

Fiscal Year 2011 Board of Directors meetings
Meetings: 7 Attendance: 98%

Fiscal Year 2011 Board of Statutory Auditors meetings
Meetings: 13 Attendance: 100%

*1 Outside Directors
*2 Outside Statutory Auditors
*3 "Independent director statement" (dokuritsu-yakuin todokede-sho) submitted to Tokyo Stock Exchange Inc.

EXECUTIVE OFFICERS (21)

Shigeki Toma
Representative Director, President,
Chief Executive Officer

Yukio Nakamura
Representative Director,
Senior Managing Executive Officer,
Head of Risk Management Group,
Chief Risk Officer

Sanjeev Gupta
Senior Managing Executive Officer,
Head of Individual Group

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

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

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

Norio Funayama
Managing Executive Officer,
General Manager, Osaka Branch

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

Hideyuki Kudo
Managing Executive Officer,
Head of Structured Finance
Sub-Group

Shinichirou Seto
Managing Executive Officer,
Head of Institutional
Business Sub-Group,
General Manager,
Institutional Business Division

Akira Watanabe
Managing Executive Officer,
Head of Global Markets Group

Masashi Yamashita
Managing Executive Officer,
Chief of Staff,
Head of Corporate Staff Group

Souichirou Hasegawa
Executive Officer,
General Manager,
Office of Corporate Secretary

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

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

Satoshi Koiso
Executive Officer,
General Manager,
Corporate Planning Division

Yuji Matsuura
Executive Officer,
Head of Markets Sub-Group
General Manager,
Trading Division

Toru Myochin
Executive Officer,
General Manager,
Corporate Banking Business
Division I,
General Manager,
Healthcare Finance Division

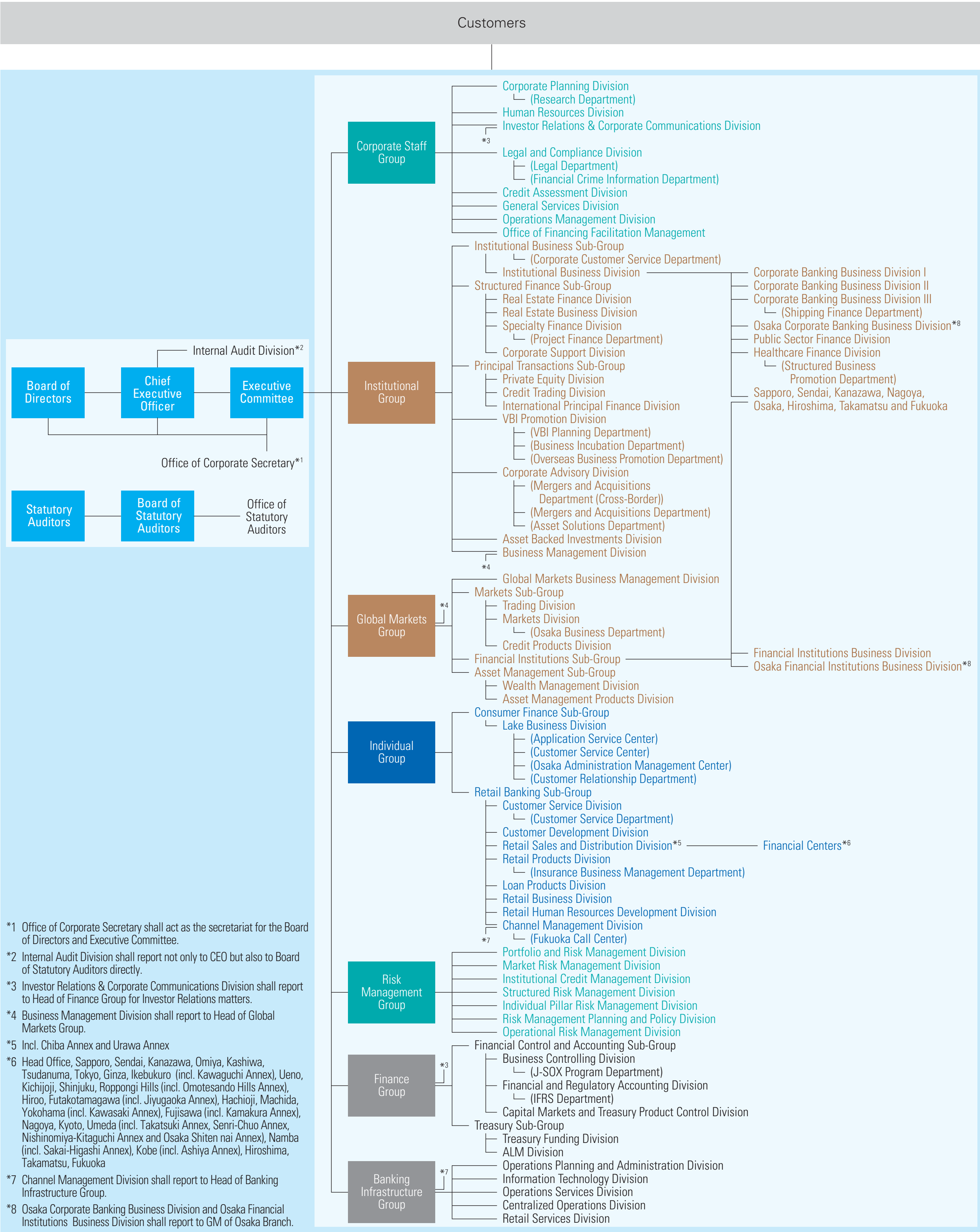
Masayuki Nankouin
Executive Officer,
Head of Consumer Finance
Sub-Group

Akimori Nomura
Executive Officer,
Head of Financial Institutions
Sub-Group

Hironobu Satou
Executive Officer,
Head of Financial Control and
Accounting Sub-Group,
General Manager,
Business Controlling Division

ORGANIZATION

As of July 1, 2012



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

*2 Internal Audit Division shall report not only to CEO but also to Board of Statutory Auditors directly.

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

*4 Business Management Division shall report to Head of Global Markets Group.

*5 Incl. Chiba Annex and Urawa Annex

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

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

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

CORPORATE GOVERNANCE

Shinsei Bank has selected a "Company with Board of Statutory Auditors" board model (*kansayakukai-setchi-gaisha*) as a corporate governance framework. This aims to ensure appropriate managerial decision-making and business execution and to establish a governance framework with sufficient organizational checking functions. These are achieved by 1) the consolidation of business execution authorities and responsibilities in the Board of Directors and 2) assigning responsibility for auditing duties that include auditing and monitoring of the Board of Directors, to statutory auditors and a Board of Statutory Auditors that are independent of business execution and the Board of Directors. Moreover, we have adopted the Executive Officer system to ensure the flexibility of our daily business execution.

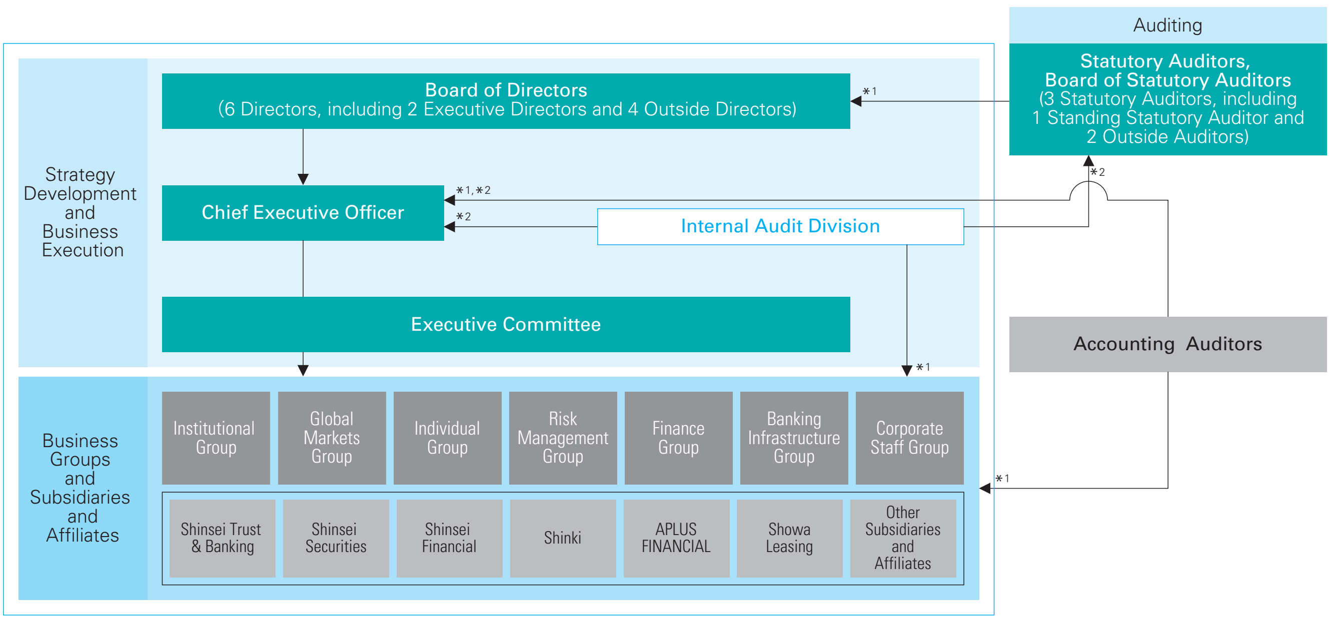
Current Corporate Governance System

"Company with Board of Statutory Auditors"

Shinsei Bank adopted the governance framework of a "Company with Committees" board model (iinkai-setchi-gaisha) on June 24, 2002, based on the then applicable Commercial Code. Under this framework, the Bank established an effective supervisory framework and aimed at efficient and transparent management by achieving speedy and flexible business execution by statutory executive officers and ensuring that the Board of Directors is engaged in decision-making on important managerial matters and business execution monitoring and supervision.

However, the Bank is expected to ensure more active involvement by the Board of Directors in internal control system establishment and risk management as well as to enhance business execution-based managerial judgment functions in determining its management policies. It also recognizes the need to strengthen its audit functions, such as daily business execution audit activities by full-time audit officers, and supervision of business execution and director activities by audit officers responsible for audits and independent from directors. Based on such an understanding, the Bank changed its governance framework from a "Company with Committees" board model to a "Company with Board of Statutory Auditors" board model (*kansayakukai-setchi-gaisha*) at the completion of the June

Corporate Governance System Chart (as of June 20, 2012)



*1 Audit *2 Report ■Business Groups ■Subsidiaries and Affiliates

23, 2010 annual general meeting of shareholders.

Continuing efforts will be made to ensure adequate business execution based on flexible managerial judgment and to establish a governance framework placing more emphasis on checks-and-balances.

Board of Directors

The Board of Directors maintains the appropriate business promotion framework through determining long-term management strategy, ensuring that management is working to maximize shareholder returns, evaluating and supervising business execution by executive directors, and making decisions on management and business execution after ample deliberation by the Board. As of June 20, 2012, the Board of Directors is composed of the following members intended to provide an appropriate balance: two inside directors who are responsible for daily business execution and four outside directors with advanced expertise, such as extensive financing experience and risk management or audit knowledge. These four outside directors play an important role in corporate governance, such as providing independent and objective opinions to management and supervising business execution by directors. In this way, the Bank maintains the transparency of its management strategy determination process.

Executive Committee and Executive Officers

As a result of the switch to a "Company with Board of Statutory Auditors" board model, the scope of the Board of Directors' decision-making expanded without any clear distinction between decisions on and supervision over business execution. On the other hand, Shinsei Bank has adopted an Executive Officer system in order to ensure flexible daily business execution. Under this system as well as the leadership of executive directors including the CEO, executive officers and business group heads entrusted by the Board of Directors execute their operations in an efficient manner. In addition, based on the Board of Directors' approval, the Bank established the Executive Committee consisting of executive directors and executive officers who are group heads, with a view to achieving swift and efficient business administration. Under the new framework established on June 20, 2012, 21 executive officers including executive directors were appointed by the Board of Directors.

With the Bank's expanding specialized offerings, we have established Group-wide committees to enable swift and appropriate responses. Shinsei Bank's primary committees include ALM (Asset and Liability Management), Compliance, Risk Policy, Doubtful Debt, SME Loan, IT, BCM (Business Continuity Management), Basel II Steering, and Management Development Committees, and are chaired by the CEO, executive directors, executive officers and group heads.

Transactions with Directors and Major Shareholders

In January 2008, a group of investors led by J.C. Flowers & Co. LLC and affiliates completed a tender offer for common shares of Shinsei Bank. In February 2008, the Bank increased its capital through a third-party allotment to the same group of investors. As a result, this group of investors, with which Mr. Flowers is influential, became Shinsei Bank's largest shareholder. Even after the successful issuance of new shares through an international offering carried out in March 2011, this group of investors, with which Mr. Flowers is influential, remains Shinsei Bank's largest shareholder. In accordance with the Bank Rule, the Bank established a process for obtaining approval from the Board of Directors for transactions with parties related to the Bank that may involve a conflict of interest. Furthermore, in order to ensure the Bank's independence from major shareholders, as required by the Banking Law, the Bank established the Bank Rule requiring the Board of Directors to judge transactions with major shareholders in accordance with a set of guidelines. The Bank also established adequate control frameworks to maintain and enhance the Board of Directors' checking functions over transactions with directors and major shareholders, such as preparing a structure for the business execution side to verify transaction fairness and conflict of interest and strengthening post-approval follow-up functions. The Bank prepared and implemented such frameworks to protect the interests of stakeholders based on objective judgment.

Ensuring Internal Control

To enable appropriate corporate governance, it is necessary to prepare a system that ensures proper governance of internal audit and legal/compliance functions and a structure for monitoring business execution and decision-making centered on the Board of Directors. Putting in place the internal control system required by the Corporation Act, and ensuring internal control so that financial statements comply with the accuracy requirements of the Financial Instruments and Exchange Law are also important elements of corporate governance. Even though internal control is the responsibility of management, the overall internal control system takes measures to ensure specific internal control in each of the groups that carry out actual operations. Basic policies on internal control systems to ensure appropriate and efficient daily operations are stipulated in our "Internal Control Rules" decided by the Board of Directors. Moreover, the Board of Directors periodically verifies the status of internal control systems. The Internal Control Rules provide that the Board of Directors establish a framework to ensure effective audits by statutory auditors, define the Subsidiaries and Affiliates Policy, the Information Security Policy, the Shinsei Bank Risk Management Policy, the Regulations of Business Execution, the Shinsei Bank Code of Conduct and the Internal Audit Policy as the basic rules in order to ensure appropriate, transparent and efficient operations in the Shinsei Bank Group as a whole. In addition, the Charter of Corporate Ethics prohibits relationships with anti-social organizations and establishes a framework to prevent various types of damage by such organizations and to ensure appropriate operations.

Statutory Auditors/Board of Statutory Auditors

As stated above, on June 23, 2010, Shinsei Bank changed its corporate governance framework to a "Company with Board of Statutory Auditors." The Board of Statutory Auditors of Shinsei Bank, which is composed of a full-time statutory auditor with a background in and business experience at Shinsei Bank and two outside statutory auditors who are highly specialized in legal affairs and corporate governance theory, shall audit the Directors' execution of their duties as a body that is completely independent from the Board of Directors.

The appointment of a full-time statutory auditor will permit full-time monitoring of the Bank's operations, access to detailed internal data and a timely and appropriate response to external changes thereby enhancing the audit function. By providing opinions from a more independent and objective viewpoint at meetings of the Board of Statutory Auditors and the Board of Directors, the outside statutory auditors contribute to enhanced auditing activities.

The statutory auditors shall systematically and efficiently audit the state of business execution at the Shinsei Bank Group as a whole, including Shinsei Bank and its subsidiaries.

The statutory auditors will achieve this by cooperating with the internal control groups, such as the Internal Audit Division, and by using staff of the Office of Statutory Auditors in addition to attending the Bank's important meetings, such as meetings of the Board of Directors, reviewing important documents and undertaking audits of their own, such as interviewing the directors, the executive officers and the accounting auditor.

Legal and Compliance Activities

The Legal and Compliance Division play a central role in our corporate governance.

Compliance Systems Organization

We have, with a strong belief that thorough compliance must be one of the most important management missions, established a robust compliance system to help enable sound and proper management that earns public trust. The Compliance Committee, the Legal and Compliance Division and individual compliance managers within various business and support units constitute the main elements of our compliance organization. The Compliance Committee, with our Chief of Staff as its chairman, examines and discusses important compliance matters. The Legal and Compliance Division plans various measures concerning compliance risk and implements these measures through central management. Every division, department or branch in the Bank also has a compliance manager to act as the point of contact for compliance-related matters. These managers' duties also include periodical reporting to the Legal and Compliance Division on compliance-related issues. This enables the Legal and Compliance Division to conduct Bank-wide monitoring of how various measures are being implemented as well as to provide centralized compliance guidance.

Compliance Activities

We implement an annual compliance program that outlines our compliance-related plans, including compliance enhancement activities such as creating and updating internal rules. We place special focus on training programs for compliance awareness, including periodic training on important subjects, and are working to increase the effectiveness of this training by introducing active e-learning courses alongside classroom training.

Legal Supervision

Banks are required to comply with a wide variety of laws and regulations in their day-to-day business operations. Violations may severely damage not only our credibility and reputation as a financial institution, but that of the overall banking system itself. In terms of individual transactions, we may face unexpected claims for damages if our contracts are unreasonable or we act inadvisably during the process of negotiation leading up to contract execution. Prevention and proper management of these legal risks are now the most important mandate for a bank's business conduct. The Legal Department, established within the Legal and Compliance Division, is in charge of legal affairs, including compliance with corporate and transactional laws, legal documentation and litigation supervision. The Legal Department also supports our overall compliance systems.

Internal Audit

The importance of risk management is becoming increasingly acute with the increased diversification and complexity of risks relating to the Bank's operations. The role of the internal audit is to independently assess the effectiveness of risk management measures and internal controls. This, in turn, helps maintain and enhance our corporate governance.

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

IAD is independent from all the organizations subject to internal audits, and from day-to-day operational activities and control processes including regular preventive and detective controls.

IAD adopts a risk-based audit approach and conducts a comprehensive risk assessment based on macro-risk assessment—to capture high-level risks across the Bank—and micro-risk assessment to assess the risks inherent in each business or process audited. IAD prioritizes the allocation of audit resources to businesses or processes with higher risk profiles.

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

Comprising the Business Audit Team, the IT Audit Team and the Quality Control and Planning Team, IAD takes the initiative in developing our internal auditors' expertise, and in particular, strongly encourages them to obtain professional certifications such as Certified Internal Auditor and Certified Information Systems Auditor. IAD has also been enhancing its infrastructure in addition to developing new audit methodologies.

An external consulting firm conducts a quality review on IAD's internal audit activities in order to objectively identify opportunities for improvement periodically. IAD also involves Group subsidiaries' internal audit divisions in its drive for continuous improvement.

MESSAGE FROM AN OUTSIDE DIRECTOR:

"One of the great strengths of the company is that there is no limitation on free dialogue at the board."

Jun Makihara
Chairman of the Board, Neoteny Co., Ltd.

I have been an outside director of Shinsei Bank for one year now. I am also an outside director of a financial services company in Tokyo and one in Brussels. Some people feel that having outside directors is a western concept that does not fit well with the Japanese style of running a company. Generally the argument is that with lifetime employment, there is such a tremendous reserve of corporate knowledge inside a company an outside director has little to offer. I do not believe this is true. Rather, my experience is that each board and each director contributes differently to a company. In my opinion, what is most important is that 1) a director knows what he or she has to contribute, and 2) the company welcomes that contribution.

Shinsei Bank faces significant challenges, perhaps more than the average financial institution. These include challenges common to many banks: adapting to an evolving regulatory environment as regulators worldwide strive to prevent a recurrence of the recent financial crisis; an ultra-low interest rate environment that makes it difficult to earn an acceptable return on the most basic business of a bank—taking deposits and making loans; an extremely competitive home market for financial services; and the ongoing necessity to make substantial investments in technology. Alongside these, Shinsei must also deal with its own unique set of challenges. The most significant of these are the lack of a deeply rooted corporate and retail client base, a shareholder base which includes significant shareholders who are patient but not permanent, and an obligation to repay public funds received from the Japanese government. Finally, the Bank must remain vigilant about interest repayment costs in the consumer finance business and the quality of its real estate and leveraged loan portfolio.

Within Shinsei, there is ample experience and expertise to deal with each of these challenges. Indeed I believe the Bank is making good progress on all fronts, for example in building its customer base. However, there are always multiple solutions to any problem, and here the board can provide its perspective in weighing different approaches and also how to prioritize the allocation of limited resources to do so.

Shinsei Bank's board spends a great deal of time in open discussions about these issues. Board meetings often last four or five hours with a great deal of free give and take, occasionally including healthy disagreements. One of the great strengths of the company, I believe, is that there is no limitation on free dialogue at the board. Sometimes this can be difficult for management. But by encouraging this free discussion, the Bank is able to take maximum advantage of the knowledge and experience of each individual director.

I opened my message by saying that a director ought to know what he or she can contribute. In my case, I hope I contribute to Shinsei by providing both a Japanese and non-Japanese perspective to its challenges. I also hope that my knowledge of how world financial markets work and how financial institutions are run in other countries can provide management with useful guidance. In closing, I would like to thank the shareholders of Shinsei Bank for allowing me the privilege of being their representative.

RISK MANAGEMENT

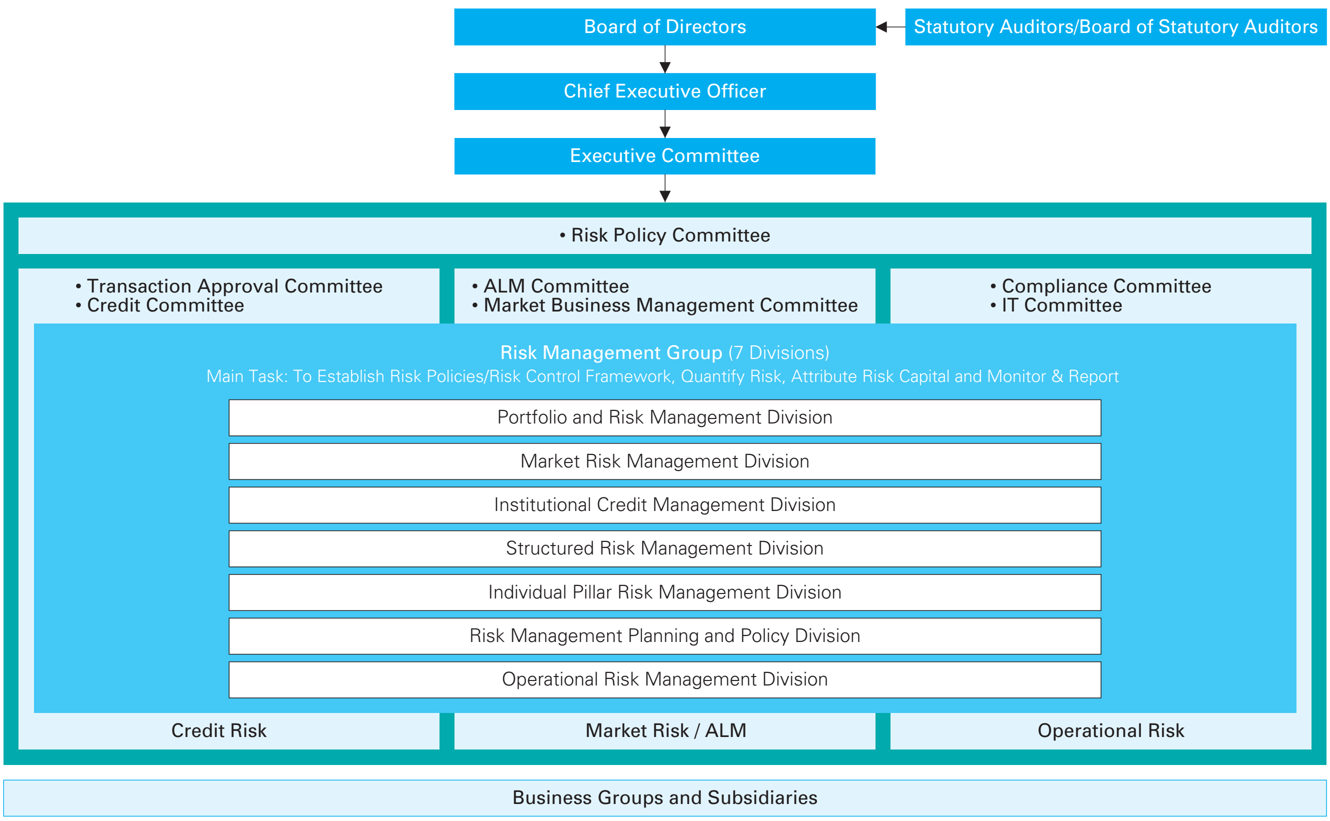
Shinsei Bank has identified risk management as one of its most important management issues. The Bank has taken various measures to strengthen risk management frameworks. These include improvement of our various committees and further empowerment of the functions, and adoption of a strong governance structure for building a risk management function that is fully independent of other divisions and organizations in the Bank and that exercises real authority. Introducing this risk governance has strengthened the Risk Management Group's control over the front line and its risk management frameworks.

Also, the Bank has been further strengthening risk management frameworks so that they function in practice. The Risk Management Group is enhancing its communication with the Board of Directors, regularly reporting on the status of portfolio and risk management frameworks and deliberating on the direction to take going forward. Experts in the risk management field have been assigned to the Group. They have in-depth discussions on risk management policies that range in scope from various portfolios to transactions with individual companies. In this way, the Group has become an organization capable of making appropriate and prompt judgments. We are also strengthening management frameworks for various risks by improving comprehensive risk management systems, developing computer systems to automate measurements, and improving verification structures for real estate and product evaluations. Based on the Medium-Term Management Plan, we are making necessary structural improvements such as reinforcing communication, and sharing screening know-how with the Institutional Group as a result of the transfer of the primary credit screening function to the Institutional Group in line with the policy of expanding the customer base, in addition to promoting reduction of the non-core asset balance.

Fiscal Year 2011 Overview

After the Lehman Shock, the world economy had shown some signs of recovery. However, since the summer of 2011, many concerns over the economy have been emerging, including the U.S. Treasury rating downgrade, anxiety

Risk Management System Chart (as of June 20, 2012)



over the fiscal woes of the European countries, and a gradual slowdown in emerging economies.

Japan was also significantly influenced by the production decline due to the Great East Japan Earthquake on March 11 of last year and the flooding in Thailand, and by the yen's historic appreciation. The manufacturing and export-oriented companies were impacted in particular. The GDP growth rate for FY2011 was negative, which suggested a very tough economic situation in Japan.

Early in 2012, a weaker yen and higher stock price trend were temporarily seen owing to easing of monetary policies by the financial authorities in Japan, the U.S., and European countries. However, a drastic solution to the European fiscal problems was not found, and a stronger yen and stock market downward trend resumed. In FY2012, the GDP growth rate is expected to become positive in Japan, supported by post-quake reconstruction demand and various measures. On the other hand, uncertainty continues to increase because of Europe's ongoing fiscal crisis, rising yen and crude oil prices, shortage of power supply due to shutdown of nuclear power plants, etc.

For the Bank's portfolio status amid the above circumstances, the rate of new arrears in the exposure to corporations, etc. has remained low since the previous fiscal year. In regard to the real estate-related loans (mainly non-recourse loans), we are strengthening the management frameworks, for example, by ensuring conservative property appraisals and increasing the frequency of appraisals. In addition, we are improving the quality of exposure by exchanging the assets in the portfolio, while continuing to reduce high-risk assets. Regarding consumer finance, we have estimated the reserves for losses on interest refunds more conservatively and set aside additional reserves, in order to eliminate future risk of excess interest repayments. Credit costs temporarily increased after the introduction of the annual income restriction in FY2010. However, these costs continued to decrease in FY2011 along with improving quality of the loan portfolio. As regards proprietary transactions (mainly the exposure to Europe, such as asset-backed investment and CLO investment), we have halted new originations and sought to reduce these transactions as non-core assets under the Medium-Term Management Plan. Therefore, we have only been affected to a limited extent by the turmoil in the financial markets due to European fiscal crisis.

In terms of the entire portfolio, the credit costs for FY2011 sharply dropped over the previous fiscal year. Also, the risk volume in the integrated risk management is tending to decline, which indicates a substantial improvement in the level compared to Tier I capital.

Shinsei Bank is expanding its customer base with a focus on SMEs and middle-market companies. It is also seeking new business opportunities, such as purchase of overseas assets and project finance, and developing the Lake business by itself. The Risk Management Group accurately grasps the business environment both at home and abroad. As to the existing portfolio, the Group endeavors to capture the risk profile multilaterally (for example, by conducting stress tests) and to share the understanding with the top management. Furthermore, the Group carries out sufficient monitoring on new assets, and if required, reviews the risk strategy flexibly, thereby aiming to improve and enhance the risk management frameworks.

Comprehensive Risk Management

Basic Concept of Risk Management Systems

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

In order to run highly profitable and stable operations, a financial institution must understand the basic challenges of risk management, namely, how to take and how to face these risks.

For this reason, it is necessary to monitor whether risks are taken in line with Bank-wide policies as well as individual operational policies, whether risks remain within appropriate limits and whether they are adequately controlled by the respective sections in charge.

To Achieve Comprehensive Risk Management

Shinsei Bank sets forth its "Shinsei Bank Risk Management Policy" as a basic management policy in order to recognize risks and implement proactive controls based on an understanding of the total risks faced by the Bank as a whole. Amidst severe competition and an evolving regulatory and market environment, the risks which Shinsei Bank faces are increasingly complex. Based on the experience of financial crisis, in 2009, the Bank revised its "Risk Management Policy" and redefined the fundamental principles of risk management including a rebuilding of the risk culture within the Bank.

Comprehensive risk management means detailed monitoring of each risk involved in individual operations, as well as the understanding of total bank-wide risks, and quantifying risks to the greatest extent possible based on analysis and insight into a bank's markets and customers. Estimating "Risk Capital," which is an integrated control approach, requires measurements for each risk category, namely (1) credit risk, (2) market risk, (3) interest rate risk, and (4) operational risk. In this way, our management capabilities and risk acquisition activities are controlled in an integrated manner by monitoring the Bank-wide risk volume and Group-specific capital attribution status.

Shinsei Bank's senior management has delegated certain risk management authority to specific committees including the "Risk Policy Committee," "Credit Committee," "Asset and Liability Management (ALM) Committee" and "Market Business Management Committee." The current system of the committees originates from restructuring in 2009 to strengthen and reorganize committees. With continuous improvement, these committees have been firmly established as committees responsible for making important risk judgments, and are functioning effectively. The Risk Policy Committee involves the top management of the Bank (including the CEO, CFO, and CRO), and plays an important role in defining and calibrating appropriate and optimal risk taking for the Group by reviewing business strategy along side risk management policy.

Categories of Risk Capital

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

Institutional Credit Risk Management

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 particular obligors, and managing the credit portfolio with an awareness of potential losses under a worst-case scenario.

To achieve these goals, Shinsei Bank established a comprehensively revised "Credit Risk Policy" which defines specific policy on customer attributes, products, markets, industries and transaction types where risks should be taken or limited, and clarifies basic policies for credit provision operations and specific guidelines for credit risk management together with the Bank's "Credit Risk Policy," "Credit Procedures" and other related procedures.

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/SYSTEMS

In principle, credit assessment is based on joint consultation by sales promotion divisions and risk management divisions which are independent from the sales promotion divisions. To ensure a transparent and strict decision making process, the RMG has ultimate veto power. Thus the framework to put a brake on the sales promotion division has been established. Each transaction is discussed and approved by the Credit Committee or other committees. The level of approval authority is decided based mainly on the total exposure to the obligor group and ratings, and the decision is made strictly.

As for transactions that require discussions about financial, legal and / or compliance issues, a certain framework has established: the relevant transactions are discussed by Transaction Approval Committee of which participants includes members of the divisions in charge of such issues so that the transactions can be assessed comprehensively and an appropriate decision can be made.

Among receivables that require caution, for those that fall under a certain category decided by factors such as ratings, exposure, or reserves, the obligor's business performance is monitored by the Doubtful Debt Committee so that Shinsei is able to take preventive measures. By deciding measures to handle the obligor in the future, Shinsei is making efforts to minimize credit-related costs and to ensure soundness of assets.

(2) OBLIGOR RATING SYSTEMS

For corporate exposures, the Bank uses an internal obligor rating system with the following characteristics:

CHARACTERISTICS OF SHINSEI BANK'S OBLIGOR RATING SYSTEMS

- Increasing model accuracy and reflecting appropriate qualitative factors
- Benchmarked against external ratings
- Properly reflecting obligors' consolidated-basis accounting system
- 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 introduced in the analysis of major customers of leasing receivables at Showa Leasing.

Portfolio-Based Credit Risk Management

(1) MONITORING ANALYSIS SYSTEM

Controls must be carried out in such a way that risks are diversified in terms of industries as well as ratings. This is done on a portfolio basis, which is an aggregation of transactions, and operations of individual transactions must be conducted based on appropriate risk analyses. At Shinsei Bank, the Portfolio and Risk Management Division undertakes risk analyses of portfolios, and monitors the segment-specific risk diversification status including industry classifications, ratings, specific customers/groups and also rating fluctuations related to customers within the portfolios. The Division uses this information to provide reports to senior management and the CRO on a monthly as well as ad hoc basis.

(2) QUANTITATIVE MEASUREMENT OF CREDIT RISK

Quantitative measurement of credit risk means measuring and assessing the likelihood of losses that may be incurred from changes in a customer's creditworthiness. The probability of default, an assumption based on past experiences and future outlook, and expected loss amounts based on collection ratios, are generally called "expected losses."

Losses that could be incurred in the worst case scenario and cannot be estimated based on past experiences are generally called "unexpected losses." It is generally considered that risk capital can be quantified by measuring both "expected losses" and "unexpected losses."

Shinsei Bank has the system for accurate measurement of risk capital by operating system in a simple platform with embedded measurement engine. We are striving to contribute to sound portfolio management and resource allocation through the analysis of risk capital changes and profitability against risks. Also, we reflect measured expected losses and unexpected losses in loan spread in order to help ensure appropriate risk-return for each transaction. Also, Shinsei Bank ensures adequate return levels against risks involved in each transaction by reflecting measured expected losses and unexpected losses in the interest rate margin on loans.

(3) CREDIT CONCENTRATION GUIDELINES

Our credit concentration management framework consists of industry concentration guidelines, obligor group concentration guidelines, as well as effective review and countermeasures for matters outside the scope of the guidelines. These procedures are designed to avoid a crisis when our credit portfolio is affected by systemic shock or other extraordinary events.

Credit Risks Involved in Market-Related Transactions

Credit risks involved in market transactions, such as derivative transactions, are controlled based on fair value and estimations of future value fluctuations. The volume of risks associated with market transactions changes according to fluctuations in market rates after the transaction is traded and Shinsei Bank undertakes strict controls based on future value fluctuation forecasts.

Self-Assessments

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

Shinsei Bank has established a self-assessment system wherein the Credit Assessment Division, which is independent from the business promotion and credit analysis sections, is the section ultimately responsible for assessment.

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

Obligor categories and categorizations are reviewed in a timely manner according to changes in the obligors' financial fundamentals so as to mitigate the emergence of problem loans and to strengthen and update systems to ensure the timely and accurate management of troubled loans.

Measures to Meet Basel II Requirements

In order to comply with the credit risk regulations under Basel II, which came into effect at the end of March 2007, Shinsei Bank has adopted the F-IRB (The Foundation Internal Ratings-Based) Approach. This framework ensures strict internal controls for our internal rating systems, the basis of credit risk management, by the execution of the design and operations of internal rating systems and parameter estimations such as probability of default. The results of the internal rating systems are reflected not only in credit risk management, but also in calculations of capital levels required under the regulations.

Individual Pillar Risk Management

Risk management for the consumer finance business covers the entire operations from application underwriting and credit management after contract conclusion through debt collections. The Individual Pillar Risk Management Division holds a risk performance review on a monthly basis with participation of Shinsei Bank risk-related divisions, and provides advice on risk management policies and strategies to subsidiary employees responsible for risk management.

We report the performance of this business to the Risk Policy Committee meeting (with participation of CEO, CFO, CRO, etc.) on a quarterly basis.

Risk divisions in subsidiaries carry out appropriate risk control based on initial credit scoring card, credit control scoring card, and collection strategy scoring card developed by the statistical method using customer attribute data, credit bureau data, and transaction history data. These scoring cards are constantly monitored to maintain their accuracy and adjusted on a regular basis.

Credit costs are extremely important in the profitability of the consumer finance business as a whole. For that reason, we analyze leading indicators of various factors that incur credit costs so as to recognize a declining trend early and make necessary improvements. We divide leading indicators into initial credit quality, portfolio quality, and debt collection quality, and monitor each category every month. If we observe a declining trend, we promptly take an improvement action before a serious situation results.

The environment surrounding the consumer finance industry is significantly changing due to revision to the law and other reasons. In risk management, we implement strategies to ensure balanced risk and return relationships so as to meet the business plan, rather than simply avoiding losses.

Due to change in the environment surrounding the industry, the Shinsei Bank Group companies are working on appropriate credit cost control in order to maximize profitability.

Market Risk Management

Market risk is the risk that makes loss by effect on balance sheet (including off balance sheet) fair value through fluctuations in interest rates, FX rates, stock prices, and etc.

Market Risk Management Policy

We manage market risk by segregating the overall balance sheet into a trading book and a banking book.

The Market Business Management Committee is in charge of market risk management and risk review of trading book and a part of banking book investment. The Committee is chaired by CRO, secretariat by Market Risk Management Division, and composed of representatives of related divisions. The Committee has regular meeting twice a month to review customer related business movement, profit and loss/market risk situation and inherent risk in the business as a whole, including counter party risk, issuer risk and trading products risk and make decision on risk management.

The ALM Committee has monthly regular meeting, in principle, for review and decision making of market risk, mainly interest rate and FX risk of banking asset and liability, funding, liquidity risk and active ALM strategy.

The Market Risk Management Division is responsible for the objective and timely recognition, monitoring and reporting of market risk in both the trading and banking activities. In addition to reporting risk information to management, administrative unit and front office unit, the Market Risk Management Division carries out regular risk analyses and recommendations to them.

Trading Book

Risk limits on trading, e.g. Value at Risk ("VaR"), is approved by Executive Committee. The VaR is the maximum loss amount by future price fluctuation, which is estimated statistically at a specific confidence level, assuming a specific position is held for a specific time horizon. In addition, we implement multi view point risk management using interest rate sensitivities. The VaR method based on historical simulation has been adopted as the internal modelling method for general market risk since March 31, 2007 for Shinsei Bank and Shinsei Securities.

The VaR uses a 99% confidence level, 10 day holding period and 250 observation day. See the table below.

The validity of the VaR model is verified through back testing, which examines how frequently actual daily loss exceeds daily VaR for a one-day holding period. The back-testing results for fiscal year 2011 show that there was no day in which the loss amount exceeded VaR on a consolidated basis. We conduct stress tests on a weekly basis and reported to senior management at the Market Business Management Committee meetings.

We have added Stressed VaR to the afore mentioned VaR for Basel capital requirements as of December 2011. Please refer to the following table.

VaR data for Fiscal Year End, Maximum, Minimum and Average during the fiscal year 2010 and 2011

Millions of yen

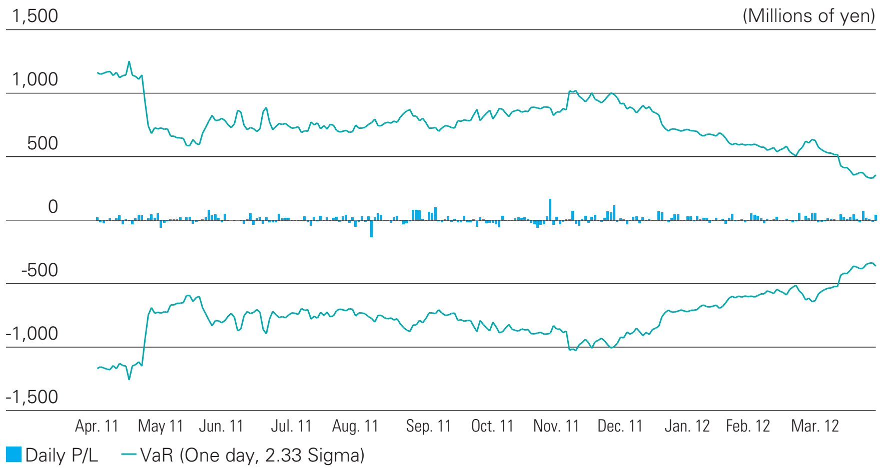
		FY2010		**FY2011**	
		Consolidated	Non-Consolidated	**Consolidated**	**Non-Consolidated**
FYE VaR		3,785	3,734	**1,230**	**1,180**
FY	Maximum	3,964	3,912	**3,961**	**3,869**
	Average	2,251	2,186	**2,395**	**2,266**
	Minimum	1,478	1,434	**1,052**	**1,019**

Stressed VaR data for Fiscal Year End, Maximum, Minimum and Average during the fiscal year 2011

Millions of yen

		FY2011	
		Consolidated	**Non-Consolidated**
VaR at the end of year		**3,764**	**3,620**
FY	High	**5,476**	**5,359**
	Mean	**4,376**	**4,281**
	Low	**3,764**	**3,620**

VaR and Daily Profit and Loss (Back-Testing) (FY2011, Consolidated basis)



BACK-TESTING ON THE VaR MODEL APPLIED TO THE TRADING ACCOUNT

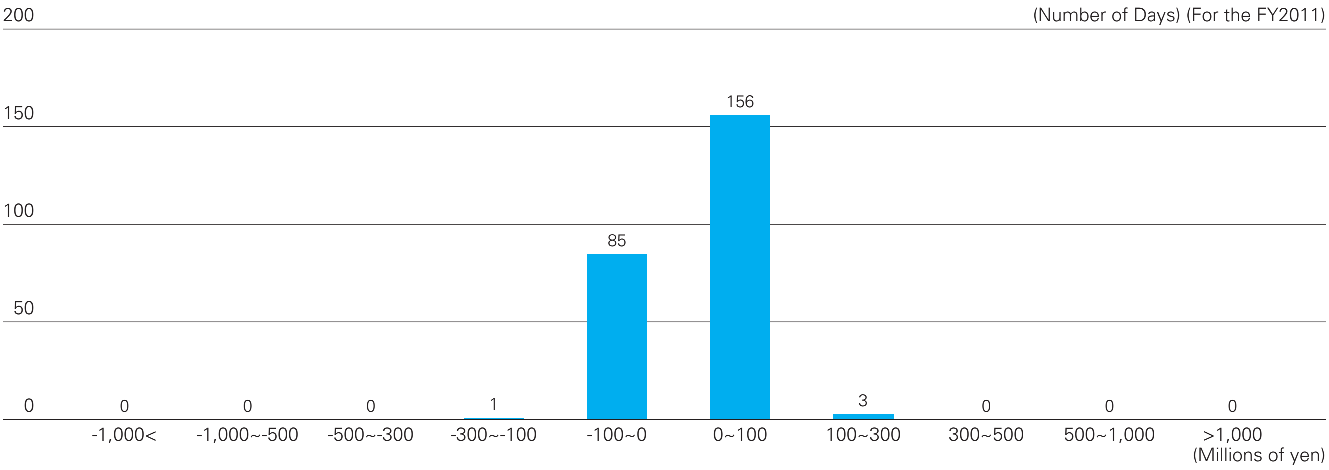
Back-testing involves comparing the actual losses to estimated VaR to confirm the reliability of the VaR method.

ASSUMPTIONS OF SHINSEI's VaR MODEL

Method:	A historical simulation method
Confidence interval:	2.33 standard deviations
Confidence level:	99%
Holding period:	1 day
Observation days:	250 days
Coverage:	Trading account (except for customer margin)

Financial Highlights
Message from the Management
Special Feature
Review of Operations
Management Structure
Risk Management
Data Section

Histogram of Daily Trading-Related Revenue



Banking Book

The Bank's risk management of banking book assets and liabilities, which bears interest rate risk, is managed based on "Asset Liability Management Policy for Banking Account." In addition to daily risk monitoring, the ALM Committee meets on a monthly basis, in principle, in order to provide management with timely and appropriate reports on interest rate risk situation and etc., and reviews / makes decisions on ALM strategy and related topics.

The purpose of ALM is to optimize the overall net interest income for the medium- to long-term by appropriately balancing interest rate risks on assets and liabilities and liquidity risks arising in the ordinary course of operations at business units. This optimization is achieved by maintaining the appropriate balance between the following two view points.

1) Static point of view: Stabilize fluctuations and the range of changes in net interest income within the Bank's estimation by adjusting interest rate risks within specified range resulting from gaps of the assets and liabilities' amount, terms, interest rate conditions and etc.

2) Active point of view: Increase net interest income by restructuring the assets and liabilities into higher efficiency of risk / return.

For banking book interest rate risk management, in addition to limits or guidelines including 100bpv and etc., net interest income simulation is used for risk situation monitoring. The Bank monitors the shape of the yield curve and regularly analyzes scenarios such as steepening and flattening of the yield curve to evaluate the impact of these scenario changes on assets and liabilities.

The following assumptions are set for interest rate risk management.

- Housing loan prepayments
  Instead of using contractual maturity, the Bank calculates the cash flows using a particular prepayment ratio for housing loans, considering actual prepayment data for similar loans, pricing in the housing loan securitization market etc.
- Definition of core deposits
  The Bank has adopted an internal model for the maturity of core deposits and defines maturities of ordinary deposits by customer and currency. The parameters and models for core deposits are reviewed on a timely and appropriate basis.

See the table below for past interest rate sensitivity.

Basis point value (bpv) method:
The bpv method measures the risk of changes in economic value due to fluctuations in interest rates. For example, 100 bpv indicates the change in economic value when interest rates move 100 basis points (=1%). The table below sets forth the impact on the economic value of yen-denominated on-balance sheet and off-balance sheet items when interest rates change by 100 basis points.

The change in economic values for applied interest rate shock of 2% in the banking book at the end of March 2012:

	Billions of yen	
	Consolidated	Non-consolidated
JPY	¥ (11.1)	¥ (1.3)
USD	(2.8)	(2.8)
Other	(2.6)	(2.6)
Total	¥ (16.6)	¥ (6.8)

Liquidity Risk Management

Liquidity risk management is implemented by the ALM committee, through its approval of liquidity gap structure limits (limits for required funding amount on contract maturity basis) and minimum liquidity reserve levels. In addition, stress testing is implemented monthly and reported to the ALM committee.

Liquidity gap limit and minimum liquidity reserve level compliance is daily monitored by the Market Risk Management Division and reported to the management. Stress tests, implemented by the Market Risk Management Division, are reviewed in a timely manner to check their appropriateness, in coordination with front units.

The liquidity management framework, including this monitoring and testing, is defined by the "Cash Liquidity Risk Management Policy" and periodically reviewed by ALM committee.

Operational Risk Management

1. Management of Operational Risk

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

To comprehensively manage operational risk, an Operational Risk Management Policy has been established to clarify the definitions of risk, our basic policy and system for risk management and a framework for identifying, evaluating, monitoring, reporting and controlling/mitigating risk.

The Operational Risk Management Division, which is responsible for Group-wide operational risk management, evaluates, analyzes and reports on the overall operational risks. Specific management divisions have been designated for respective risk areas comprising operational risk, such as operational and administrative risk and systems risk. They are implementing various controls, including the formulation of cross-organizational measures, standards and procedures for managing risk according to the risk characteristics of each area. The Operational Risk Management Division and specific management divisions hold monthly meetings to share information on risk management issues and measures and to discuss how to manage the common elements across the risk areas, thereby ensuring the effective management of operational risk.

Regarding measurement of operational risk, we have adopted the standardized approach for regulatory capital under Basel II. On the other hand, we have also quantified operational Risk Capital for internal use based on our internal model, by utilizing risk scenarios which reflect risk perception of business lines as well as historical losses. This quantification result has been used as part of the overall Risk Capital system.

2. Management of Operational and Administrative Risk and Systems Risk

Operational and administrative risk refers to the risk of incurring losses resulting from executives' or employees' failure to perform accurate clerical work or from their errors or misconduct. Although we have expanded our retail banking and consumer finance businesses and developed our institutional banking business, we realize that appropriately addressing such operational risk is of crucial importance in order to offer reliable services to our customers.

To improve our operational levels, we have established guidelines including "Operations Guidelines." We have also improved our operational flow and guidance.

When errors do occur, we try to prevent recurrences by compiling a database of such cases and analyzing the causes. Our developments in paper reduction, simplified clerical work, extensive automation and computerization have succeeded in minimizing the occurrence of such mistakes/errors.

We believe that the following three factors are crucial for our information systems strategy: security/reliability, flexibility and scalability. In particular, we focus on a more robust, secure and reliable information technology infrastructure in order to ensure the security of customers' transactions. We will continue developing a flexible system that enables us to provide new products and services to meet customers' constantly changing needs.

As system risk reduction measures, we will keep enforcing business continuity actions drawing on our experience of the problems with the Zengin domestic exchange remittance system that occurred on January 10, 2012. We will also improve the quality of our system development process and strive to prevent recurrence and ensure early recovery from system problems in view of the importance of the banking system as a part of the social infrastructure. Additionally, we will continuously obtain the qualification of ISO 27001 as an information security measure.

HUMAN RESOURCES AND CORPORATE SOCIAL RESPONSIBILITY (CSR)

Human Resources —An Engine for Growth

At Shinsei Bank, we focus on attracting and developing people with the expertise and capabilities to deliver high value added products and services that are differentiated from other banks. In our management principles, Shinsei Bank has articulated our goal of becoming a banking group that is valued by customers and that contributes to the development of the domestic and international industrial economy. We believe that we will only be able to achieve this mission if we ensure that each of our employees responds appropriately and swiftly to customers' individual needs, as financial professionals with advanced expertise and broad-ranging insight, in order to win their trust. As the structure of economies and societies around the world is in flux, there is increasing uncertainty in the environment surrounding both financial institutions and their customers. But it is in these very conditions that Shinsei Bank has an opportunity to demonstrate our *raison d'etre*. With talented people as the driving force of our business, we will pursue new financial services and a new model for banking in Japan, while providing solutions and ideas that are unavailable elsewhere, in our aim to become a financial group that provides multi-faceted support for customers.

Revisions to our Personnel System

In order to make further progress toward realizing our management principles and strategy, we have made revisions to our personnel system for the first time in approximately ten years. The key pillars of the new system, which took effect from April 2012, are a job grade system in which the responsibilities and requirements for each grade have been redefined; an evaluation system that seeks to measure employee contribution not only in terms of short-term results but also includes an evaluation of efforts and processes that are aimed at mid- to long-term growth; and a compensation system that is based not on seniority or past results, but on an objective evaluation of each employee and his or her level of contribution to the organization. By appropriately implementing these three systems, we are seeking to improve employee motivation and morale, while ensuring goal alignment between individual employees and the organization. The new system should also allow employees to demonstrate the best of their abilities, and thus maximize the organization's performance and increase overall corporate value.

Further Strengthening our Organization and Human Resources

Employing a business group-based organization that reflects the differences in customer profile and characteristics of individual businesses, Shinsei aims to develop professionals who have a deep understanding of their respective business fields. We also believe that it is important to develop and leverage human resources company-wide, and encourage cross-divisional collaboration between our highly specialized staff in order to deliver the highest value to our customers. Based on this understanding, we provide various types of training programs including courses designed to hone specialized knowledge and skills, as well as schemes that allow employees to study at graduate schools both in Japan and overseas. In addition, we provide opportunities to engage in cross-organizational business on a project basis, and transfer our human resources strategically across business groups and Group companies. At the same time, we encourage our people to utilize an internal job posting program to take charge of their own career development by taking on new challenges in different fields. Supported by strong management commitment, the Bank's Human Resources Division will move forward with further initiatives, based on a company-wide perspective, aiming to raise the quality of our human resources still further.

Leveraging Diversity

One of Shinsei Bank's greatest strengths is the diversity of our people in terms of age, gender, nationality and background. It is the creativity generated by this diverse set of people that has enabled us to launch groundbreaking services and business models, and we believe that this diversity is the key to securing a competitive advantage. While hiring a stable number of new graduates to expand the ranks of employees from whom we expect our future leaders to emerge, we also make mid-career hires in line with business needs, and benefit from the strengths of a diverse corporate culture. Furthermore, since its inception, Shinsei has promoted the advancement of talented female employees by introducing a variety of support including child-care leave, flexible working hours, and "Shinsei Women's Network," an initiative that encourages interaction between female colleagues in the workplace. As at March 31, 2012, the proportion of female managers at Shinsei Bank remains among the highest in our industry with women representing approximately 24% of all titled managers. While always prepared to change, we are committed to respecting the diversity of our people and will strive to reach new levels of organizational dynamism as we seek to provide completely new solutions to meet our customers' complex and ever-changing needs.

Contributing to Society

As part of our commitment to acting as a responsible corporate citizen and contributing to societal development, Shinsei Bank actively promotes Group-wide CSR initiatives focusing on opportunities that allow our employees to participate in volunteer activities. We have given particular priority to activities centered on the themes of "children" and "the environment," and to disaster relief activities after the Great East Japan Earthquake of March 2011, including internal fundraisers, donation of food and equipment, as well as volunteer activities in the disaster affected area. Shinsei Bank also continues to participate in charity runs and supports other activities that are strongly supported by our employees.

MoneyConnection®—A Financial Literacy Program

MoneyConnection® is Japan's first financial literacy program aiming to prevent young people from becoming NEETs (people Not in Employment, Education or Training) by providing them a chance to think about money, work and their own future. A workshop-based program, it is targeted primarily at high school students. Our subsidiary Shinsei Financial developed the program in 2006 in cooperation with Sodateage.net, a non-profit organization with a solid track record in NEET and youth support. From fiscal year 2012, Shinsei Bank is running the program together with Sodateage.net as part of our CSR initiatives focused on the theme of "children." As a corporate sponsor, Shinsei Bank will support the program financially as well as promoting employee involvement through opportunities for Group employees to participate as facilitators where possible. In fiscal year 2012, we are planning to run the program in approximately 60 schools in the Kanto and Kansai area.

MoneyConnection® encourages high school students to think about the cost of living and the value of products. The program also teaches students about the diverse employment system and the relationship between work and lifestyle, prompting them to think about "money" and "life" from a long-term perspective. In 2010, MoneyConnection® received an Excellence Award in the "1st Career Education Awards" program organized by the Japanese Ministry of Economy, Trade and Industry. Sodateage.net is currently working to expand the program further by collaborating with governmental organizations, and holding seminars and lectures including an instructor training program for people involved in the education system.

MoneyConnection®'s Track Record

MoneyConnection® was officially launched after a successful pilot program conducted for 1,000 students from nine schools in October 2006. The first official workshop was conducted at Tokyo Metropolitan First Commercial High School in March 22, 2007. As of March 31, 2012, the program has reached approximately 46,500 students from 453 schools throughout Japan.

About NPO Sodateage.net

Sodateage.net became a non-profit organization in May 2004, and offers assistance including job training, career consulting, and counseling for both youths and parents, aiming to support young people who are unable to find employment even if they have the motivation to work. From 2004 to 2006, Sodateage.net designed and operated "Job Station Tachikawa," a project to assist young people in Tachikawa, Tokyo find employment. Since then, the organization has been commissioned to take on various projects by regional governmental bodies. In February 2009, Sodateage.net was selected as one of the Ministry of Economy, Trade and Industry's "55 Selected Social Businesses" and in December 2011, Sodateage.net was presented with a Green Award for outstanding performance in the management category of the Tama Shinkin Bank's "Tama Blue Green Award."


Educational material used in MoneyConnection®

MoneyConnection® in action

Our Commitment to Environmental Sustainability

Measures to Conserve Electricity

To date, Shinsei Bank has stepped up efforts to conserve electricity through initiatives such as turning off lights in communal spaces and using motion sensors to control lighting and air conditioning in conference and reception rooms at our head office. From June 1, 2012 to September 28, 2012, Shinsei Bank is taking additional measures such as reducing overhead lighting in its head office by 75% and implementing the "Cool Biz" air conditioning and clothing policy.

Reducing our Impact on the Environment

At Shinsei, we continue to work hard to minimize the environmental impact of our offices and work style. In January 2011, the Bank relocated its headquarters to the Nihonbashi Muromachi Nomura Building, a new building which features advanced energy-efficient air conditioning, lighting, water-heating systems and elevators, as well as green electricity procurement and roof-top greening. As a result of the relocation, usage of smaller space and the additional energy conservation measures implemented after the Great East Japan Earthquake in 2011, the Bank was able to reduce the annual CO_2 emissions. As part of our efforts to raise employee awareness of environmental issues, Shinsei Bank also provides various information and real-time data on the Bank's CO_2 emissions through a dedicated intranet site.

Environmental Impact Data

	Unit	FY2009	FY2010	FY2011
CO_2 Emissions	t	1,938.9	1,911.7	1,567.3
Electricity Usage	kwh	4,046,486	4,119,089	3,889,138
Gas Usage	m^3	23,292	15,773	0
Clean Water Usage	t	14,962	11,280	1,243

Notes: (1) CO_2 emissions data have been calculated according to "Guidelines for Calculating Specified Greenhouse Gas Emission Volume under the Total Emission Reduction Obligations and the Emission Trading Framework."
(2) Data are all for Shinsei Bank headquarters only (do not include affiliated companies).
(3) From January 2011, Shinsei Bank became a building tenant, therefore, clean water usage data does not include clean water usage for shared space.

Amount of Waste Generated / Recycling Rate

	Unit	FY2009	FY2010	FY2011
Waste Generated	t	407.02	386.24	194.27
Amount Recycled	t	229.24	216.09	118.48
Amount of Waste Disposal	t	177.78	170.15	75.79
Recycling Rate	%	56.32	55.95	60.99

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

Providing Financing for Renewable Energy Businesses

Showa Leasing, a member of the Shinsei Bank Group, is providing a variety of "Total Environmental Support" solutions for customers wishing to install environmentally friendly systems such as LED lighting and solar power generators, use ESCO finance, or ensure compliance with the revised Energy Saving Act. In October 2011, Showa Leasing provided financing for the Watami Group to embark on a wind power generation project. Through this project, the Watami Group has provided funding for a community wind power project in Akita prefecture. The wind turbines began operating in March 2012 and the Watami Group will purchase all of the electricity generated by the facility as well as the associated environmental value. Showa Leasing decided to support this initiative—possibly the first of its kind in Japan—by providing a financing facility to Watami. Each wind turbine generates around 2,000 kW of electricity, which should amount to approximately 4.5 million kWh annually—or the equivalent of 3% of the total electricity used by Watami Group as a whole. The electricity purchased through this initiative will be used by nursing homes operated by Watami No Kaigo, a wholly owned subsidiary of Watami Co., Ltd. It is estimated that the project will generate enough electricity to supply approximately 15 homes. Going forward, Showa Leasing will continue to enhance its lineup of products and services to support the installation of environmentally friendly products and provide financing for renewable energy projects.

A wind turbine in Akita

Efforts to Support the Survivors of the Great East Japan Earthquake

Volunteer Activities in Disaster Affected Areas

Employees from across the Shinsei Bank Group have taken part in volunteer activities in the Tohoku region of Japan to help support the areas affected by the Great East Japan Earthquake. The Bank organized four disaster relief volunteer programs during the period from July 2011 to March 2012 in Miyagi prefecture. Around 40 employees participated in each 2-day program, and a total of approximately 150 participants across the four activities held to date.

Activities and Areas where Volunteer Activities were Held

Ishinomaki City, Miyagi Prefecture
(First Disaster Relief Volunteer Program)
Removal of mud from street gutters and cleaning photos damaged by the tsunami

Minamisanrikucho, Miyagi Prefecture
(Second, Third and Fourth Disaster Relief Volunteer Programs)
Removal of debris and assisting with work in the fishing industry

Monetary Donations, Disaster Recovery Assistance Loans, and Donation of Food and Other Supplies

The Shinsei Bank Group made a total of ¥157 million in donations to support disaster relief efforts. This included a corporate donation of ¥100 million from Shinsei Bank in March 2011, as well as corporate donations from Group companies, and money contributed by Group employees to internal fundraisers. Shinsei Bank also provided swift assistance to corporate and individual customers affected by the disaster through initiatives such as disaster recovery assistance loans. In addition, the Bank and a number of Group companies donated approximately 7,700 items of food and other supplies through prefectural and city governments and NPOs.

Internal Fundraiser to Erect Street Lighting in a Temporary Housing Complex

In May 2012, Shinsei Bank organized an internal fundraiser to erect street lighting in a temporary housing complex in Minamisanrikucho, Miyagi prefecture. 186 Shinsei Bank Group employees contributed, raising a total of ¥2,040,994, which was enough to purchase four LED solar-panel street lights. Shinsei Bank donated the funds raised to "Minamisanrikucho Council of Social Welfare" in response to a request made by the Minamisanrikucho Disaster Volunteer Center, which is run by the Council, as part of their efforts to erect street lighting at the 51 temporary housing sites located in the town. Donations from Shinsei Bank Group employees will be used to install street lighting at four temporary housing sites in urgent need.

Donation of Lease-End Computers and Machinery

Machines donated by Showa Leasing to a disaster-affected company

Showa Leasing has contributed to the Great East Japan Earthquake Disaster Recovery Project organized by NC Network, which operates a used machine tools sales portal site called "NC-Detector." As part of this project, Showa Leasing donated 19 items of machines, including lathes and compressors, to companies located in areas affected by the disaster, in addition to monetary contributions. Showa Leasing has also donated 29 used computers to public sector organizations, as part of the Japan Leasing Association's disaster support activities.

Supporting the Recovery Effort through APLUS Credit Card Campaigns

From March 16 to June 30, 2012, Shinsei Bank Group member APLUS Co., Ltd . ran a "Smile Campaign" to support the disaster recovery effort. In this program, APLUS made a donation of ten yen for each campaign entry by a customer who had spent a minimum of ¥10,000 yen (including tax) on credit card purchases during the campaign period. The campaign offered customers the chance to win prizes including goods from the Tohoku region. Even if customers did not win a prize, they had an additional chance to win back the amount of money they spent on credit card purchases during the campaign period, while APLUS donated the same amount to relief efforts. Prior to the "Smile Campaign," APLUS also organized a campaign on its official Facebook site from March 7 to March 20, 2012 in which the company donated ten yen for each response to a simple survey posted on the site. This campaign was open to both APLUS customers and the general public. The series of initiatives was intended to bring smiles to the faces of customers and people all around Japan.

Dow Jones Sustainability Indexes
Member 2011/12

Shinsei Bank has been selected for inclusion in the Dow Jones Sustainability Asia Pacific Index for four consecutive years since March 31, 2009.

DATA SECTION

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

The following discussion should be read in conjunction with our consolidated and non-consolidated 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, an Institutional Group, a Global Markets Group and an Individual Group:

- As of April 1, 2011, We have implemented organizational changes as part of its efforts to achieve an even more appropriate provision of financial products and services that meet institutional customer needs, by building a more strategic and systematic business promotion structure. To better serve our customers, 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 retail banking business and the Consumer Finance business. We continue to improve the quality of our retail banking services to suit customer needs through strengthening our housing loan business and expanding our branch network including Consulting Spots to efficiently develop asset management operations. For the Consumer Finance business, Shinsei launched 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), unsecured personal loan service through Shinsei Financial Co., Ltd. (Shinsei Financial) and Shinki Co., Ltd (Shinki).

FISCAL YEAR ENDED MARCH 31, 2012

We recognized net business profit after net credit costs of ¥48.3 billion for the fiscal year ended March 31, 2012 mainly due to continuous efforts since last year to expand the customer base, intensive cost reduction measures and reduction of credit costs, which resulted in steady performance. However, additional provision of reserve for losses on interest repayments of ¥32.8 billion against potential future costs have been recorded, resulting in ¥6.4 billion of consolidated net income for the fiscal year ended March 31, 2012. This represents a decline compared to the net income of ¥42.6 billion for the previous fiscal year. Net income for the previous fiscal year included considerable non-recurring gains, such as gains on repurchases of perpetual preferred securities and subordinated debts. Consolidated cash basis net income for the fiscal year ended March 31, 2012 was ¥16.0 billion, declining from ¥53.8 billion for the previous fiscal year.

Total revenue was ¥202.9 billion for the fiscal year ended March 31, 2012, a decrease of ¥59.7 billion compared to the previous fiscal year. During the fourth quarter of the fiscal year ended March 31, 2012, net loan balance increased from ¥4,076.5 billion as of the end of December 2011 to ¥4,136.8 billion as of the end of March 2012, due to commencement of consumer finance operations provided through the Bank, and as a result of active commitment by each of our businesses to continuously expand our customer base. However, as compared to the previous fiscal year, the loan balance has decreased, mainly due to a decrease in non-core assets, and revenue from derivatives and securities was reduced stemming from stagnant financial markets. General and administrative expenses decreased to ¥142.3 billion for the fiscal year ended March 31, 2012, a reduction of ¥16.1 billion compared to the previous fiscal year as a result of continued efforts at each business group. Net credit costs significantly decreased to ¥12.2 billion for the fiscal year ended March 31, 2012 compared to the previous fiscal year. While additional provisions were recorded for specialty

OVERVIEW (continued)

finance and others, credit quality improvements contributed due to continued divestiture of non-core assets, strict credit management and the strong framework for loan collections within Shinsei Financial as well as the impact from the income-linked borrowing limitation regulations implemented in the previous fiscal year. In addition to the above factors, the overall decrease in loan balance, recoveries of written-off claims and a large amount of credit recoveries resulted in the decrease of net credit costs. Additional provisions of reserve for losses on interest repayments of ¥32.8 billion against future potential costs have been recorded in the fiscal year ended March 31, 2012, a considerable increase as compared to ¥10.1 billion for the previous fiscal year.

The Institutional Group over-performed for the fiscal year ended March 31, 2012 compared to the previous fiscal year, due to a steady increase in the number of borrowers as a result of continued efforts made to rebuild our customer base, and a decrease in both expenses and net credit costs which included the impact from non-core asset reduction. The Global Markets Group's performance for the fiscal year ended March 31, 2012 was lower compared to the previous fiscal year mainly due to stagnant financial markets, the European debt crisis, and the absence of gains on repurchases of perpetual preferred securities and subordinated debt in the fiscal year ended March 31, 2012 which were recorded in the previous fiscal year. The Individual Group considerably improved ordinary business profit after net credit costs for the fiscal year ended March 31, 2012 compared to the previous fiscal year, as the pace of decline in loan balance in our Consumer Finance business as a result of the revised Money-Lending Business Control and Regulation Law has become less pronounced, and due to continued efforts to reduce expenses and net credit costs. However, it was offset partly due to a considerable amount of provision of reserve for losses on interest repayments.

Balance of loans and bills discounted declined from ¥4,291.4 billion as of March 31, 2011 to ¥4,136.8 billion as of March 31, 2012. This was mainly due to a reduction of non-core assets and the decrease of loan balance in the Consumer Finance business. However, the balance increased by ¥60.3 billion during the fourth quarter of the fiscal year ended March 31, 2012. This was because the rate of decrease in the Consumer Finance loan balance has gradually become less pronounced, mainly due to commencement of Consumer Finance operations provided from the Bank, and because loans for institutional customers and housing loans expanded.

Net interest margin declined to 2.04% for the fiscal year ended March 31, 2012, as compared to 2.19% for the previous fiscal year, mainly due to loan balance reductions within our consumer finance operations. However, it increased by 0.04% as compared to the first half of the fiscal year ended March 31, 2012, due in part to an increase in yield on interest-earning assets.

Tier I capital and total capital increased due to accumulation of yearly net income over the fiscal year ended March 31, 2012 and amortization of goodwill and other intangible assets, which resulted in improvement of the total capital adequacy ratio and Tier I capital ratio to 10.3% and 8.8%, as of March 31, 2012 respectively, compared to 9.8% and 7.8% as of March 31, 2011.

The ratio of non-performing loans to total claims was 6.7%, a decrease of 0.1% compared to the ratio as of March 31, 2011. Balance of non-performing loans under the Financial Revitalization Law totaled ¥295.9 billion as of March 31, 2012 compared to ¥279.5 billion as of March 31, 2011, an increase of ¥16.3 billion for the fiscal year ended March 31, 2012, due to additional provisions recorded in the specialty finance and other businesses. Although the balance of non-performing loan increased, an increase in the amount of total claims resulted in an improvement in the ratio.

SIGNIFICANT EVENTS

LAUNCH OF SHINSEI BANK CARD LOAN SERVICE UNDER THE LAKE BRAND

From October 1, 2011, Shinsei started offering its new unsecured personal card loan service, Shinsei Bank Card Loan - Lake, by taking over a portion of the business previously operated by its consolidated subsidiary Shinsei Financial following regulatory approval. Shinsei became the first bank in Japan to offer full-scale unsecured card loan services for individual customers through a large-scale unmanned branch network.

While customer needs for sound small-lot personal finance remain strong, the Japanese unsecured personal loan market has reached an unprecedented turning point with its size shrinking significantly and an increasing number of lenders shutting down their operations after full-scale implementation of the revised Money-Lending Business Control and Regulation Law in 2010.

Shinsei aims to offer small-lot personal finance more smoothly and flexibly to individual customers whom it was unable to serve adequately at the Bank level in the past, and to contribute to the development of a sound and healthy market as one of the leading providers in the sector, by leveraging the brand equity, marketing expertise and credit assessment capabilities it has honed within our group.

SELECTED FINANCIAL DATA (CONSOLIDATED)

Shinsei Bank, Limited and Consolidated Subsidiaries
As of or for the fiscal years ended March 31, 2012, 2011, 2010, 2009 and 2008

	Billions of yen (except per share data and percentages)				
	2012	2011	2010	2009	2008
Statements of income data:					
Net interest income	**¥ 116.9**	¥ 156.6	¥ 207.9	¥ 202.9	¥ 137.7
Net fees and commissions	**25.1**	26.0	25.1	26.5	40.8
Net trading income (loss)	**13.6**	11.6	9.0	(4.6)	9.0
Net other business income (loss)	**47.2**	68.3	22.1	(41.7)	74.9
Total revenue	**202.9**	262.6	264.2	183.1	262.6
General and administrative expenses	**130.3**	145.3	170.8	182.0	158.7
Amortization of goodwill and other intangible assets	**11.9**	13.0	20.9	17.5	12.5
Total general and administrative expenses	**142.3**	158.4	191.7	199.5	171.2
Net credit costs	**12.2**	68.3	112.2	129.0	73.5
Net business profit (loss) after net credit costs	**48.3**	35.8	(39.7)	(145.5)	17.8
Other gains (losses), net	**(32.9)**	21.9	(83.3)	26.4	74.7
Income (loss) before income taxes and minority interests	**15.3**	57.7	(123.0)	(119.0)	92.5
Current income tax	**2.9**	1.9	1.5	3.4	4.9
Deferred income tax	**2.4**	5.2	6.7	7.0	9.5
Minority interests in net income of subsidiaries	**3.5**	7.9	8.8	13.5	18.0
Net income (loss)	**¥ 6.4**	¥ 42.6	¥ (140.1)	¥ (143.0)	¥ 60.1
Balance sheet data:					
Trading assets	**¥ 202.6**	¥ 195.3	¥ 223.2	¥ 375.1	¥ 315.2
Securities	**1,873.4**	3,286.3	3,233.3	2,174.1	1,980.2
Loans and bills discounted	**4,136.8**	4,291.4	5,163.7	5,876.9	5,622.2
Customers' liabilities for acceptances and guarantees	**562.6**	575.7	623.7	675.2	701.7
Reserve for credit losses	**(180.6)**	(199.2)	(196.6)	(192.5)	(145.9)
Total assets	**8,609.6**	10,231.5	11,376.7	11,949.1	11,525.7
Deposits, including negotiable certificates of deposit	**5,362.4**	5,610.6	6,475.3	6,272.1	5,806.6
Debentures	**294.1**	348.2	483.7	675.5	662.4
Trading liabilities	**176.0**	147.7	177.8	307.5	205.0
Borrowed money	**476.7**	1,672.7	1,186.8	1,012.3	1,127.2
Acceptances and guarantees	**562.6**	575.7	623.7	675.2	701.7
Total liabilities	**7,982.0**	9,620.3	10,741.8	11,181.7	10,560.5
Common stock	**512.2**	512.2	476.2	476.2	476.2
Total equity	**627.6**	611.1	634.9	767.4	965.2
Total liabilities and equity	**¥ 8,609.6**	¥ 10,231.5	¥ 11,376.7	¥ 11,949.1	¥ 11,525.7
Per share data:					
Common equity[1]	**¥ 212.67**	¥ 205.83	¥ 232.72	¥ 284.95	¥ 364.35
Basic net income (loss)	**2.42**	21.36	(71.36)	(72.85)	38.98
Capital adequacy data:					
Total capital adequacy ratio	**10.3%**	9.8%	8.4%	8.4%	11.7%
Tier I capital ratio	**8.8%**	7.8%	6.4%	6.0%	7.4%
Average balance data:					
Securities	**¥ 2,394.6**	¥ 3,056.4	¥ 3,212.6	¥ 2,388.7	¥ 2,058.7
Loans and bills discounted	**4,159.8**	4,680.7	5,457.6	5,910.3	5,390.3
Total assets	**9,420.6**	10,804.1	11,662.9	11,737.4	11,181.7
Interest-bearing liabilities	**7,237.5**	8,507.2	9,354.5	9,303.7	9,065.8
Total liabilities	**8,801.2**	10,181.1	10,961.7	10,871.1	10,232.4
Total equity	**619.4**	623.0	701.2	866.3	949.2
Other data:					
Return on assets	**0.1%**	0.4%	(1.2)%	(1.2)%	0.5%
Return on equity[1]	**1.2%**	8.5%	(27.6)%	(22.4)%	8.8%
Ratio of deposits, including negotiable certificates of deposit, to total liabilities	**67.2%**	58.3%	60.3%	56.1%	55.0%
Expense-to-revenue ratio[2]	**64.2%**	55.3%	64.6%	99.4%	60.4%
Non-performing claims, non-consolidated	**¥ 295.9**	¥ 279.5	¥ 333.0	¥ 145.8	¥ 53.1
Ratio of non-performing claims to total claims, non-consolidated	**6.7%**	6.8%	6.7%	2.5%	1.0%
Net deferred tax assets	**¥ 15.2**	¥ 17.9	¥ 17.4	¥ 20.5	¥ 23.9
Net deferred tax assets as a percentage of Tier I capital	**2.8%**	3.5%	3.5%	3.5%	3.5%

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

RESULTS OF OPERATIONS (CONSOLIDATED)

FISCAL YEAR ENDED MARCH 31, 2012 COMPARED WITH FISCAL YEAR ENDED MARCH 31, 2011 (CONSOLIDATED)

We reported total revenue of ¥202.9 billion for the fiscal year ended March 31, 2012 which was ¥59.7 billion lower than the ¥262.6 billion for the previous fiscal year.

Net interest income amounted to ¥116.9 billion for the fiscal year ended March 31, 2012, a decrease of ¥39.7 billion, as compared to ¥156.6 billion for the previous fiscal year. Loans and bills discounted balance increased in the fourth quarter of the fiscal year ended March 31, 2012, from ¥4,076.5 billion as of December 31, 2011 to ¥4,136.8 billion as of March 31, 2012. The core business assets increased due to commencement of Consumer Finance business provided through the Bank and active commitment by each business to provide high value-added financial products and services, and continuous efforts to expand our customer base. However, as compared to the previous fiscal year, net interest income decreased due to reduction of non-core assets and a lower loan balance of Consumer Finance loans. Non-interest income amounted to ¥86.0 billion for the fiscal year ended March 31, 2012, a decrease of ¥19.9 billion, as compared to ¥106.0 billion for the previous fiscal year, due to lower growth of revenue releted to derivatives and securities which was impacted from the slump in financial markets. Net fees and commissions decreased to ¥25.1 billion for the fiscal year ended March 31, 2012 from ¥26.0 billion for the previous fiscal year mainly due to lower fee income from investment products such as structured deposits. Net trading income increased from ¥11.6 billion to ¥13.6 billion and net other business income decreased from ¥68.3 billion to ¥47.2 billion, respectively, for the fiscal year ended March 31, 2012 as compared to the previous fiscal year. Net other business income included income on lease transactions and installment receivables from Showa Leasing, APLUS FINANCIAL and Shinsei Financial of ¥36.6 billion for the fiscal year ended March 31, 2012, as compared to ¥38.7 billion for the previous fiscal year. Net other business income for the previous fiscal year included non-recurring gains such as ¥7.3 billion of gains on sales of asset backed investments and securities, and ¥4.3 billion of gains on sales of CLO.

General and administrative expenses, excluding amortization of goodwill and other intangible assets, were ¥130.3 billion for the fiscal year ended March 31, 2012, a decrease of ¥14.9 billion compared to the previous fiscal year. This was mainly due to substantial expense reductions achieved through rationalization and efficiency improvements across our business, especially within the consumer finance business where the business was appropriately scaled down in anticipation of a decrease in the loan balance due to the impact of the revised Money-Lending Business Control and Regulation Law.

Net credit costs showed a significant decrease as compared to the previous fiscal year. Although additional provisions were recorded for specialty finance, the decrease of net credit costs was a result of continued divestiture of risk potential bearing non-core assets, improvements of asset quality in Consumer Finance business, due to the stricter credit management and strengthening of collection systems that Shinsei Financial has been implementing incrementally to date, as well as following the income-linked borrowing limitation regulations implemented in the previous fiscal year, coupled with large-scale credit recovery. From the fiscal year ended March 31, 2012, recoveries of written-off claims are categorized into net credit costs according to revised Report No.14 “Practical Guidelines on Accounting Standards for Financial Instruments” issued by the Accounting Practice Committee of the Japanese Institute of Certified Public Accountants (JICPA), on March 29 2011, while net credit costs stated in the previous fiscal year consisted of provision of reserve for loan losses, reversal of reserve for loan losses, losses on write-off of loans and losses on sale of loans. For the fiscal year ended March 31, 2012, net credit costs were ¥12.2 billion, while net credit costs excluding recoveries of written-off claims of ¥10.8 billion were ¥23.1 billion, showing a substantial decrease from ¥68.3 billion for the previous fiscal year.

Amortization of goodwill and other intangible assets associated with the acquisition of consumer finance and commercial finance companies was ¥11.9 billion for the fiscal year ended March 31, 2012 as compared to ¥13.0 billion for the previous fiscal year. The lower amount was attributable to factors including the sum-of-the-years’ digits method for amortization of goodwill and intangible assets related to Shinsei Financial.

Other losses were ¥32.9 billion for the fiscal year ended March 31, 2012, mainly due to ¥32.8 billion of additional reserves for losses on interest repayments, which were processed in the fiscal year ended March 31, 2012 in case of additional future cost. From the fiscal year ended March 31, 2012, recoveries of written-off claims are categorized into net credit costs and not included in other gains (losses), according to revised Report No.14 “Practical Guidelines on Accounting Standards for Financial Instruments” issued by the Accounting Practice Committee of JICPA, on March 29 2011. Other gains of ¥21.9 billion for the previous fiscal year were recorded due to ¥10.1 billion of additional provisions of reserve for losses on interest repayments, ¥4.4 billion of restructuring cost at Shinsei Financial, ¥3.6 billion of asset retirement obligation costs at Shinsei Bank and its subsidiaries, offset by ¥29.4 billion of gains on the repurchase of perpetual preferred securities and subordinated debt and ¥14.8 billion of recoveries of written-off claims.

Current and deferred income taxes reflected a net expense

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

of ¥5.3 billion for the fiscal year ended March 31, 2012, which was impacted from tax reform as well.

Minority interests in net income of subsidiaries largely reflect dividends accrued on perpetual preferred securities and minority interests in consolidated subsidiaries. Due to factors including the repurchase of perpetual preferred securities in the previous fiscal year, minority interests in net income of subsidiaries declined by ¥4.3 billion from ¥7.9 billion for the previous fiscal year to ¥3.5 billion for the fiscal year ended March 31, 2012.

We realized consolidated net income of ¥6.4 billion on a reported-basis for the fiscal year ended March 31, 2012. This is a decline compared to the net income of ¥42.6 billion for the previous fiscal year. This reflects ¥32.8 billion of additional provisions of reserve for losses on interest repayments recorded in the fiscal year ended March 31, 2012. In contrast, a considerable amount of non-recurring gains, such as ¥29.4 billion in gains on repurchases of perpetual preferred securities and subordinated debts were included in consolidated net income for the previous fiscal year, together with additional provisions of reserve for losses on interest repayments which were limited to ¥10.1 billion. Consolidated cash basis net income for the fiscal year ended March 31, 2012 was ¥16.0 billion, a decrease as compared to ¥53.8 billion for the previous fiscal year. The cash basis net income is calculated by excluding amortization and impairment of goodwill and other intangible assets, net of tax benefit, from net income under Japanese GAAP.

SUPPLEMENTAL FINANCIAL DATA AND RECONCILIATIONS TO JAPANESE GAAP MEASURES

Shinsei Bank, Limited and Consolidated Subsidiaries

For the fiscal year ended March 31, 2012 — Billions of yen (except per share data and percentages)

Amortization of goodwill and other intangible assets	
Amortization of other intangible assets	¥ 4.2
Associated deferred tax income	(2.3)
Amortization of goodwill	7.6
Total amortization of goodwill and other intangible assets, net of tax benefit	¥ 9.6
Reconciliation of net income to cash basis net income	
Net income	¥ 6.4
Amortization of goodwill and other intangible assets, net of tax benefit	9.6
Cash basis net income	¥ 16.0
Reconciliation of basic net income per share to cash basis basic net income per share	
Basic net income per share	¥ 2.42
Effect of amortization of goodwill and other intangible assets, net of tax benefit	3.63
Cash basis basic net income per share	¥ 6.05
Reconciliation of return on assets to cash basis return on assets	
Return on assets	0.1%
Effect of amortization of goodwill and other intangible assets, net of tax benefit	0.1%
Cash basis return on assets	0.2%
Reconciliation of return on equity to cash basis return on equity	
Return on equity	1.2%
Effect of amortization of goodwill and other intangible assets, net of tax benefit	1.7%
Cash basis return on equity	2.9%
Reconciliation of return on equity to return on tangible equity	
Return on equity	1.2%
Effect of goodwill and other intangible assets	2.1%
Return on tangible equity(1)	3.2%

Note: (1) Net income excludes amortization of goodwill and other intangible assets, net of tax benefit. Average equity excludes goodwill and other intangible assets, net of associated deferred tax liability.

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)

	2012			2011		
Fiscal years ended March 31	**Average Balance**	**Interest**	**Yield/Rate**	Average Balance	Interest	Yield/Rate
Interest-earning assets:						
Loans and bills discounted	**¥ 4,159.8**	**¥ 140.3**	**3.37%**	¥ 4,680.7	¥ 178.5	3.82%
Lease receivables and leased investment assets/ installment receivables	**545.6**	**36.6**	**6.72**	566.7	38.7	6.83
Securities	**2,394.6**	**17.8**	**0.74**	3,056.4	23.8	0.78
Other interest-earning assets(1)	**351.3**	**1.5**	**n.m.(3)**	540.4	4.7	n.m.(3)
Total revenue on interest-earning assets (A)	**¥ 7,451.4**	**¥ 196.4**	**2.64%**	¥ 8,844.4	¥ 245.8	2.78%
Interest-bearing liabilities:						
Deposits, including negotiable certificates of deposit	**¥ 5,623.5**	**¥ 29.0**	**0.52**	¥ 5,946.6	¥ 34.5	0.58
Debentures	**320.5**	**1.4**	**0.46**	426.3	2.3	0.56
Borrowed money	**647.2**	**5.5**	**0.86**	1,422.1	7.0	0.50
Subordinated debt	**94.5**	**1.7**	**1.86**	101.9	0.8	0.88
Other borrowed money	**552.7**	**3.8**	**0.69**	1,320.1	6.2	0.47
Corporate bonds	**170.1**	**5.7**	**3.38**	190.8	5.5	2.88
Subordinated bonds	**145.6**	**5.3**	**3.67**	157.0	5.1	3.28
Other corporate bonds	**24.5**	**0.4**	**1.67**	33.7	0.3	1.03
Other interest-bearing liabilities(1)	**476.0**	**0.9**	**n.m.(3)**	521.2	0.9	n.m.(3)
Total expense on interest-bearing liabilities (B)	**¥ 7,237.5**	**¥ 42.8**	**0.59%**	¥ 8,507.2	¥ 50.4	0.59%
Net interest margin (A) - (B)	**—**	**—**	**2.04%**	—	—	2.19%
Non-interest-bearing sources of funds:						
Non-interest-bearing (assets) liabilities, net	**¥ (342.8)**	**—**	**—**	¥ (166.0)	—	—
Total equity excluding minority interest(2)	**556.7**	**—**	**—**	503.2	—	—
Total non-interest-bearing sources of funds (C)	**213.8**	**—**	**—**	337.1	—	—
Total interest-bearing liabilities and non-interest-bearing sources of funds (D) = (B) +(C)	**¥ 7,451.4**	**¥ 42.8**	**0.57%**	¥ 8,844.4	¥ 50.4	0.57%
Net revenue on interest-earning assets/ yield on interest-earning assets (A) - (D)	**—**	**¥ 153.5**	**2.06%**	—	¥ 195.3	2.21%
Reconciliation of total revenue on interest-earning assets to total interest income						
Total revenue on interest-earning assets	**¥ 7,451.4**	**¥ 196.4**	**2.64%**	¥ 8,844.4	¥ 245.8	2.78%
Less: Income on lease transactions and installment receivables	**545.6**	**36.6**	**6.72**	566.7	38.7	6.83
Total interest income	**¥ 6,905.7**	**¥ 159.7**	**2.31%**	¥ 8,277.6	¥ 207.1	2.50%
Total interest expenses	**—**	**42.8**	**—**	—	50.4	—
Net interest income	**—**	**¥ 116.9**	**—**	—	¥ 156.6	—

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

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

Net revenue on interest-earning assets for the fiscal year ended March 31, 2012 was ¥153.5 billion, a decrease of ¥41.7 billion compared to the previous fiscal year. Total revenue on interest-earning assets and total expense on interest-bearing liabilities decreased by ¥49.4 billion and ¥7.6 billion, respectively, for the fiscal year ended March 31, 2012 compared to the previous fiscal year. The net interest margin was 2.04% for the fiscal year ended March 31, 2012, compared to 2.19% for the

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

previous fiscal year. The change in net interest margin largely reflected loan balance reductions within our consumer finance operations and lower yield of loans and bills discounted and securities, partly offset by lower interest expense for deposits, including negotiable certificates of deposit, and debentures. However, the net interest margin of 2.04% for the fiscal year ended March 31, 2012 showed a slight improvement compared to 2.00% for the six months ended September 30, 2011. This improvement reflects an increase in the yield on interest-earning assets.

NET FEES AND COMMISSIONS

Net fees and commissions is mainly from non-recourse finance on domestic real estate, guarantee and other businesses operated by consumer finance subsidiaries, and sales of mutual funds and variable annuities. Net fees and commissions was ¥25.1 billion for the fiscal year ended March 31, 2012, a decrease of ¥0.8 billion from ¥26.0 billion for the previous fiscal year.

NET TRADING INCOME

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

TABLE 2. NET TRADING INCOME (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2012**	2011	% Change
Income from trading securities	**¥ 0.2**	¥ 0.7	(73.5)
Income from securities held to hedge trading transactions	**(3.0)**	(2.8)	(7.5)
Income from trading-related financial derivatives	**16.5**	13.6	20.8
Other, net	**(0.0)**	0.0	(139.5)
Net trading income	**¥ 13.6**	¥11.6	17.0

Net trading income includes revenues from derivatives with customer-driven transactions and those from proprietary trading. ¥13.6 billion was recorded for the fiscal year ended March 31, 2012, an increase of ¥1.9 billion from ¥11.6 billion for the previous fiscal year.

NET OTHER BUSINESS INCOME

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

TABLE 3. NET OTHER BUSINESS INCOME (LOSS) (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2012**	2011	% Change
Net gain on monetary assets held in trust	**¥ 8.1**	¥ 5.2	54.1
Net gain on foreign exchanges	**0.5**	4.7	(88.0)
Net gain (loss) on securities	**(3.3)**	15.2	(121.8)
Net gain (loss) on other monetary claims purchased	**1.4**	(0.4)	450.6
Other, net	**3.7**	4.6	(20.1)
Income (loss) from derivatives for banking purposes, net	**(1.0)**	1.7	(161.4)
Equity in net income (loss) of affiliates	**3.4**	1.3	157.2
Gain on lease cancellation and other lease income (loss), net	**(0.2)**	(0.0)	(160.4)
Other, net	**1.6**	1.7	(7.2)
Net other business income before income on lease transactions and installment receivables, net	**10.5**	29.6	(64.4)
Income on lease transactions and installment receivables, net	**36.6**	38.7	(5.2)
Net other business income	**¥ 47.2**	¥ 68.3	(30.9)

Net other business income was ¥47.2 billion for the fiscal year ended March 31, 2012, compared to ¥68.3 billion for the previous fiscal year. This included income on lease transactions and installment receivables of ¥36.6 billion at Showa Leasing, APLUS FINANCIAL, Shinsei Financial and others, compared to ¥38.7 billion for the previous fiscal year. Net other business income included ¥6.3 billion, net of withholding tax, of gains on sale of foreign equities that had been classified as non-core assets, ¥5.2 billion of impairment on major listed shares, ¥3.3 billion of impairment on bonds related to domestic real estate non-recourse finance, and ¥1.5 billion of impairment on private equity investments for the fiscal year ended March 31, 2012.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

Net other business income for the previous fiscal year included ¥7.3 billion of gains on sales of asset backed investments and securities, ¥4.3 billion of gains on sales of CLO, ¥3.7 billion of revaluation loss and impairments on bonds related to domestic real estate non-recourse finance, and ¥1.1 billion of revaluation loss and impairments on real estate related investments.

TOTAL REVENUE

Due to the factors described above, total revenue in the fiscal year ended March 31, 2012 was ¥202.9 billion, as compared with ¥262.6 billion for the previous fiscal year.

GENERAL AND ADMINISTRATIVE EXPENSES

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

TABLE 4. GENERAL AND ADMINISTRATIVE EXPENSES (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2012**	2011	% Change
Personnel expenses	**¥ 53.4**	¥ 57.5	(7.1)
Premises expenses	**20.4**	23.2	(12.0)
Technology and data processing expenses	**17.2**	19.2	(10.1)
Advertising expenses	**9.1**	9.2	(1.0)
Consumption and property taxes	**6.3**	7.7	(18.1)
Deposit insurance premium	**4.6**	5.4	(14.1)
Other general and administrative expenses	**18.9**	22.8	(17.0)
General and administrative expenses	**130.3**	145.3	(10.3)
Amortization of goodwill and other intangible assets	**11.9**	13.0	(8.7)
Total general and administrative expenses	**¥ 142.3**	¥ 158.4	(10.2)

General and administrative expenses, excluding amortization of goodwill and other intangible assets, were ¥130.3 billion for the fiscal year ended March 31, 2012, a decrease of ¥14.9 billion compared to ¥145.3 billion for the previous fiscal year, as a result of steady expense reduction and streamlining in each expense category.

Personnel expenses of ¥53.4 billion for the fiscal year ended March 31, 2012 decreased by ¥4.0 billion, from ¥57.5 billion for the previous fiscal year, through ongoing personnel expense rationalization and streamlining across our business.

Non-personnel expenses of ¥76.9 billion decreased by ¥10.8 billion from ¥87.7 billion for the previous fiscal year. Expenses were reduced across all of our business lines through strict expense control discipline. The Bank relocated its head office from Uchisaiwai-cho to Nihonbashi-muromachi and began operations in its new head office building on January 4, 2011. We have been able to reduce our office space significantly and enhanced energy conservation through the relocation. Premises expenses declined by ¥2.7 billion to ¥20.4 billion, mainly due to Shinsei Bank's head office relocation and consumer finance subsidiaries' branch optimization. Technology and data processing expenses were ¥1.9 billion lower than the previous fiscal year mainly due to automated contract machine sharing and optimization between Shinsei Financial and Shinki. Advertising expenses of ¥9.1 billion were lower than ¥9.2 billion for the previous fiscal year, as a result of efficient management of diversified advertising activities required for our commencement of consumer finance business at the Bank in October 2011.

AMORTIZATION OF GOODWILL AND OTHER INTANGIBLE ASSETS

Amortization of goodwill and other intangible assets associated with the acquisition of consumer and commercial finance companies totaled ¥11.9 billion for the fiscal year ended March 31, 2012 compared to ¥13.0 billion for the previous fiscal year. The difference is mainly attributable to the sum-of-the-years' digits method applied for amortization of goodwill and intangible assets related to Shinsei Financial. Amortization of goodwill and other intangible assets for APLUS FINANCIAL was ¥0.8 billion in the fiscal year ended March 31, 2012, which is 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.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

TABLE 5. AMORTIZATION OF GOODWILL AND OTHER INTANGIBLE ASSETS (CONSOLIDATED)

Fiscal years ended March 31	Billions of yen 2012	2011	% Change
Shinsei Financial	**¥ 8.5**	¥ 9.6	(11.0)
Shinki	**(0.3)**	(0.3)	0.0
APLUS FINANCIAL	**0.8**	0.8	(6.0)
Showa Leasing	**2.9**	2.9	(1.1)
Others	**(0.0)**	(0.0)	(0.0)
Amortization of goodwill and other intangible assets	**¥ 11.9**	¥ 13.0	(8.7)

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 2012	2011	% Change
Losses on write-off or sales of loans	**¥ 5.7**	¥ 7.5	(23.9)
Net provision of reserve for loan losses:			
Net provision (reversal) of general reserve for loan losses	**(5.9)**	30.4	(119.5)
Net provision of specific reserve for loan losses	**42.2**	31.2	35.0
Net provision (reversal) of reserve for loan losses to restructuring countries	**(0.0)**	(0.0)	(971.3)
Subtotal	**36.3**	61.7	(41.2)
Net provision (reversal) of specific reserve for other credit losses	**(17.2)**	0.0	n.m.[2]
Other credit costs (recoveries) relating to leasing business	**(1.6)**	(0.9)	(86.8)
Recoveries of written-off claims[1]	**(10.8)**	—	—
Net credit costs	**¥ 12.2**	¥ 68.3	(82.1)

Notes: (1) Accounted for net credit costs from the fiscal year ended March 31, 2012
(2) n.m. is not meaningful.

The principal components of net credit costs are provisions or reversals of loan loss reserves. 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 for the fiscal year ended March 31, 2012 showed a significant decrease as compared to the previous fiscal year. Although additional provisions were recorded for specialty finance, net credit costs in the Institutional Group decreased as a result of continued divestiture of non-core assets, coupled with large-scale credit recovery. In consumer finance, net credit costs significantly decreased from asset quality improvements due to stricter credit management and strengthening of collection systems that Shinsei Financial has been implementing incrementally to date, as well as following the income-linked borrowing limitation regulations implemented in the previous fiscal year, coupled with the overall decrease in loan balance.

From the fiscal year ended March 31, 2012, recoveries of written-off claims are categorized into net credit costs according to revised Report No.14 "Practical Guidelines on Accounting Standards for Financial Instruments" issued by the Accounting Practice Committee of JICPA, on March 29, 2011, while net credit costs stated in the previous fiscal year consisted of provision of reserve for loan losses, reversal of reserve for loan losses, losses on write-off of loans and losses on sale of loans.

For the fiscal year ended March 31, 2012, net credit costs were ¥12.2 billion, while net credit costs excluding recoveries of written-off claims of ¥10.8 billion were ¥23.1 billion, showing a substantial decrease from ¥68.3 billion for the previous fiscal year. Shinsei Financial and Shinsei Bank Card Loan - Lake ("Shinsei Bank Lake") recorded net credit recoveries of ¥8.0 billion for the fiscal year ended March 31, 2012. Net credit recoveries, excluding recoveries of written-off claims, were ¥0.4 billion, an improvement compared to net credit costs of ¥7.7 billion for the previous fiscal year. ¥10.8 billion of recoveries of written-off claims for the fiscal year ended March 31, 2012 include ¥7.6 billion for Shinsei Financial, ¥2.0 billion for Shinsei Bank (non-consolidated basis), and ¥1.0 billion for Shinki.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

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		
	2012	2011	% Change
Net gain (loss) on disposal of premises and equipment	**¥ (0.5)**	¥ (0.5)	6.2
Pension-related costs	**(0.3)**	(0.9)	66.4
Gains on write-off of unclaimed debentures	**1.2**	0.5	121.6
Recoveries of written-off claims	**—**	14.8	(100.0)
Provision of reserve for losses on interest repayments	**(32.8)**	(10.1)	(224.1)
Impairment losses on long lived assets	**(1.0)**	(2.3)	53.9
Gains from the cancellation of issued corporate bonds and other instruments	**—**	29.4	(100.0)
Losses on application of new accounting standard for asset retirement obligations[1]	**—**	(3.6)	100.0
Business restructuring cost	**—**	(4.7)	100.0
Gain on sale of subsidiary's stock	**2.4**	—	—
Other, net	**(1.9)**	(0.5)	(64.0)
Total	**¥ (32.9)**	¥ 21.9	(250.2)

Note: (1) "Losses on application of new accounting standard for asset retirement obligations" is a cumulative effect recognized at the beginning of the previous fiscal year by applying "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, March 31, 2008).

Other losses were ¥32.9 billion for the fiscal year ended March 31, 2012, including additional provisions of reserve for losses on interest repayments of ¥15.9 billion for Shinsei Financial, ¥11.5 billion for Shinki, and ¥5.3 billion for APLUS FINANCIAL. Additional provisions for losses on interest repayments of Shinsei Financial were recorded for the portion of the portfolio not covered by the GE indemnity included in the purchase agreement of Shinsei Financial from GE. From the fiscal year ended March 31, 2012, recoveries of written-off claims are categorized into net credit costs and not included in other gains (losses), according to revised Report No.14 "Practical Guidelines on Accounting Standards for Financial Instruments" issued by the Accounting Practice Committee of JICPA, on March 29, 2011. Other gains of ¥21.9 billion for the previous fiscal year included ¥29.4 billion of gains on the repurchase of perpetual preferred securities and subordinated debt, ¥14.8 billion of recoveries of written-off claims and asset retirement obligation costs of ¥3.6 billion at Shinsei Bank and its subsidiaries.

INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS

As a result of the foregoing, income before income taxes and minority interests totaled ¥15.3 billion for the fiscal year ended March 31, 2012, as compared to ¥57.7 billion for the previous fiscal year.

INCOME TAXES

Current and deferred income taxes reflected a net expense of ¥5.3 billion compared to a net expense of ¥7.2 billion in the previous fiscal year. For the fiscal year ended March 31, 2012, we recorded ¥2.9 billion of current tax expense and ¥2.4 billion of deferred income tax expense, which was impacted from tax reform as well. For the previous fiscal year, ¥1.9 billion of current income tax expense and ¥5.2 billion of deferred income tax expense.

MINORITY INTERESTS IN NET INCOME OF SUBSIDIARIES

Minority interests in net income of subsidiaries for the fiscal year ended March 31, 2012 were ¥3.5 billion largely reflect dividends accrued on perpetual preferred securities and minority interests in the net income of other consolidated subsidiaries. Due to factors including the repurchase of perpetual preferred securities in the previous fiscal year, minority interests in net income of subsidiaries declined by ¥4.3 billion from ¥7.9 billion for the previous fiscal year.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

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

	Billions of yen		
Fiscal years ended March 31	**2012**	2011	% Change
Dividends on preferred securities (hybrid Tier I capital) issued by foreign SPCs	**¥ 3.0**	¥ 7.5	(59.4)
Others	**0.4**	0.3	36.4
Minority interests in net income of subsidiaries	**¥ 3.5**	¥ 7.9	(55.0)

NET INCOME

We recognized a consolidated net income of ¥6.4 billion for the fiscal year ended March 31, 2012, compared to ¥42.6 billion for the previous fiscal year.

Consolidated cash basis net income for the fiscal year ended March 31, 2012 was ¥16.0 billion, compared to ¥53.8 billion for the previous fiscal year. The cash basis net income is calculated by excluding amortization and impairment of goodwill and other intangible assets, 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 other intangible assets, 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 conformity with Japanese GAAP at the net income (loss) level. The following summary table provides a reconciliation between our results on a reported- and operating-basis.

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

	Billions of yen					
	2012			2011		
Fiscal years ended March 31	**Reported-basis**	**Reclassifications**	**Operating-basis**	Reported-basis	Reclassifications	Operating-basis
Revenue:						
Net interest income	**¥ 116.9**	**¥ —**	**¥ 116.9**	¥ 156.6	¥ —	¥ 156.6
Non-interest income[1]	**86.0**	**—**	**86.0**	106.0	29.4	135.4
Total revenue	**202.9**	**—**	**202.9**	262.6	29.4	292.1
General and administrative expenses[2]	**130.3**	**(2.4)**	**127.9**	145.3	(2.5)	142.8
Amortization of goodwill and other intangible assets	**11.9**	**(11.9)**	**—**	13.0	(13.0)	—
Total general and administrative expenses	**142.3**	**(14.3)**	**127.9**	158.4	(15.6)	142.8
Net business profit/Ordinary business profit[3]	**60.6**	**14.3**	**74.9**	104.2	45.0	149.2
Net credit costs	**12.2**	**—**	**12.2**	68.3	—	68.3
Amortization of goodwill and other intangible assets	**—**	**11.9**	**11.9**	—	13.0	13.0
Other gains (losses), net[1][2]	**(32.9)**	**2.4**	**(35.4)**	21.9	(31.9)	(10.0)
Income before income taxes and minority interests	**15.3**	**—**	**15.3**	57.7	—	57.7
Income taxes and minority interests	**8.9**	**—**	**8.9**	15.1	—	15.1
Net income	**¥ 6.4**	**¥ —**	**¥ 6.4**	¥ 42.6	¥ —	¥ 42.6

Notes: (1) Reclassifications consist principally of adjustments relating to gain from the cancellation of issued corporate bonds and other instruments from other gains (losses), net to non-interest income.
(2) 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.
(3) Amortization of goodwill and other intangible assets is reclassified under ordinary business profit after net credit costs.

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)

	Billions of yen		
Fiscal years ended March 31	**2012**	2011	% Change
Institutional Group:			
Net interest income	**¥ 27.2**	¥ 34.0	(19.9)
Non-interest income	**35.0**	39.5	(11.3)
Total revenue	**62.3**	73.5	(15.3)
General and administrative expenses	**25.0**	27.2	(8.3)
Ordinary business profit	**37.3**	46.3	(19.4)
Net credit costs	**17.8**	37.9	(53.0)
Ordinary business profit after net credit costs	**¥ 19.4**	¥ 8.3	132.2
Global Markets Group:			
Net interest income	**¥ (6.1)**	¥ 9.2	(166.5)
Non-interest income	**11.3**	54.3	(79.1)
Total revenue	**5.1**	63.6	(91.9)
General and administrative expenses	**10.8**	12.1	(10.7)
Ordinary business profit (loss)	**(5.6)**	51.5	(110.9)
Net credit costs (recoveries)	**(2.6)**	1.4	(289.9)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ (2.9)**	¥ 50.1	(105.9)
Individual Group:			
Net interest income	**¥ 98.7**	¥ 117.3	(15.8)
Non-interest income	**39.3**	39.8	(1.1)
Total revenue	**138.1**	157.1	(12.1)
General and administrative expenses	**92.6**	104.5	(11.3)
Ordinary business profit	**45.4**	52.6	(13.6)
Net credit costs (recoveries)	**(1.7)**	28.6	(106.2)
Ordinary business profit after net credit costs (recoveries)	**¥ 47.2**	¥ 24.0	96.8
Corporate/Other[1]:			
Net interest income	**¥ (2.9)**	¥ (4.0)	26.3
Non-interest income	**0.2**	1.7	(83.8)
Total revenue	**(2.6)**	(2.2)	(18.4)
General and administrative expenses	**(0.5)**	(1.0)	50.9
Ordinary business profit (loss)	**(2.1)**	(1.2)	(76.9)
Net credit costs (recoveries)	**(1.0)**	0.4	(355.1)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ (1.0)**	¥ (1.6)	34.0
Total:			
Net interest income	**¥ 116.9**	¥ 156.6	(25.4)
Non-interest income	**86.0**	135.4	(36.5)
Total revenue	**202.9**	292.1	(30.5)
General and administrative expenses	**127.9**	142.8	(10.4)
Ordinary business profit	**74.9**	149.2	(49.8)
Net credit costs	**12.2**	68.3	(82.1)
Ordinary business profit after net credit costs	**¥ 62.7**	¥ 80.8	(22.5)

Note: (1) Corporate/Other largely 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.

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

	Billions of yen		
Fiscal years ended March 31	**2012**	2011	% Change
Institutional Business Sub-Group:			
Net interest income	**¥ 9.2**	¥ 9.3	(0.8)
Non-interest income	**0.1**	1.4	(92.9)
Total revenue	**9.3**	10.7	(13.2)
General and administrative expenses	**5.8**	6.2	(7.2)
Ordinary business profit	**3.5**	4.4	(21.6)
Net credit costs (recoveries)	**1.4**	(0.1)	1,103.4
Ordinary business profit after net credit costs (recoveries)	**¥ 2.0**	¥ 4.6	(54.6)
Structured Finance Sub-Group:			
Net interest income	**¥ 16.9**	¥ 21.4	(21.3)
Non-interest income	**4.1**	1.1	272.9
Total revenue	**21.0**	22.5	(6.9)
General and administrative expenses	**4.8**	5.8	(17.1)
Ordinary business profit	**16.2**	16.7	(3.4)
Net credit costs	**14.1**	39.0	(63.8)
Ordinary business profit (loss) after net credit costs	**¥ 2.0**	¥ (22.2)	109.2
Principal Transactions Sub-Group:			
Net interest income	**¥ 4.5**	¥ 2.8	61.5
Non-interest income	**6.6**	5.7	15.6
Total revenue	**11.2**	8.5	30.7
General and administrative expenses	**3.8**	4.2	(8.5)
Ordinary business profit	**7.3**	4.3	69.3
Net credit costs (recoveries)	**0.9**	(0.6)	251.7
Ordinary business profit after net credit costs (recoveries)	**¥ 6.4**	¥ 4.9	29.6
Showa Leasing:			
Net interest income	**¥ (2.5)**	¥ (3.1)	18.6
Non-interest income	**15.0**	18.5	(18.7)
Total revenue	**12.4**	15.3	(18.7)
General and administrative expenses	**7.8**	8.0	(3.0)
Ordinary business profit	**4.6**	7.2	(36.1)
Net credit costs (recoveries)	**(1.3)**	3.4	(139.6)
Ordinary business profit after net credit costs (recoveries)	**¥ 6.0**	¥ 3.8	57.6
Others:			
Net interest income	**¥ (0.8)**	¥ 3.6	(123.4)
Non-interest income	**9.1**	12.6	(28.1)
Total revenue	**8.2**	16.3	(49.3)
General and administrative expenses	**2.6**	2.8	(7.6)
Ordinary business profit	**5.6**	13.4	(58.2)
Net credit costs (recoveries)	**2.7**	(3.8)	170.7
Ordinary business profit after net credit costs (recoveries)	**¥ 2.9**	¥ 17.2	(83.2)
Institutional Group:			
Net interest income	**¥ 27.2**	¥ 34.0	(19.9)
Non-interest income	**35.0**	39.5	(11.3)
Total revenue	**62.3**	73.5	(15.3)
General and administrative expenses	**25.0**	27.2	(8.3)
Ordinary business profit	**37.3**	46.3	(19.4)
Net credit costs	**17.8**	37.9	(53.0)
Ordinary business profit after net credit costs	**¥ 19.4**	¥ 8.3	132.2

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

The Institutional Group business recorded total revenue of ¥62.3 billion for the fiscal year ended March 31, 2012, compared to ¥73.5 billion for the previous fiscal year. The decrease was mainly due to impairment on securities caused by a sluggish financial market, despite an increase in the number of new borrowers as we continued to focus on rebuilding our customer base.

In order to rebuild our customer base, the Institutional Business Sub-Group focused on areas where the Bank can demonstrate its strengths and put efforts into identifying new outlets for corporate lending. However, impairment on listed stocks of ¥3.9 billion was recorded as a result of the stagnant financial market, resulting in total revenue of ¥9.3 billion for the fiscal year ended March 31, 2012 compared to ¥10.7 billion for the previous fiscal year, or ¥1.4 billion lower year-on-year.

The Structured Finance Sub-Group recorded total revenue of ¥21.0 billion for the fiscal year ended March 31, 2012, compared to ¥22.5 billion for the previous fiscal year. Total revenue decreased due to impairment on bonds related to real estate non-recourse finance of ¥3.3 billion and lower interest income as a result of divestitures in the real estate finance portfolio to optimize risk weighted assets in the previous fiscal year. However, there have been new loan disbursements in specialty finance and progress with higher quality asset replacement for the fiscal year ended March 31, 2012.

The Principal Transactions Sub-Group recorded total revenue of ¥11.2 billion for the fiscal year ended March 31, 2012, compared to ¥8.5 billion for the previous fiscal year. This was a result of the solid performance of credit trading business in spite of ¥1.5 billion of impairment on private equity investment.

Others recorded total revenue of ¥8.2 billion, including gains of ¥6.3 billion, net of withholding tax, from sales of foreign equities which had been classified as non-core assets offset by ¥1.2 billion of impairment on listed stocks for the fiscal year ended March 31, 2012. Total revenue for the previous fiscal year included ¥7.3 billion gains on the sales and valuation gains on asset-backed securities and asset-backed investments.

General and administrative expenses were ¥25.0 billion for the fiscal year ended March 31, 2012, decreasing by ¥2.2 billion from ¥27.2 billion for the previous fiscal year. The decrease was chiefly due to the scale-down and exit from non-core businesses and cost controls in each section. However, the Bank is channeling financial resources into areas where it can demonstrate its strengths to rebuild the customer base.

Net credit costs were ¥17.8 billion for the fiscal year ended March 31, 2012, considerably lower than ¥37.9 billion recorded for the previous fiscal year. Net credit costs improved significantly as a result of the continued divestiture of non-core assets to mitigate potential risks, and strict credit management and collection from unprofitable obligors as well as a large amount of credit recoveries, in spite of additional provision of reserve in specialty finance. From the fiscal year ended March 31, 2012, credit costs include recoveries of written-off claims. Excluding recoveries of written-off claims, credit costs for the fiscal year ended March 31, 2012 were ¥18.5 billion for the overall Institutional Group.

As a result, the Institutional Group recorded an ordinary business profit after net credit costs of ¥19.4 billion for the fiscal year ended March 31, 2012, improving by ¥11.0 billion from ¥8.3 billion for the previous fiscal year.

Showa Leasing recorded ¥12.4 billion of total revenue for the fiscal year ended March 31, 2012 lower than the ¥15.3 billion in the previous fiscal year as operating assets declined amidst the stagnant economy while impairment on equity holdings were realized. However, lower expenses and net credit recoveries contributed to ¥6.0 billion of ordinary business profit after net credit costs including consolidation adjustments for the fiscal year ended March 31, 2012, compared to ¥3.8 billion for the previous fiscal year.

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, 3) Treasury Sub-Group which undertakes ALM related transactions and capital funding, and 4) Others including asset management, wealth management, and Shinsei Securities' businesses.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

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

	Billions of yen		
Fiscal years ended March 31	**2012**	2011	% Change
Financial Institutions Sub-Group:			
Net interest income	**¥ 1.4**	¥ 1.2	17.2
Non-interest income	**1.9**	1.3	39.9
Total revenue	**3.3**	2.6	29.1
General and administrative expenses	**2.3**	2.5	(7.1)
Ordinary business profit	**1.0**	0.0	1,032.4
Net credit costs (recoveries)	**(0.4)**	(0.8)	41.5
Ordinary business profit after net credit costs (recoveries)	**¥ 1.5**	¥ 0.9	63.6
Markets Sub-Group:			
Net interest income	**¥ 1.1**	¥ 2.6	(57.6)
Non-interest income	**5.1**	9.8	(48.3)
Total revenue	**6.2**	12.5	(50.2)
General and administrative expenses	**3.2**	4.6	(30.1)
Ordinary business profit	**2.9**	7.8	(62.2)
Net credit costs (recoveries)	**(1.4)**	1.5	(195.3)
Ordinary business profit after net credit costs (recoveries)	**¥ 4.4**	¥ 6.3	(29.6)
Treasury Sub-Group:			
Net interest income	**¥ (9.2)**	¥ 4.8	(290.1)
Non-interest income	**3.1**	40.9	(92.3)
Total revenue	**(6.1)**	45.8	(113.4)
General and administrative expenses	**1.0**	1.1	(7.9)
Ordinary business profit (loss)	**(7.2)**	44.6	(116.1)
Net credit costs	**—**	—	—
Ordinary business profit (loss) after net credit costs	**¥ (7.2)**	¥ 44.6	(116.1)
Others:			
Net interest income	**¥ 0.5**	¥ 0.5	(3.7)
Non-interest income	**1.1**	2.1	(46.4)
Total revenue	**1.6**	2.7	(38.1)
General and administrative expenses	**4.1**	3.7	10.1
Ordinary business profit (loss)	**(2.4)**	(1.0)	(137.8)
Net credit costs (recoveries)	**(0.7)**	0.7	(202.4)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ (1.7)**	¥ (1.7)	1.5
Global Markets Group:			
Net interest income	**¥ (6.1)**	¥ 9.2	(166.5)
Non-interest income	**11.3**	54.3	(79.1)
Total revenue	**5.1**	63.6	(91.9)
General and administrative expenses	**10.8**	12.1	(10.7)
Ordinary business profit (loss)	**(5.6)**	51.5	(110.9)
Net credit costs (recoveries)	**(2.6)**	1.4	(289.9)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ (2.9)**	¥ 50.1	(105.9)

The Global Markets Group generated total revenue of ¥5.1 billion for the fiscal year ended March 31, 2012, compared to ¥63.6 billion for the previous fiscal year due to stagnant financial markets following the European debt crisis and the Great East Japan Earthquake as well as the absence of gains on repurchases of perpetual preferred securities and subordinated debt which were recorded for the previous fiscal year.

The Financial Institutions Sub-Group's total revenue was ¥3.3 billion for the fiscal year ended March 31, 2012, compared to ¥2.6 billion for the previous fiscal year. Steady revenues from transactions with clients contributed to the solid performance.

The Markets Sub-Group earned total revenue of ¥6.2 billion for the fiscal year ended March 31, 2012, compared to ¥12.5 billion for the previous fiscal year. Total revenue decreased due to the absence of gains on sales of CLO, which are non-core assets, while gains on CLO sales of ¥4.3 billion were included in the previous fiscal year. Other factors include a decrease in net interest income as a result of the divestiture of non-core assets, as well as stagnant trade activities due to sluggish financial markets following the European debt crisis and other events.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

The Treasury Sub-Group's total revenue was a loss of ¥6.1 billion for the fiscal year ended March 31, 2012, compared to total revenue of ¥45.8 billion for the previous fiscal year. This sub-group manages ALM for the bank overall. For the fiscal year ended March 31, 2012, there were no gains recorded through the repurchase of perpetual preferred securities and subordinated debt, and only limited gains were recorded from Japanese national government bond trading. In contrast, for the previous fiscal year, the Treasury Sub-Group traded Japanese government bonds frequently to facilitate liquidity management, earning gains on sales, as well as recording ¥29.4 billion of gains on repurchases of perpetual preferred securities and subordinated debt.

Others earned total revenue of ¥1.6 billion for the fiscal year ended March 31, 2012, compared to ¥2.7 billion for the previous fiscal year.

The Global Markets Group reduced general and administrative expenses by ¥1.2 billion from ¥12.1 billion for the previous fiscal year to ¥10.8 billion for the fiscal year ended March 31, 2012. The decrease was largely due to continuous cost rationalization and efficiency improvements implemented by the overall group and the scale-down and exit from non-core businesses.

Net credit recoveries of ¥2.6 billion were recorded for the fiscal year ended March 31, 2012 compared to net credit costs of ¥1.4 billion for the previous fiscal year. The Global Markets Group has been continuing to reduce non-core assets and recorded a reversal of reserve for these assets. Credit costs include recoveries of written-off claims from the fiscal year ended March 31, 2012. Excluding recoveries of written-off claims, net credit recoveries of ¥1.3 billion were recorded for the fiscal year ended March 31, 2012.

As a result, the Global Markets Group recorded a ¥2.9 billion ordinary business loss after net credit costs for the fiscal year ended March 31, 2012, compared with a ¥50.1 billion ordinary business profit after net credit costs for the previous fiscal year. Excluding the Treasury Sub-Group's losses related to the ALM activities of the overall Bank, the Global Markets Group recorded an ordinary business profit after net credit costs of ¥4.2 billion.

INDIVIDUAL GROUP

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

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

	Billions of yen		
Fiscal years ended March 31	**2012**	2011	% Change
Retail Banking:	**¥ 36.0**	¥ 43.3	(16.7)
Deposits and Debentures Net Interest Income	**21.3**	24.9	(14.3)
Deposits and Debentures Non-Interest Income(1)	**4.1**	5.8	(29.8)
Asset management	**4.3**	4.5	(6.1)
Loans	**6.3**	7.9	(20.5)
Shinsei Financial and Shinsei Bank Lake(2)	**43.9**	58.9	(25.4)
Shinki	**7.8**	10.7	(27.5)
APLUS FINANCIAL	**48.5**	50.8	(4.6)
Others	**1.7**	(6.7)	126.2
Total revenue	**¥ 138.1**	¥ 157.1	(12.1)

Notes: (1) Includes revenue from structured deposits of ¥5.2 billion and ¥6.2 billion for the fiscal year ended March 31, 2012 and 2011, respectively.
(2) Results for Shinsei Financial and "Shinsei Bank Card Loan - Lake" in the Lake business (started on October 1, 2011) are combined on a management accounting basis from 3Q of the current fiscal year.

The Individual Group's ordinary business profit after net credit costs increased to ¥47.2 billion for the fiscal year ended March 31, 2012 compared to ¥24.0 billion for the previous fiscal year. Ordinary business profit after net credit costs of Shinsei Financial and Shinsei Bank Lake, Shinki and APLUS FINANCIAL for the fiscal year ended March 31, 2012 were above their respective performance for the previous fiscal year.

RETAIL BANKING

Total revenue of Retail Banking decreased to ¥36.0 billion for the fiscal year ended March 31, 2012 from ¥43.3 billion for the previous fiscal year. Net interest income decreased to ¥29.1 billion for the fiscal year ended March 31, 2012 from ¥33.8 billion for the previous fiscal year. This was due to prevailing low interest rates resulting in a decrease in net interest income from deposits. Non-interest income also decreased to ¥6.9 billion for the fiscal year ended March 31, 2012 from ¥9.5 billion for the previous fiscal year. This decrease was due to lower fee income from investment products such as structured deposits caused by the stagnant domestic and international markets following the European debt crisis and the Great East Japan Earthquake.

Due to continued rationalization and efficient business processes, general and administrative expenses decreased to ¥31.3 billion for the fiscal year ended March 31, 2012 compared

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

to ¥33.1 billion for the previous fiscal year.

Net credit costs totaled ¥1.2 billion for the fiscal year ended March 31, 2012 compared to ¥2.5 billion for the previous fiscal year. As a result, the ordinary business profit after net credit costs was ¥3.5 billion for the fiscal year ended March 31, 2012 compared to an ordinary business profit after net credit costs of ¥7.5 billion for the previous fiscal year.

SHINSEI FINANCIAL AND SHINSEI BANK LAKE

Ordinary business profit after net credit costs of Shinsei Financial and Shinsei Bank Lake was ¥24.7 billion for the fiscal year ended March 31, 2012 compared to ¥17.7 billion for the previous fiscal year.

Total revenue decreased for the fiscal year ended March 31, 2012 due to the decrease in loan balance caused by the revised Money-Lending Business Control and Regulation Law. However, as the Bank itself started Consumer Finance business from October 2011, the decrease has become less pronounced. As the impact of the revised Money-Lending Business Control and Regulation Law was anticipated earlier, business was appropriately scaled down to reduce expenses. Also, we were able to greatly reduce net credit costs by implementing strict credit management and establishing a strong structure for loan collections. This, together with the income-linked borrowing limitation regulation implemented last year helped to improve credit quality. In addition to the above, the decrease in loan balance also helped in reducing the net credit costs resulting in an increase in ordinary business profit after net credit costs. From the fiscal year ended March 31, 2012, recoveries of written-off claims are included in net credit costs.

Net credit costs for the fiscal year ended March 31, 2012 included ¥7.6 billion from recoveries of written-off claims. The ordinary business profit after net credit costs excluding recoveries of written-off claims for the fiscal year ended March 31, 2012 was ¥17.1 billion.

Although the loan balance of Shinsei Financial decreased by ¥126.3 billion in the previous fiscal year, the decrease was limited to ¥64.8 billion for the fiscal year ended March 31, 2012 (after including the loan balance of the Bank's Consumer Finance business.)

SHINKI

Ordinary business profit after net credit costs of Shinki was ¥4.7 billion for the fiscal year ended March 31, 2012 compared to ¥2.4 billion for the previous fiscal year. Similar to Shinsei Financial, Shinki's total revenue also decreased due to the revised Money-Lending Business Control and Regulation Law. However, the decrease in total revenue was offset by decrease in expense and credit costs. From the fiscal year ended March 31, 2012, recoveries of written-off claims are included in net credit costs.

Net credit costs for the fiscal year ended March 31, 2012 included ¥1.0 billion from recoveries of written-off claims. The ordinary business profit after net credit costs excluding recoveries of written-off claims for the fiscal year ended March 31, 2012 was ¥3.6 billion which is still higher than the ¥2.4 billion for the previous fiscal year.

APLUS

Ordinary business profit after net credit costs of APLUS FINANCIAL increased to ¥13.0 billion for the fiscal year ended March 31, 2012, compared to ¥4.2 billion for the previous fiscal year. Total revenue decreased to ¥48.5 billion for the fiscal year ended March 31, 2012, compared to ¥50.8 billion for the previous fiscal year due to the decrease in loan balance following implementation of the revised Money-Lending Business Control and Regulation Law. However, due to continued rationalization and efficient business processes, general and administrative expenses decreased to ¥30.2 billion for the fiscal year ended March 31, 2012 from ¥32.8 billion for the previous fiscal year. Also, due to strict credit management, net credit costs decreased to ¥5.2 billion for the fiscal year ended March 31, 2012 from ¥13.8 billion for the previous fiscal year.

INTEREST REPAYMENT

With regard to reserve for losses on interest repayments, an additional provision of reserve of ¥32.8 billion was made for the fiscal year ended March 31, 2012. Shinsei Financial's usage of reserve for losses on interest repayments and others amounted to ¥7.7 billion for the fiscal year ended March 31, 2012. The business made an additional provision of reserve of ¥15.9 billion resulting in a total balance of ¥26.2 billion in reserve for losses on interest repayments as of March 31, 2012 compared to ¥18.0 billion as of March 31, 2011. Additional provisions for losses on interest repayments at Shinsei Financial were recorded for the portion of the portfolio not covered by the GE indemnity included in the purchase agreement of Shinsei Financial from GE.

Shinki's usage of reserve for losses on interest repayments amounted to ¥11.0 billion for the fiscal year ended March 31, 2012. The business made an additional provision of reserve of ¥11.5 billion resulting in a total balance of ¥14.0 billion in reserve for losses on interest repayments as of March 31, 2012 compared to ¥13.4 billion as of March 31, 2011.

APLUS FINANCIAL and its consolidated subsidiaries' usage of reserve for losses on interest repayments amounted to ¥6.4 billion for the fiscal year ended March 31, 2012. The business made an additional provision of reserve of ¥5.3 billion resulting in a total balance of ¥10.6 billion in reserve for losses on interest repayments as of March 31, 2012 compared to ¥11.7 billion as of March 31, 2011.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

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

	Billions of yen		
Fiscal years ended March 31	**2012**	2011	% Change
Retail Banking:			
Net interest income	**¥ 29.1**	¥ 33.8	(13.8)
Non-interest income	**6.9**	9.5	(26.9)
Total revenue	**36.0**	43.3	(16.7)
General and administrative expenses	**31.3**	33.1	(5.5)
Ordinary business profit	**4.7**	10.1	(53.4)
Net credit costs	**1.2**	2.5	(52.6)
Ordinary business profit after net credit costs	**¥ 3.5**	¥ 7.5	(53.7)
Shinsei Financial and Shinsei Bank Lake[1]:			
Net interest income	**¥ 47.0**	¥ 64.1	(26.6)
Non-interest income	**(3.0)**	(5.1)	40.8
Total revenue	**43.9**	58.9	(25.4)
General and administrative expenses	**27.2**	33.4	(18.6)
Ordinary business profit	**16.7**	25.4	(34.3)
Net credit costs (recoveries)	**(8.0)**	7.7	(203.7)
Ordinary business profit after net credit costs (recoveries)	**¥ 24.7**	¥ 17.7	39.7
Shinki:			
Net interest income	**¥ 8.4**	¥ 11.7	(28.1)
Non-interest income	**(0.6)**	(1.0)	35.3
Total revenue	**7.8**	10.7	(27.5)
General and administrative expenses	**3.4**	4.6	(24.6)
Ordinary business profit	**4.3**	6.1	(29.6)
Net credit costs (recoveries)	**(0.4)**	3.6	(111.3)
Ordinary business profit after net credit costs (recoveries)	**¥ 4.7**	¥ 2.4	92.4
APLUS FINANCIAL:			
Net interest income	**¥ 12.5**	¥ 14.4	(13.4)
Non-interest income	**35.9**	36.3	(1.1)
Total revenue	**48.5**	50.8	(4.6)
General and administrative expenses	**30.2**	32.8	(7.9)
Ordinary business profit	**18.2**	18.0	1.3
Net credit costs	**5.2**	13.8	(62.3)
Ordinary business profit after net credit costs	**¥ 13.0**	¥ 4.2	208.5
Others[2]:			
Net interest income	**¥ 1.5**	¥ (6.8)	122.9
Non-interest income	**0.1**	0.1	15.1
Total revenue	**1.7**	(6.7)	126.2
General and administrative expenses	**0.3**	0.4	(17.4)
Ordinary business profit (loss)	**1.3**	(7.1)	119.5
Net credit costs	**0.2**	0.8	(72.1)
Ordinary business profit (loss) after net credit costs	**¥ 1.1**	¥ (7.9)	114.6
Total Individual Group:			
Net interest income	**¥ 98.7**	¥ 117.3	(15.8)
Non-interest income	**39.3**	39.8	(1.1)
Total revenue	**138.1**	157.1	(12.1)
General and administrative expenses	**92.6**	104.5	(11.3)
Ordinary business profit	**45.4**	52.6	(13.6)
Net credit costs (recoveries)	**(1.7)**	28.6	(106.2)
Ordinary business profit after net credit costs (recoveries)	**¥ 47.2**	¥ 24.0	96.8

Notes: (1) Results for Shinsei Financial and "Shinsei Bank Card Loan - Lake" in the Lake business (started on October 1, 2011) are combined on a management accounting basis from 3Q of the current fiscal year.
(2) Includes Shinsei Property Finance and unallocated Consumer Finance Sub-Group financials.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

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, 2012, ordinary business loss after net credit recoveries was ¥1.0 billion.

RESULTS OF OPERATIONS (NON-CONSOLIDATED)

OVERVIEW

We disclose non-consolidated 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 non-consolidated 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, 2012 of ¥13.8 billion on a non-consolidated basis. Differences between the net incomes on a non-consolidated 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 15. COMPARISON OF TARGETS AND RESULTS FOR KEY MEASURES IN THE REVITALIZATION PLAN (NON-CONSOLIDATED)

Billions of yen (except percentages)

Fiscal years ended March 31	**2012** Target	**2012** Actual	2011 Target	2011 Actual
Net income	**¥ 15.0**	**¥ 13.8**	¥ 10.0	¥ 11.1
Total expenses (without taxes) (1)	**64.0**	**59.1**	63.9	57.3
Return on equity based on net business profit(2)	**5.2%**	**5.1%**	5.3%	9.3%

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

SUPPLEMENTAL MEASURES

In addition to the reporting items set forth in our non-consolidated financial statements, the Banking Act of Japan requires us to disclose gross business profit *(gyomu sorieki)* on a non-consolidated 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 non-consolidated 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 table below sets forth these supplemental financial data and corresponding reconciliations to net income under Japanese GAAP for the fiscal years ended March 31, 2012 and 2011.

RESULTS OF OPERATIONS (NON-CONSOLIDATED) (continued)

TABLE 16. SUPPLEMENTAL MEASURES (NON-CONSOLIDATED)

Fiscal years ended March 31	Billions of yen 2012	2011
Gross business profit *(gyomu sorieki)*:		
Net interest income	**¥ 70.3**	¥ 70.5
Net fees and commissions[(1)]	**18.0**	15.5
Net trading income	**13.4**	10.6
Net other business income (loss)	**(6.9)**	18.4
Total gross business profit	**94.8**	115.1
Expenses[(2)]	**62.6**	60.5
Net business profit *(jisshitsu gyomu jun-eki)*	**32.1**	54.6
Net credit costs	**10.9**	40.3
Other, net[(3)]	**(3.0)**	(6.3)
Net operating income *(keijo rieki)*	**18.1**	7.9
Extraordinary income (loss)	**(1.8)**	4.1
Income before income taxes	**16.2**	12.1
Current income taxes (benefit)	**0.1**	(0.5)
Deferred income taxes	**2.1**	1.5
Net income	**¥ 13.8**	¥ 11.1

Notes: (1) Includes net gain (loss) on monetary assets held in trust of ¥12.2 billion in the fiscal year ended March 31, 2012 and ¥11.5 billion in the previous fiscal year.
(2) General and administrative expenses with certain adjustment.
(3) Excludes net gain (loss) on monetary assets held in trust.

CRITICAL ACCOUNTING POLICIES

GENERAL

Our financial statements are prepared in accordance with Japanese GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements, as well as the reported amounts of revenue 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 were 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 Non-Performing 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

CRITICAL ACCOUNTING POLICIES (continued)

need caution obligors (other than substandard obligors of 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 non-performing loans portfolio could be greater or less 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

On October 13, 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," or the Guidelines. 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 is 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"), for the acquisition of Shinsei Financial, under which the sharing of interest repayment costs between the Bank and GE is determined.

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.

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 histori-

CRITICAL ACCOUNTING POLICIES (continued)

cal 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 Non-Performing 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.

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,

CRITICAL ACCOUNTING POLICIES (continued)

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, 2013 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 Revision to the Income Tax Act, etc. in order to Build a Tax Framework in Response to Changes in the Structure of the Economic Society" (Law No. 114 for 2011) and "Act on Special Measures for Securing Financial Resources Required to Implement Actions for Recovery from the Great East Japan Earthquake" (Law No. 117 for 2011) were promulgated in December 2, 2011. From the fiscal year beginning on or after April 1, 2012, the corporate tax rate will be reduced and the reconstruction special corporate tax will be imposed. 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 40.7% to 38.0% for temporary differences and tax loss carryforwards that are expected to be realized between the fiscal year beginning on April 1, 2012 and the fiscal year beginning on April 1, 2014; and to 35.6% for temporary differences and tax loss carryforwards that are expected to be realized in and after the fiscal year beginning on April 1, 2015. With these tax rate changes, deferred tax assets have decreased by ¥824 million and deferred tax liabilities have decreased by ¥162 million while unrealized gain (loss) on available-for-sale securities has increased by ¥30 million and income taxes-deferred have increased by ¥851 million.

From the fiscal year beginning on or after April 1, 2012, the use of tax loss carryforwards will be limited to the equivalent of 80% of taxable income before deducting tax loss carryforwards. Due to this limitation, deferred tax assets have decreased by ¥202 million and deferred tax liabilities have increased by ¥291 million while income taxes-deferred have increased by ¥494 million.

RESERVE FOR EMPLOYEES' RETIREMENT BENEFITS

Shinsei, APLUS FINANCIAL and Showa Leasing each have a non-contributory defined benefit pension plan, and Shinsei Financial and certain of Shinsei's consolidated domestic subsidiaries have unfunded severance indemnity plans, which cover substantially all of our employees. A reserve for employees' retirement benefits is provided for the payment of employees' retirement benefits in future years. We follow guidelines for accounting for employees' retirement benefit plans issued by the JICPA 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 expected rate of return on plan assets and the discount rate.

We determine the expected rate of return on plan assets based on the targeted average long-term performance of the assets. Because assumptions regarding the rate of return on 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 reserve 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

CRITICAL ACCOUNTING POLICIES (continued)

are deferred in a separate component of equity until the gains and losses on the hedged items are realized.

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, a consumer finance company in Japan, 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.

We also recognized certain identifiable other intangible assets in connection with the acquisition of APLUS FINANCIAL, Showa Leasing, Shinki and Shinsei Financial because they arose

CRITICAL ACCOUNTING POLICIES (continued)

from contractual or other legal rights, or were separable. The identified other 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 other 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 previous accounting standards, when the purchase price is lower than the fair value of the net assets acquired, including identified other 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 previous accounting standards. Any unamortized balances of identified other intangible assets and goodwill are subject to impairment testing periodically.

IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS

We conduct impairment testing for goodwill and other intangible assets 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 other intangible assets.

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 other intangible assets, 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 other intangible assets. (i) Impairment loss for the total of goodwill and other intangible assets, is recognized as an amount by which the net asset book value exceeds the "value in use." The fair value of other intangible assets is determined in the same manner used to apply purchase accounting at the date of the initial acquisition, and (ii) the impairment loss on other intangible assets, is determined as the difference between the fair value 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 "(AD) NEW ACCOUNTING PRONOUNCEMENTS" in Note 2 "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" to the Consolidated Financial Statements.

FINANCIAL CONDITION

TOTAL ASSETS

As of March 31, 2012, we had consolidated total assets of ¥8,609.6 billion, representing a 15.9% decrease from March 31, 2011.

Our loans and bills discounted balance was ¥4,136.8 billion as of March 31, 2012. It declined compared to the balance of ¥4,291.4 billion as of March 31, 2011, however, increased compared to the balance of ¥4,076.5 billion as of December 31, 2011. The Institutional Group and Global Markets Group accumulated core business assets after continued reduction of risk assets including non-core assets. The rate of decrease of the loan balance in Consumer Finance has gradually become less pronounced after continued decrease due to the impact of the revised Money-Lending Business Control and Regulation Law. Commencement of the Consumer Finance business through the bank from October 2011 contributed as well.

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, 2012. As reflected below, 80.0% of the securities will mature during the next five years. The balance of securities as of March 31, 2012 was ¥1,873.4 billion compared to ¥3,286.3 billion as of March 31, 2011. Over half of the investments in securities were made in Japanese national government bonds for ALM purposes as a liquidity reserve. In the course of portfolio management, the total balance of Japanese national government bonds was ¥1,285.1 billion as of March 31, 2012, down from ¥2,462.6 billion as of March 31, 2011.

TABLE 17. SECURITIES BY MATURITY (CONSOLIDATED)

Billions of yen

As of March 31, 2012	**One year or less**	**Over one year to three years**	**Over three years to five years**	**Over five years to seven years**	**Over seven years to ten years**	**Over ten years**	**Unspecified term**	**Total**
Japanese national government bonds	**¥ 362.7**	**¥ 509.8**	**¥ 242.0**	**¥ 95.0**	**¥ 75.4**	**¥ —**	**¥ —**	**¥ 1,285.1**
Japanese local government bonds	**1.2**	**—**	**0.5**	**—**	**—**	**—**	**—**	**1.7**
Japanese corporate bonds	**129.3**	**81.5**	**36.4**	**3.8**	**—**	**—**	**—**	**251.0**
Japanese equity securities	**—**	**—**	**—**	**—**	**—**	**—**	**27.7**	**27.7**
Foreign bonds and other	**66.7**	**25.7**	**42.5**	**31.6**	**31.8**	**7.2**	**101.9**	**307.7**
Total securities	**¥ 560.0**	**¥ 617.0**	**¥ 321.5**	**¥130.6**	**¥ 107.3**	**¥ 7.2**	**¥ 129.6**	**¥ 1,873.4**

Billions of yen

As of March 31, 2011	One year or less	Over one year to three years	Over three years to five years	Over five years to seven years	Over seven years to ten years	Over ten years	Unspecified term	Total
Japanese national government bonds	¥ 1,039.3	¥ 890.8	¥422.2	¥20.9	¥ 89.0	¥ —	¥ —	¥ 2,462.6
Japanese local government bonds	—	1.2	—	0.5	—	—	—	1.7
Japanese corporate bonds	115.1	192.9	33.8	—	2.0	—	—	344.0
Japanese equity securities	—	—	—	—	—	—	26.0	26.0
Foreign bonds and other	35.6	155.4	52.0	35.4	44.9	20.2	108.0	451.9
Total securities	¥ 1,190.1	¥1,240.5	¥508.1	¥56.9	¥136.1	¥ 20.2	¥134.1	¥ 3,286.3

FINANCIAL CONDITION (continued)

LOAN PORTFOLIO

As of March 31, 2012, loans and bills discounted totaled ¥4,136.8 billion. This represented 48.0% of total consolidated assets. Installment receivables of APLUS FINANCIAL, Showa Leasing and our 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 32.0% of total loans as of March 31, 2012. Loans to the real estate industry consisted, in part, of non-recourse and project finance loans. Loans to others of ¥1,622.4 billion as of March 31, 2012 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 ¥1,439.4 billion.

TABLE 18. LOANS BY BORROWER INDUSTRY (CONSOLIDATED)

As of March 31	Billions of yen (except percentages)			
	2012		2011	
Domestic offices (excluding Japan offshore market account):				
Manufacturing	**¥ 244.5**	**6.0%**	¥ 231.5	5.5%
Agriculture and Forestry	**0.3**	**0.0**	0.0	0.0
Fishery	**—**	**—**	2.2	0.1
Mining, quarrying and gravel extraction	**0.2**	**0.0**	0.4	0.0
Construction	**15.9**	**0.4**	8.3	0.2
Electric power, gas, heat supply and water supply	**48.6**	**1.2**	27.1	0.6
Information and communications	**39.9**	**1.0**	12.6	0.3
Transportation, postal service	**245.0**	**6.1**	284.3	6.7
Wholesale and retail	**86.0**	**2.1**	101.4	2.4
Finance and insurance	**694.7**	**17.2**	722.6	17.1
Real estate	**598.3**	**14.8**	597.4	14.1
Services	**307.5**	**7.6**	330.4	7.8
Local government	**139.5**	**3.5**	158.8	3.8
Others	**1,622.4**	**40.1**	1,752.1	41.4
Total domestic (A)	**¥ 4,043.4**	**100.0%**	¥ 4,229.7	100.0%
Overseas offices (including Japan offshore market accounts):				
Governments	**¥ 2.0**	**2.2%**	¥ 2.2	3.6%
Financial institutions	**1.0**	**1.1**	1.6	2.7
Others	**90.2**	**96.7**	57.7	93.7
Total overseas (B)	**¥ 93.3**	**100.0%**	¥ 61.6	100.0%
Total (A+B)	**¥ 4,136.8**		¥ 4,291.4	

TABLE 19. OVERSEAS AND OFFSHORE LOANS BY REGION (NON-CONSOLIDATED)

As of March 31	Billions of yen	
	2012	2011
United States	**¥ 40.2**	¥ 35.1
Asset-backed investments in the U.S.	**5.2**	4.1
Europe	**50.3**	66.2
Asset-backed investments in Europe	**27.6**	30.9
Others	**118.1**	108.1
Total overseas and offshore loans	**¥ 208.7**	¥ 209.5
Total asset-backed investments	**¥ 32.9**	¥ 35.1

LOAN MATURITY

The following table sets forth the composition of Shinsei's non-consolidated loan portfolio by type of interest rate and maturity as of the dates indicated. In the fiscal year ended March 31, 2012, the increase in total loans resulted from a increase in both variable-interest rate loans and fixed-interest rate loans.

TABLE 20. LOAN MATURITY (NON-CONSOLIDATED)

As of March 31	2012 (Billions of yen)	2011 (Billions of yen)
Fixed-interest loans:		
One year or less[1]	**¥ —**	¥ —
Over one year to three years	**57.5**	63.4
Over three years to five years	**35.9**	82.9
Over five years to seven years	**191.7**	26.9
Over seven years	**475.9**	441.0
Indefinite term	**28.9**	13.7
Variable-interest loans:		
One year or less[1]	**¥ —**	¥ —
Over one year to three years	**764.2**	691.0
Over three years to five years	**629.8**	485.6
Over five years to seven years	**131.7**	138.8
Over seven years	**627.2**	631.6
Indefinite term	**61.9**	113.2
Total loans:		
One year or less	**¥ 1,097.5**	¥ 1,284.5
Over one year to three years	**821.7**	754.4
Over three years to five years	**665.8**	568.6
Over five years to seven years	**323.4**	165.8
Over seven years	**1,103.2**	1,072.7
Indefinite term	**90.8**	127.0
Total loans	**¥ 4,102.6**	¥ 3,973.2

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

ASSET QUALITY AND DISPOSAL OF NON-PERFORMING LOANS OF SHINSEI

At March 31, 2012, 72.2% of our consolidated non-performing loans as disclosed in accordance with the guidelines of the Japanese Bankers Association (JBA) were held by Shinsei and most of the remaining non-performing loans were held by Shinsei Financial and APLUS FINANCIAL. This discussion of our asset quality presents information of Shinsei on a non-consolidated basis unless specified otherwise. In particular, non-performing claims as defined in the Financial Revitalization Law are only disclosed on a non-consolidated basis, and therefore do not include non-performing loans held by Shinsei Financial, APLUS FINANCIAL, Showa Leasing and Shinki. For a discussion of the non-performing 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 non-performing loans and other claims using criteria specified in the Financial Revitalization Law. We also disclose our non-performing 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, 2012:

FINANCIAL CONDITION (continued)

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

(Billions of yen)

Obligor Classifications	Internal Ratings	Reserve Ratios for Borrowers Type	Claims Classified under the Financial Revitalization Law(2)(3)	Risk-monitored Loans(2)
			Total loans and bills discounted: 4,102.6 / Other 343.1	Total loans and bills discounted: 4,102.6
Legally bankrupt	9E	100.0% for unsecured portion	Claims against bankrupt and quasi-bankrupt obligors 49.1 (Amount of coverage, coverage ratio) (49.1*, 100.0%) *Amount of reserve for loan losses is 3.6, collateral and guarantees is 45.4	Loans to bankrupt obligors 3.5
Virtually bankrupt	9D	100.0% for unsecured portion		Non-accrual delinquent loans 263.3
Possibly bankrupt	9C	95.4% for unsecured portion	Doubtful claims 245.2 (Amount of coverage, coverage ratio) (235.4*, 96.0%) *Amount of reserve for loan losses is 72.5, collateral and guarantees is 162.9	
Need caution: Substandard	9B	240.9%(4) for unsecured portion	Substandard claims (loan account only) 1.5 (Amount of coverage, coverage ratio) (1.5*, 99.0%) *Amount of reserve for loan losses is 0.4, collateral and guarantees is 1.1	Loans past due for three months or more Restructured loans 1.5
Need caution: Other need caution	9A	5.8% for total claims	Normal claims 4,149.8	Normal 3,834.1
Normal	0A–6C	0.6% for total claims		
			Total non-performing claims and ratio to total claims 295.9, 6.7% (Total amount of coverage, coverage ratio) (286.1*, 96.7%) *Total amount of reserve for loan losses is 76.6, collateral and guarantees is 209.5	Total risk-monitored loans and ratio to total loans and bills discounted 268.4, 6.5%

Notes: (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 Japanese Bankers' Association only classifies, and calls for disclosure of, certain loans and bills discounted.
(3) Shaded claims denoted claims that are considered to be non-performing under the Financial Revitalization Law.
(4) The general reserve is calculated to total claims and contains the reserve to secured portion as well.

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

FINANCIAL CONDITION (continued)

SELF-ASSESSMENT GUIDELINES AND RESERVE POLICIES

DEFINITION OF OBLIGOR CLASSIFICATIONS

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

DEFINITIONS OF CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

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

DEFINITIONS OF CATEGORIES OF RISK-MONITORED LOANS

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

FINANCIAL CONDITION (continued)

RESERVE POLICIES

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

CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

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

DISCLOSURE OF CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

Our current management team has consistently emphasized the monitoring of non-performing loans. Shinsei's total amount of non-performing claims as disclosed pursuant to the Financial Revitalization Law increased by ¥16.3 billion, or 5.9%, to ¥295.9 billion, between March 31, 2011 and 2012. During the fiscal year ended March 31, 2012, claims against bankrupt and quasi-bankrupt obligors decreased from ¥62.4 billion to ¥49.1 billion, doubtful claims increased from ¥210.7 billion to ¥245.2 billion, and substandard claims decreased from ¥6.3 billion to ¥1.5 billion as a result of our self assessment. The ratio of non-performing claims disclosed under the Financial Revitalization Law to total non-consolidated claims as of March 31, 2012 decreased to 6.7%, compared to 6.8% as of March 31, 2011.

Shinsei's claims against other need caution obligors, excluding substandard claims, totaled ¥293.9 billion as of March 31, 2012, a 34.8% decrease from ¥450.8 billion as of March 31, 2011. These include private placement bonds guaranteed by Shinsei and classified as claims against other need caution obligors. These claims represented 6.6% of total non-consolidated claims as of March 31, 2012, down from 10.9% as of March 31, 2011.

TABLE 21. CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW (NON-CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2012	2011
Claims against bankrupt and quasi-bankrupt obligors	**¥ 49.1**	¥ 62.4
Doubtful claims	**245.2**	210.7
Substandard claims	**1.5**	6.3
Total claims disclosed under the Financial Revitalization Law(1)	**295.9**	279.5
Normal claims and claims against other need caution obligors, excluding substandard claims	**4,149.8**	3,840.8
Total claims	**¥ 4,445.7**	¥ 4,120.3
Ratio of total claims disclosed under the Financial Revitalization Law to total claims	**6.7%**	6.8%

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

FINANCIAL CONDITION (continued)

COVERAGE RATIOS

As of March 31, 2012, Shinsei's non-consolidated 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, 96.0% for doubtful claims and 99.0% for substandard claims. For all claims classified under the Financial Revitalization Law, the coverage ratio was 96.7%, a decrease from 96.8% as of March 31, 2011.

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, 2012 and 2011, ¥74.9 billion and ¥90.2 billion, respectively, of such claims were written off on a non-consolidated basis.

TABLE 22. COVERAGE RATIOS FOR NON-PERFORMING CLAIMS DISCLOSED UNDER THE FINANCIAL REVITALIZATION LAW (NON-CONSOLIDATED)

Billions of yen (except percentages)

	Amount of claims	Amounts of coverage: Reserve for loan losses	Collateral and guarantees	Total	Coverage ratio
As of March 31, 2012:					
Claims against bankrupt and quasi-bankrupt obligors	**¥ 49.1**	**¥ 3.6**	**¥ 45.4**	**¥ 49.1**	**100.0%**
Doubtful claims	**245.2**	**72.5**	**162.9**	**235.4**	**96.0**
Substandard claims	**1.5**	**0.4**	**1.1**	**1.5**	**99.0**
Total	**¥ 295.9**	**¥ 76.6**	**¥ 209.5**	**¥ 286.1**	**96.7%**
As of March 31, 2011:					
Claims against bankrupt and quasi-bankrupt obligors	¥ 62.4	¥ 3.7	¥ 58.7	¥ 62.4	100.0%
Doubtful claims	210.7	39.0	164.6	203.7	96.7
Substandard claims	6.3	2.4	1.9	4.4	69.1
Total	¥ 279.5	¥ 45.2	¥ 225.3	¥ 270.5	96.8%

CHANGES IN AMOUNT OF NON-PERFORMING CLAIMS

The table below sets forth Shinsei's experience since March 31, 2010 with the removal of non-performing claims and the emergence of new claims on a non-consolidated basis:

TABLE 23. CHANGES IN AMOUNT OF NON-PERFORMING CLAIMS (NON-CONSOLIDATED)

Billions of yen

	Substandard claims	Doubtful claims	Claims against bankrupt and quasi-bankrupt obligors	Total
Balance of non-performing claims as of March 31, 2010	¥ 5.1	¥ 215.6	¥ 112.2	¥ 333.0
Claims newly added April 1, 2010 to March 31, 2011	5.1	76.5	2.9	84.5
Claims removed April 1, 2010 to March 31, 2011	(3.0)	(79.3)	(55.6)	(138.0)
Claims migrating between classifications April 1, 2010 to March 31, 2011	(0.8)	(2.1)	2.9	—
Net change	1.2	(4.9)	(49.7)	(53.4)
Balance of non-performing claims as of March 31, 2011	¥ 6.3	¥ 210.7	¥ 62.4	¥ 279.5
Claims newly added April 1, 2011 to March 31, 2012	**0.7**	**59.5**	**1.4**	**61.7**
Claims removed April 1, 2011 to March 31, 2012	**(2.1)**	**(27.7)**	**(15.5)**	**(45.4)**
Claims migrating between classifications April 1, 2011 to March 31, 2012	**(3.4)**	**2.6**	**0.7**	**—**
Net change	**(4.8)**	**34.5**	**(13.3)**	**16.3**
Balance of non-performing claims as of March 31, 2012	**¥ 1.5**	**¥ 245.2**	**¥ 49.1**	**¥ 295.9**

In the fiscal year ended March 31, 2012, ¥61.7 billion of claims were newly classified as substandard or worse, while Shinsei removed ¥45.4 billion of claims in these categories during the same period. Of the newly added non-performing claims, ¥59.5 billion were classified as doubtful claims, and ¥1.4 billion were claims against bankrupt and quasi-bankrupt obligors.

For the fiscal year ended March 31, 2011, ¥84.5 billion of claims were newly classified as substandard or worse, while Shinsei removed ¥138.0 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 non-consolidated basis as of the dates indicated:

TABLE 24. RESERVE FOR CREDIT LOSSES (NON-CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2012	2011
General reserve for loan losses	**¥ 39.6**	¥ 48.3
Specific reserve for loan losses	**77.6**	45.2
Reserve for loans to restructuring countries	**0.0**	0.0
Subtotal of reserve for loan losses	**117.2**	93.6
Specific reserve for other credit losses	**3.9**	21.1
Total reserve for credit losses	**¥ 121.1**	¥ 114.8
Total claims[1]	**¥ 4,445.7**	¥ 4,120.3
Ratio of total reserve for loan losses to total claims	**2.6%**	2.3%
Ratio of total reserve for credit losses to total claims	**2.7%**	2.8%

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

As of March 31, 2012 and 2011, Shinsei's total reserve for credit losses on a non-consolidated basis was ¥121.1 billion and ¥114.8 billion, respectively, constituting 2.7% and 2.8%, respectively, of total claims.

TABLE 25. RESERVE RATIOS BY BORROWERS' CATEGORY (NON-CONSOLIDATED)

Percentages

As of March 31		2012	2011
Legally and virtually bankrupt	(unsecured portion)	**100.0%**	100.0%
Possibly bankrupt	(unsecured portion)	**95.4%**	92.1%
Substandard	(unsecured portion)	**240.9%[1]**	55.1%
Need caution	(total claims)	**5.8%**	4.8%
	(unsecured portion)	**15.1%**	17.7%
Normal	(total claims)	**0.6%**	0.6%

Note: (1) The general reserve is calculated to total claims and contains the reserve to secured portion as well.

RISK-MONITORED LOANS

Consolidated risk-monitored loans decreased by 5.8% during the fiscal year ended March 31, 2012 to ¥371.9 billion. The decrease of ¥15.6 billion in restructured loans during the period were primarily attributable to collection of non-consolidated loans.

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

TABLE 26. RISK-MONITORED LOANS (CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2012	2011
Total loans and bills discounted	**¥ 4,136.8**	¥ 4,291.4
Loans to bankrupt obligors (A)	**8.1**	13.9
Non-accrual delinquent loans (B)	**316.7**	317.9
Subtotal (A)+(B)	**¥ 324.8**	¥ 331.8
Ratio to total loans and bills discounted	**7.9%**	7.7%
Loans past due for three months or more (C)	**¥ 1.7**	¥ 2.2
Restructured loans (D)	**45.3**	60.9
Total risk-monitored loans (A)+(B)+(C)+(D)	**¥ 371.9**	¥ 395.0
Ratio to total loans and bills discounted	**9.0%**	9.2%
Reserve for credit losses	**¥ 180.6**	¥ 199.2

FINANCIAL CONDITION (continued)

TABLE 27. RISK-MONITORED LOANS (NON-CONSOLIDATED)

As of March 31	Billions of yen (except percentages) 2012	2011
Total loans and bills discounted	**¥ 4,102.6**	¥ 3,973.2
Loans to bankrupt obligors (A)	**3.5**	7.2
Non-accrual delinquent loans (B)	**263.3**	237.7
Subtotal (A)+(B)	**¥ 266.8**	¥ 244.9
Ratio to total loans and bills discounted	**6.5%**	6.2%
Loans past due for three months or more (C)	**¥ 0.7**	¥ 1.6
Restructured loans (D)	**0.8**	4.7
Total risk-monitored loans (A)+(B)+(C)+(D)	**¥ 268.4**	¥ 251.3
Ratio to total loans and bills discounted	**6.5%**	6.3%
Reserve for credit losses	**¥ 121.1**	¥ 114.8

TABLE 28. RISK-MONITORED LOANS BY BORROWER INDUSTRY (NON-CONSOLIDATED)

As of March 31	Billions of yen 2012	2011
Domestic offices (excluding Japan offshore market account):		
Manufacturing	**¥ 10.8**	¥ 3.5
Agriculture and Forestry	**—**	—
Fishery	**—**	—
Mining, quarrying and gravel extraction	**—**	—
Construction	**—**	—
Electric power, gas, heat supply and water supply	**—**	—
Information and communications	**—**	0.5
Transportation and postal service	**5.5**	—
Wholesale and retail	**—**	0.0
Finance and insurance	**43.7**	22.7
Real estate	**158.5**	172.3
Services	**26.2**	2.0
Local government	**—**	—
Individual	**3.6**	6.8
Overseas yen loan and overseas loans booked domestically	**19.9**	43.3
Total domestic (A)	**¥ 268.4**	¥ 251.3
Overseas offices (including Japan offshore market accounts):		
Governments	**¥ —**	¥ —
Financial institutions	**—**	—
Commerce and industry	**—**	—
Others	**—**	—
Total overseas (B)	**¥ —**	¥ —
Total (A+B)	**¥ 268.4**	¥ 251.3

TABLE 29. RISK-MONITORED OVERSEAS AND OFFSHORE LOANS BY REGION (NON-CONSOLIDATED)

As of March 31	Billions of yen 2012	2011
United States	**¥ —**	¥ 6.7
Asset-backed investments in the U.S.	**—**	—
Europe	**16.1**	36.4
Asset-backed investments in Europe	**15.9**	13.1
Others	**3.7**	0.0
Total overseas and offshore loans	**¥ 19.9**	¥ 43.3
Total asset-backed investments[1]	**¥ 15.9**	¥ 13.1

Note: (1) As of March 31, 2012, reserve for loan losses and collateral/guarantees for risk monitored loans related to asset-backed investments were ¥6.8 billion and ¥8.6 billion, respectively, and the coverage ratio was 97.0%.

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

	Billions of yen					
	Shinsei	Shinsei Financial	APLUS FINANCIAL	Shinki	Other subsidiaries	Total
As of March 31, 2012:						
Loans to bankrupt obligors	**¥ 3.5**	**¥ 1.1**	**¥ 0.1**	**¥ 0.0**	**¥ 3.3**	**¥ 8.1**
Non-accrual delinquent loans	**263.3**	**7.8**	**15.8**	**1.1**	**28.5**	**316.7**
Loans past due for three months or more	**0.7**	**0.0**	**0.0**	**—**	**0.9**	**1.7**
Restructured loans	**0.8**	**29.6**	**11.4**	**3.2**	**0.2**	**45.3**
Total	**¥268.4**	**¥ 38.6**	**¥ 27.4**	**¥ 4.3**	**¥ 33.0**	**¥371.9**
As of March 31, 2011:						
Loans to bankrupt obligors	¥ 7.2	¥ 1.8	¥ 0.0	¥ 0.0	¥ 4.7	¥ 13.9
Non-accrual delinquent loans	237.7	14.0	12.3	2.7	51.0	317.9
Loans past due for three months or more	1.6	0.0	0.0	—	0.5	2.2
Restructured loans	4.7	39.1	12.2	4.6	0.0	60.9
Total	¥251.3	¥ 55.0	¥ 24.6	¥ 7.4	¥ 56.5	¥395.0

TABLE 31. RISK-MONITORED INSTALLMENT RECEIVABLES INCLUDED IN OTHER ASSETS (CONSOLIDATED)(1)

	Billions of yen				
	Shinsei Financial	APLUS FINANCIAL	Showa Leasing	Other subsidiaries	Total
As of March 31, 2012:					
Credits to bankrupt obligors	**¥ 0.0**	**¥ 0.0**	**¥ 0.1**	**¥ 0.1**	**¥ 0.3**
Non-accrual delinquent credits	**0.0**	**4.4**	**5.2**	**0.5**	**10.2**
Credits past due for three months or more	**—**	**0.2**	**0.0**	**—**	**0.3**
Restructured credits	**0.0**	**1.3**	**0.2**	**—**	**1.5**
Total	**¥ 0.0**	**¥ 6.0**	**¥ 5.6**	**¥ 0.7**	**¥ 12.5**
As of March 31, 2011:					
Credits to bankrupt obligors	¥ 0.0	¥ —	¥ 0.0	¥ 0.3	¥ 0.4
Non-accrual delinquent credits	0.0	0.4	2.9	0.4	3.9
Credits past due for three months or more	—	0.2	0.1	—	0.4
Restructured credits	0.0	1.9	0.4	0.2	2.6
Total	¥ 0.1	¥ 2.6	¥ 3.6	¥ 1.0	¥ 7.3

Note: (1) Neither Shinsei nor Shinki had any such installment receivables.

FUNDING AND LIQUIDITY

Shinsei Bank continues to optimize its funding base through deposits from retail customers. Total deposits and negotiable certificates of deposit decreased from ¥5,610.6 billion as of March 31, 2011 to ¥5,362.4 billion as of March 31, 2012. The retail deposits balance totaled ¥4,662.4 billion as of March 31, 2012, a decrease of ¥89.8 billion compared to March 31, 2011. Retail Banking constitutes 87.2% of the Bank's total funding through customer deposits and debentures. The table below 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 32. DIVERSIFICATION BY FUNDING TYPE (CONSOLIDATED)

As of March 31	Billions of yen 2012	2011
Retail deposits	**¥ 4,662.4**	¥ 4,752.2
Retail debentures[1]	**268.5**	279.9
Institutional deposits	**700.0**	858.4
Institutional debentures	**25.6**	68.3
Total	**¥ 5,656.5**	¥ 5,958.9

Note: (1) Excludes unclaimed matured debentures.

DEPOSITS

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

TABLE 33. MATURITY SCHEDULE OF TIME DEPOSITS (CONSOLIDATED)

As of March 31	Billions of yen 2012	2011
Less than three months[1]	**¥ 1,626.4**	¥ 1,373.3
Three months or more, but less than six months	**260.7**	246.7
Six months or more, but less than one year	**167.3**	405.2
One year or more, but less than two years	**609.5**	470.4
Two years or more, but less than three years	**464.6**	593.9
Three years or more	**164.0**	513.2
Total	**¥ 3,292.7**	¥ 3,602.9

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

DEBENTURES AND CORPORATE BONDS

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

TABLE 34. MATURITY SCHEDULE OF DEBENTURES AND CORPORATE BONDS (CONSOLIDATED)

Debentures

Fiscal year ending March 31	Billions of yen
2013	¥ 60.4
2014	52.3
2015	50.7
2016	64.7
2017 and thereafter	65.8
Total	¥ 294.1

Corporate Bonds

Fiscal year ending March 31	Billions of yen
2013	¥ 1.9
2014	1.5
2015	34.7
2016	59.1
2017 and thereafter	71.3
Total	¥ 168.7

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.

CREDIT RATINGS

Our borrowing costs and ability to raise funds are impacted directly by our credit ratings and changes thereto. On August 24, 2011, Moody's downgraded Shinsei's long-term credit rating to Ba1, outlook "Negative" from Baa3, outlook "Stable" and Shinsei's short-term credit rating from Prime-3 to Not Prime. Shinsei's credit ratings as of July 1, 2012 are set forth in the table below:

TABLE 35. SHINSEI'S CREDIT RATINGS AS OF JULY 2012

Rating agency	Long-term	Short-term
Moody's	Ba1	Not Prime
Standard & Poor's	BBB+	A-2
JCR	BBB	J-2
R&I	BBB+	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, 2012 and 2011:

TABLE 36. OTHER CONTRACTUAL CASH OBLIGATIONS (CONSOLIDATED)

Billions of yen

Payments due by period as of March 31, 2012	One year or less	Over one year	Total
Borrowed money	**¥ 217.9**	**¥ 258.7**	**¥ 476.7**
Lease obligations	**0.7**	**4.3**	**5.0**
Total	**¥ 218.6**	**¥ 263.1**	**¥ 481.8**

Billions of yen

Payments due by period as of March 31, 2011	One year or less	Over one year	Total
Borrowed money	¥ 1,413.2	¥ 259.4	¥ 1,672.7
Lease obligations	0.5	4.4	5.0
Total	¥ 1,413.8	¥ 263.9	¥ 1,677.8

FINANCIAL CONDITION (continued)

TAXATION

SCHEDULE OF TAX LOSS CARRYFORWARDS

As of March 31, 2012, Shinsei had ¥141.6 billion of tax loss carryforwards based on the consolidated corporate tax system.

TABLE 37. 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	¥ 108.0	March 31, 2018
March 31, 2011	21.0	March 31, 2020
March 31, 2012	12.5	March 31, 2021
Total	¥ 141.6	
APLUS FINANCIAL		
September 30, 2005	¥ 2.6	March 31, 2013
March 31, 2006	4.3	March 31, 2013
March 31, 2007	29.5	March 31, 2014
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	4.6	March 31, 2021
Total	¥ 53.1	
Shinsei Financial		
December 31, 2007	¥ 28.3	March 31, 2014
December 31, 2008	38.7	March 31, 2018
March 31, 2009	27.5	March 31, 2018
March 31, 2010	148.4	March 31, 2019
March 31, 2011	22.8	March 31, 2020
March 31, 2012	26.6	March 31, 2021
Total	¥ 292.5	
Showa Leasing		
March 31, 2007	¥ 4.0	March 31, 2014
March 31, 2008	0.7	March 31, 2015
March 31, 2009	0.0	March 31, 2018
March 31, 2010	0.1	March 31, 2019
Total	¥ 4.9	
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
Total	¥ 53.3	

The table above sets forth a schedule of tax loss carryforwards of Shinsei Bank, APLUS FINANCIAL, Shinsei Financial, Showa Leasing and Shinki as of March 31, 2011. Because APLUS FINANCIAL, Shinsei Financial, Showa Leasing 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, Showa Leasing 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 pages 83-84.

CONSOLIDATED CORPORATE TAX SYSTEM

We have filed our tax returns under the consolidated corporate tax system since the fiscal year ended March 31, 2004. Under the consolidated 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, 2012 and 2011:

TABLE 38. EQUITY (CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2012	2011
Common stock	**¥ 512.2**	¥ 512.2
Capital surplus	**79.4**	79.4
Stock acquisition rights	**1.3**	1.4
Retained earnings	**58.8**	55.0
Treasury stock, at cost	**(72.5)**	(72.5)
Accumulated other comprehensive income:		
Unrealized gain (loss) on available-for-sale securities	**(0.6)**	(15.2)
Deferred gain (loss) on derivatives under hedge accounting	**(11.7)**	(10.1)
Foreign currency translation adjustments	**(1.1)**	(2.5)
Total	**¥ 565.7**	¥ 547.6
Minority interests	**61.8**	63.4
Total equity	**¥ 627.6**	¥ 611.1
Ratio of total equity to total assets	**7.3%**	6.0%

CAPITAL RATIOS

From the fiscal year ended March 31, 2007, the Basel II 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 as of March 31, 2012 was 10.3%, compared with 9.8% as of March 31, 2011. Our Tier I capital ratio, or the ratio of Tier I capital to risk assets, increased from 7.8% as of March 31, 2011 to 8.8% as of March 31, 2012.

FINANCIAL CONDITION (continued)

TABLE 39. CAPITAL RATIOS (CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2012	2011
Basic items (Tier I):		
Common stock	¥ 512.2	¥ 512.2
Capital surplus	79.4	79.4
Retained earnings	58.8	55.0
Treasury stock, at cost	(72.5)	(72.5)
Expected income distribution	(2.6)	(2.6)
Unrealized loss on available-for-sale securities(1)	—	—
Foreign currency translation adjustments	(1.1)	(2.5)
Stock acquisition rights	1.3	1.4
Minority interests in subsidiaries	59.7	60.6
Preferred securities issued by foreign SPC	56.7	56.8
Goodwill	(41.9)	(49.5)
Other intangible assets acquired in business combinations	(16.2)	(20.5)
Gain on sale of securitization	(9.7)	(10.0)
50% of expected loss provision shortfall	(30.2)	(34.2)
Total Tier I (A)	537.1	516.7
Step-up preferred securities	23.6	23.6
Supplementary items (Tier II):		
General reserve for loan losses	9.1	9.4
Perpetual preferred stocks	—	—
Perpetual subordinated debt and bonds	28.7	28.8
Non-perpetual preferred stocks	—	—
Non-perpetual subordinated debt and bonds	159.1	193.5
Total	¥ 197.0	¥ 231.8
Amount eligible for inclusion in capital (B)	197.0	231.8
Deduction (C)	¥ 107.2	¥ 98.6
Intentional capital investment to other financial institutions	6.1	6.0
Capital investment to affiliate companies	38.6	35.7
50% of expected loss provision shortfall	30.2	34.2
Expected losses on exposures under PD/LGD measures such as equities	1.4	1.0
Unrated securitization exposure	30.8	21.4
Exclusion from deductions	—	—
Total capital (D) [(A)+(B)-(C)]	¥ 626.9	¥ 649.9
Risk assets:		
On-balance sheet items	¥ 4,537.4	¥ 5,110.2
Off-balance sheet items	908.6	907.5
Market Risk(2)	268.8	170.0
Operational Risk(2)	387.5	465.8
Total (E)	¥ 6,102.5	¥ 6,653.7
Consolidated capital adequacy ratio (D) / (E)	10.3%	9.8%
Consolidated Tier I capital ratio (A) / (E)	8.8%	7.8%

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

COMPOSITION OF TIER I CAPITAL

In March 2009, Shinsei executed an innovative securities exchange transaction in which investors holding APLUS FINANCIAL Class-D preferred shares, which were included in our Tier II capital, were given an opportunity to exchange their holdings for newly issued Shinsei hybrid Tier I securities. In connection with this securities exchange and with a new hybrid Tier I securities issuance, Shinsei issued ¥48.2 billion of new hybrid Tier I securities. Of this amount, ¥39.1 billion was placed with investors who exchanged their holdings of APLUS FINANCIAL Class-D preferred shares issued to new hybrid Tier I investors, in addition, ¥9.1 billion was issued to new hybrid Tier I investors. In connection with this securities exchange, Shinsei made an investment of ¥64.5 billion in APLUS FINANCIAL Class-H preference shares.

The issuance of hybrid Tier I securities domestically at attractive levels facilitated our strategy of selectively repurchasing our outstanding capital securities. In particular, we repurchased a total of ¥91.0 billion of our U.S. dollar and JPY denominated hybrid Tier I step-up and non step-up securities and recorded a gain of ¥24.9 billion in connection with these repurchases in the fiscal year ended March 31, 2011. On March 15, 2011 we issued 690,000,000 new shares of its common stock through an international offering. The capital raising was geared to strengthen the Bank's core capital (common equity Tier I) ahead of impending new capital regulations,

FINANCIAL CONDITION (continued)

enhance its credit position and support efforts to expand its customer base and stabilize earnings as it works towards sustainable growth. The amount of proceeds of ¥71.8 billion obtained from the international offering was used for general corporate purposes. This capital increase led to an increase of Tier I through an increase of the capital stock and the capital surplus.

PREFERRED SECURITIES ISSUED BY SUBSIDIARIES OUTSIDE JAPAN

On February 23, 2006, we issued $775.0 million of step-up non-cumulative perpetual preferred securities. The dividend on the preferred securities is 6.418% for the initial ten years. In addition, on March 23, 2006, we issued $700.0 million of non-step-up non-cumulative perpetual preferred securities. The dividend on the non-step-up perpetual preferred securities is 7.16% for the initial ten years. On December 14, 2010, we concluded a cash tender offer for these perpetual preferred securities.

On March 30, 2009, we issued ¥22.6 billion in step-up non cumulative perpetual preferred securities. The dividend on the preferred securities is 5.00% for the initial ten years. In addition, on March 30, 2009, we also issued ¥25.6 billion in non-step-up non-cumulative perpetual preferred securities. The dividend on the non-step-up perpetual preferred securities is 5.50% for the initial ten years.

On October 2, 2009 we issued ¥9.0 billion of non-step-up non-cumulative perpetual preferred securities. The dividend on the preferred securities is 5.5% for the initial six years of ¥4.0 billion of preferred securities and floating rate (JPY base Libor+4.55%) of ¥5.0 billion of preferred securities.

The proceeds from the offerings of the preferred securities are recorded as minority interests in subsidiaries and counted towards Tier I capital. The amount of such proceeds which may be counted towards Tier I capital is constrained by the amount of other Tier I capital outstanding. Our ability to raise additional regulatory capital in this manner could be constrained in the future, including due to the Basel Committee's proposed changes to capital adequacy regulations.

COMPOSITION OF TIER II CAPITAL

During the fiscal year ended March 31, 2011, the composition of our Tier II capital changed significantly as a result of our repurchases of upper Tier II and lower Tier II subordinated bonds. Our principal buybacks included ¥8.4 billion in aggregate principal amount (£63.2 million at the date of repurchase) of our Sterling Notes. We also repurchased ¥40.1 billion in aggregate principal amount which consists of €342.8 million of our Euro Notes, at the date of repurchase. While the repurchases reduced the amount of Tier II securities outstanding, we recorded a gain of ¥4.5 billion in connection with the repurchase of our Tier II bonds, including the Sterling Notes and the Euro Notes.

In September 2010, we completed an exchange offer for two series of foreign currency denominated subordinated bonds. We recorded a gain of approximately ¥3.0 billion in connection with the exchange offers in the fiscal year ended March 31, 2011.

The principal components of our Tier II capital are subordinated debt and bonds. As of March 31, 2012, we had ¥145.7 billion of subordinated bonds, ¥145.2 billion of which were issued by Shinsei and ¥93.0 billion of subordinated debt from private lenders, ¥17.0 billion of which were perpetual loans. None of our current Tier II capital consists of public funds. The other major element of our Tier II capital is the general reserve for loan losses.

Tier II capital is subject to the limitation that it cannot exceed the amount of Tier I capital, and non-perpetual subordinated debt and bonds amortized on a straight line basis in the remaining five years before maturity cannot exceed half of the amount of Tier I capital. Subject to those ceilings, the entire amount of perpetual subordinated debt and bonds can be included in Tier II capital and a portion of non-perpetual subordinated debt and bonds cannot be included in Tier II capital as of March 31, 2012. The table below sets forth the amount of our subordinated debt and bonds, as well as the portion included in our Tier II capital:

TABLE 40. SUBORDINATED DEBT AND BONDS (CONSOLIDATED)

Billions of yen

As of March 31, 2012	Perpetual[1]	Perpetual included in Tier II	Non-perpetual[1]	Non-perpetual included in Tier II[2]	Total	Total included in Tier II[2]
Subordinated debt	**¥ 17.0**	**¥ 17.0**	**¥ 76.0**	**¥ —**	**¥ 93.0**	**¥ —**
Subordinated bonds	**11.7**	**11.7**	**133.9**	**—**	**145.7**	**—**
Total	**¥ 28.7**	**¥ 28.7**	**¥ 209.9**	**¥ 159.1**	**¥ 238.7**	**¥ 187.8**

Billions of yen

As of March 31, 2011	Perpetual[1]	Perpetual included in Tier II	Non-perpetual[1]	Non-perpetual included in Tier II[2]	Total	Total included in Tier II[2]
Subordinated debt	¥ 17.0	¥ 17.0	¥ 84.4	¥ —	¥ 101.4	¥ —
Subordinated bonds	11.8	11.8	138.1	—	149.9	—
Total	¥ 28.8	¥ 28.8	¥ 222.5	¥ 193.5	¥ 251.3	¥ 222.4

Notes: (1) Stated at par value.
(2) Non-perpetual subordinated debt and bonds included in Tier II and total subordinated debt and bonds included in Tier II are not broken down by type of debt and bonds.

FINANCIAL CONDITION (continued)

Interest rates on ¥28.2 billion of our perpetual subordinated debt and bonds included in Tier II capital as of March 31, 2012 will increase between January 2013 and December 2015.

¥28.2 billion of our perpetual subordinated debt and bonds included in Tier II capital as of March 31, 2012 will become prepayable between January 2013 and December 2015. ¥0.5 billion of perpetual subordinated bonds are currently prepayable.

Interest rates on ¥2.0 billion of non-perpetual subordinated debt as of March 31, 2012 will increase in September 2014. Interest rates on ¥6.0 billion of non-perpetual subordinated debt as of March 31, 2012 has already increased due to step-up clause. Interest rates on the remaining ¥68.0 billion of non-perpetual subordinated debt as of March 31, 2012 are fixed rates until maturity.

¥76.0 billion of non-perpetual subordinated debt as of March 31, 2012 will become prepayable between April 2012 and September 2016.

Shinsei issued ¥50.0 billion of dated subordinated bonds for the first time as Shinsei, not LTCB, on March 25, 2005. These dated subordinated bonds cannot be repaid until maturity, on March 25, 2015, and bear interest at a fixed rate of 1.96%. Shinsei issued an additional ¥50.0 billion of dated subordinated bonds on October 31, 2005. These dated subordinated bonds cannot be repaid until maturity, on October 30, 2015, and bear interest at a fixed rated of 2.01%.

Shinsei issued €1.0 billion of step-up callable subordinated notes bearing interest at a fixed rate of 3.75% on February 23, 2006 (the Euro Notes). Interest rates on these notes was to be increased and the notes had an option to be prepayable, in February 2011. Although, on January 20, 2011, we decided to forego the call option for early redemption of these notes on the first callable date, February 23, 2011. The outstanding principal amount of the Euro Notes as of March 31, 2011 was €200 million.

In December 2009, Shinsei issued ¥5.0 billion of callable dated non-perpetual subordinated bonds to retail investors bearing interest at a fixed rate of 3.4%.The maturity is December 28, 2017 and the bonds are redeemable at the principal amount prior to the maturity date, contingent upon approval by the FSA, on any coupon payment date falling on or after December 28, 2012.

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.

FINANCIAL CONDITION (continued)

ARRANGEMENT

We also securitize customers' assets on their behalf, drawing on our know-how 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, 2012 and 2011, we held ¥42.9 billion and ¥40.1 billion, respectively, of debt securities and residual interests from securitization transactions.

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, 2012 and 2011, the total principal amount of participation interests in loans transferred to third-parties removed from the loan account was ¥18.4 billion and ¥28.8 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 ¥4,026.2 billion and ¥4,752.1 billion as of March 31, 2012 and 2011, out of which the accounts with original agreement terms of less than one year or which were cancelable, were ¥3,806.5 billion and ¥4,604.2 billion as of March 31, 2012 and 2011, 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, 2012 and 2011, we had ¥562.6 billion and ¥575.7 billion, respectively, of outstanding acceptances and guarantees.

APLUS FINANCIAL extends credit in the form of guarantees. The most significant component of APLUS FINANCIAL's guarantee business is providing guarantees on installment shopping credit provided by other lenders to customers of APLUS FINANCIAL's partner merchants. APLUS FINANCIAL also offers collection guarantees for foreign automobile dealers. Off-balance sheet commitments and acceptances and guarantees increased as a result of our acquisition of APLUS FINANCIAL and the consolidation from September 30, 2004. As of March 31, 2012 and 2011, ¥548.1 billion and ¥563.8 billion of our outstanding acceptances or guarantees, respectively, were attributable to this guarantee business.

EXPOSURE TO SECURITIZED PRODUCTS AND RELATED INVESTMENTS

EXPOSURE TO SECURITIZED PRODUCTS AND RELATED INVESTMENTS

Tables 41 through 44 below set forth certain information regarding our exposure to securitized products and related investments as of March 31, 2011, as of September 30, 2011 and as of and for the fiscal year ended March 31, 2012. Table 45 provides definitions for the defined terms used in Tables 41 through 44.

TABLE 41. BALANCE OF SECURITIZED PRODUCTS (BREAKDOWN BY REGION AND TYPE OF SECURITIES)[1] (NON-CONSOLIDATED)

Billions of yen

	Credit Ratings of Securities[2] (Mar 31, 2012) AAA	AA	A or lower	N/A	**Mar 31 2012 (a)**	Mar 31 2011 (b)	Change (a)-(b)	Sep 30 2011 (c)	Change (a)-(c)
RMBS	15%	0%	2%	83%	**¥ 36.3**	¥ 44.8	¥ (8.4)	¥ 38.9	¥ (2.5)
Japan	15%	0%	2%	83%	**36.3**	44.8	(8.4)	38.9	(2.5)
U.S.	—	—	—	—	**0.0[4]**	0.0	0.0	0.0	0.0
Europe	—	—	—	—	**—**	—	—	—	—
Other	—	—	—	—	**—**	—	—	—	—
CMBS	—	—	—	—	**¥ 0.0[4]**	¥ 7.9	¥ (7.9)	¥ 0.0	¥ 0.0
Japan	—	—	—	—	**0.0**	5.5	(5.5)	0.0	0.0
U.S.	—	—	—	—	**—**	—	—	—	—
Europe	—	—	—	—	**—**	0.0	(0.0)	—	—
Other	—	—	—	—	**—**	2.4	(2.4)	0.0	0.0
CLO	13%	86%	0%	1%	**¥ 41.6**	¥ 42.0	¥ (0.4)	¥ 38.6	¥ 2.9
Japan	—	—	—	—	**—**	—	—	—	—
U.S.	17%	81%	0%	2%	**31.7**	31.6	0.1	29.3	2.3
Europe	0%	100%	0%	0%	**9.8**	10.4	(0.6)	9.3	0.5
Other	—	—	—	—	**—**	0.0	(0.0)	—	—
ABS CDO (Resecuritized Products)	—	—	—	—	**¥ —**	¥ —	¥ —	¥ —	¥ —
Japan	—	—	—	—	**—**	—	—	—	—
U.S.	—	—	—	—	**—**	—	—	—	—
Europe	—	—	—	—	**—**	—	—	—	—
Other	—	—	—	—	**—**	—	—	—	—
Total	14%	46%	1%	39%	**¥ 77.9**	¥ 94.9	¥ (16.9)	¥ 77.6	¥ 0.3
Japan	15%	0%	2%	83%	**¥ 36.3**	¥ 50.3	¥ (14.0)	¥ 38.9	¥ (2.5)
U.S.	17%	81%	0%	2%	**31.7**	31.6	0.1	29.3	2.3
Europe	0%	100%	0%	0%	**9.8**	10.4	(0.6)	9.3	0.5
Other	—	—	—	—	**—**	2.4	(2.4)	—	0.0
Securities					**¥ 41.6**	¥ 48.3	¥ (6.7)	¥ 39.7	¥ 1.8
RMBS					**0.0[4]**	1.8	(1.8)	1.0	(1.0)
CMBS					**—**	4.4	(4.4)	0.0	0.0
CLO					**41.6**	42.0	(0.4)	38.6	2.9
ABS CDO					**—**	—	—	—	—
Other monetary claims purchased[3]					**36.3**	46.5	(10.1)	37.8	(1.4)
RMBS (Japan)					**36.3**	43.0	(6.6)	37.8	(1.4)
CMBS (Japan)					**0.0[4]**	3.4	(3.4)	0.0	0.0
CLO (Japan)					**—**	—	—	—	—
ABS CDO (Japan)					**—**	—	—	—	—
Total					**¥ 77.9**	¥ 94.9	¥ (16.9)	¥ 77.6	¥ 0.3

Notes: (1) The amount is the outstanding balance, after mark-downs and other comprehensive income (OCI) adjustments, at the end of each period. This table excludes securitized products backed by consumer loans, credit card loans, and other similar exposure to individuals.
(2) Based on ratings by S&P or ratings equivalent to S&P ratings matrix as of March 31, 2012. The "N/A" rating for Japanese RMBS represents senior portions of other monetary claims purchased for the purpose of warehousing for future securitization.
(3) Includes Japanese RMBS recorded as monetary assets held in trust of ¥5.0 billion as at March 31, 2012.
(4) Residual value

EXPOSURE TO SECURITIZED PRODUCTS AND RELATED INVESTMENTS (continued)

TABLE 42. SECURITIZED PRODUCTS RECORDED UNDER "SECURITIES" AND "OTHER MONETARY CLAIMS PURCHASED" AND OCI[1] (NON-CONSOLIDATED)

SECURITIES

	Billions of yen, %			
	As of March 31, 2012			
	Balance before Mark-to-Market Evaluation	**Market Value or Balance**	Unrealized Gains/Losses (OCI)	Price Increase (Decrease) Ratio (%)
Trading Securities		**¥ 0.5**		
RMBS (U.S.)		**0.0[3]**		
CLO (U.S.)		**0.5**		
Securities Being Held to Maturity with Readily Determinable Fair Value		**¥ 41.0**		
CLO (U.S.)		**31.2**		
CLO (Europe)		**9.8**		
Securities Available for Sale	¥ 0.0	**¥ 0.0[3]**	¥ 0.0	0.0
Other	0.0	**0.0**	0.0	0.0
Foreign Securities	0.0	**0.0**	0.0	0.0
Foreign Currency Denominated Foreign Corporate and Government Bonds	0.0	**0.0**	0.0	0.0
CLO	0.0	**0.0**	0.0	0.0
U.S.	0.0	**0.0**	0.0	0.0
Total		**¥ 41.6**		
RMBS		**0.0[3]**		
CLO		**41.6**		

OTHER MONETARY CLAIMS PURCHASED[2]

	Billions of yen, %			
	As of March 31, 2012			
	Balance before Mark-to-Market Evaluation	**Market Value or Balance**	Unrealized Gains/Losses (OCI)	Price Decline Ratio (%)
Trading Purposes		**¥ 8.2**		
RMBS (Japan)[2]		**8.2**		
Others	¥ 28.1	**¥ 28.1**	¥ 0.0	0.1
RMBS (Japan)	28.1	**28.1**	0.0	0.1
CMBS (Japan)	0.0	**0.0[3]**	0.0	0.0
Total		**¥ 36.3**		
RMBS (Japan)		**36.3**		
CMBS (Japan)		**0.0[3]**		

RMBS, CMBS, CLO, ABS CDO Total		**¥ 77.9**		
Securities		**41.6**		
Other Monetary Claims Purchased		**36.3**		

Notes: (1) This table excludes securitized products backed by consumer loans, credit card loans, and other similar exposure to individuals.
(2) Includes Japanese RMBS recorded as monetary assets held in trust of ¥5.0 billion as at March 31, 2012.
(3) Residual value

EXPOSURE TO SECURITIZED PRODUCTS AND RELATED INVESTMENTS (continued)

TABLE 43. LBO, MONOLINE, SIV, ABCP (NON-CONSOLIDATED)

Billions of yen

	Mar 31, 2012 (a)	Mar 31, 2011 (b)	Change (a)-(b)	Sep 30, 2010 (c)	Change (a)-(c)
LBO[1][3]	**¥ 198.1**	¥ 203.3	¥ (5.2)	¥ 199.0	¥ (0.9)
Japan	**195.8**[2]	199.7	(3.9)	195.9	(0.1)
U.S.	**1.7**	2.1	(0.4)	1.8	(0.1)
Europe	**—**	—	—	—	—
Other	**0.4**	1.4	(1.0)	1.2	(0.8)
(Breakdown by Industry Sector)					
Manufacturing	**11.6%**				
Information and Communications	**1.1%**				
Wholesale and Retail	**6.5%**				
Finance and Insurance	**22.3%**				
Services	**58.5%**				
Others	**—**				
Total	**100.0%**				

Notes: (1) The amount includes unfunded commitment line.
(2) As of March 31, 2012, unfunded commitment line (only domestic) is ¥2.9 billion.
(3) This table includes deals made through foreign SPCs, but classification is by risk location.

Monoline, SIV, ABCP

We have no exposure to Monoline, SIV, ABCP.

TABLE 44. CREDIT DEFAULT SWAPS (CDS) (NON-CONSOLIDATED)[1]

Billions of yen

	As of March 31, 2012							FY2011
	Nominal Amount		Fair Value		Netted Nominal Amount and Fair Value[2]			Realized profits (losses)
					Nominal Value	Fair Value		
	Protection (buy)	Protection (sell)	Protection (buy)	Protection (sell)		Protection (buy)	Protection (sell)	
Total	**¥ 488.0**	**¥ 579.3**	**¥ 0.1**	**¥ (0.6)**	**¥ 433.5**	**¥ (0.1)**	**¥ (0.2)**	**¥ 0.1**
Japan	**396.6**	**488.3**	**0.6**	**(0.9)**	**349.4**	**0.4**	**(0.5)**	**0.0**
U.S.	**40.4**	**41.6**	**(0.1)**	**0.1**	**37.5**	**(0.2)**	**0.1**	**0.0**
Europe	**23.9**	**23.7**	**0.0**	**(0.0)**	**23.4**	**0.0**	**(0.0)**	**0.0**
Other	**26.9**	**25.5**	**(0.3)**	**0.2**	**23.2**	**(0.3)**	**0.2**	**0.0**

Notes: (1) Represents transactions under both banking book and trading book. The above table is based on provisional financial and operational data at the time of the financial results announcement and may differ slightly from the final data.
(2) Transactions which are netted with buy and sell.

EXPOSURE TO SECURITIZED PRODUCTS AND RELATED INVESTMENTS (continued)

TABLE 45. DEFINED TERMS FOR TABLES 41-44

Names	Definitions
RMBS	Residential mortgage-backed securities and other related assets, including beneficial interests backed by mortgage loans. Recorded in "trading securities," "securities available-for-sale" and "other monetary claims."
CMBS	Commercial mortgage-backed securities. Recorded in "securities available-for-sale" and "other monetary claims."
CLO	Collateralized loan obligations (CLO) mainly backed by LBO debt, corporate loans and high-yield securities. Recorded in "trading securities," "securities being held to maturity with readily determinable fair value," and "securities available-for-sale."
ABS CDO (Re-securitized Products)	CDO backed by asset-backed securities (ABS) such as RMBS. Recorded in "securities available-for-sale" and "other monetary claims."
LBO	Loans for leveraged buyout for acquisition finance including refinancing of past acquisitions.
Monoline	Monolines are insurance companies that insure against the risk of a bond or other security defaulting.
SIV	A structured investment vehicle (SIV) is a fund which borrows money by issuing short-term securities at low interest rates, then lends that money by buying long-term securities (such as securitization products) at higher interest rates, making a profit for investors from the difference.
ABCP	An asset-backed commercial paper (ABCP) conduit is a limited-purpose entity that issues CP to finance the purchase of assets or to make loans. Some asset types include receivables generated from trade, credit card, auto loan, auto, and equipment leasing obligors, as well as collateralized loan obligations (CLOs) and collateralized bond obligations (CBOs).
CDS	Credit default swap is a type of derivative in which the buyer receives credit protection by making periodic payments to a counterparty and the seller provides credit protection by giving the promise of a payoff if a third-party defaults.

CONSOLIDATED BALANCE SHEETS

Shinsei Bank, Limited, and Consolidated Subsidiaries
As of March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
ASSETS			
Cash and due from banks (Notes 4, 23 and 37)	¥ 413,721	¥ 452,751	$ 5,049,083
Call loans (Note 37)	15,745	—	192,159
Receivables under resale agreements (Note 37)	18,362	—	224,101
Receivables under securities borrowing transactions (Note 37)	114,080	10,388	1,392,250
Other monetary claims purchased (Notes 5 and 37)	130,943	157,006	1,598,042
Trading assets (Notes 6, 23, 37 and 38)	202,675	195,396	2,473,468
Monetary assets held in trust (Notes 7, 23 and 37)	267,628	253,688	3,266,154
Securities (Notes 8, 23 and 37)	1,873,493	3,286,382	22,864,215
Loans and bills discounted (Notes 9, 23 and 37)	4,136,827	4,291,462	50,486,060
Foreign exchanges (Note 10)	18,896	42,069	230,615
Lease receivables and leased investment assets (Notes 23, 34 and 37)	197,432	206,216	2,409,471
Other assets (Notes 11, 23, 37 and 38)	686,716	794,798	8,380,721
Premises and equipment (Notes 12, 23 and 34)	54,131	50,099	660,623
Intangible assets (Notes 13 and 34)	81,053	96,013	989,183
Deferred issuance expenses for debentures	135	182	1,653
Deferred tax assets (Note 31)	15,834	18,603	193,247
Customers' liabilities for acceptances and guarantees (Note 22)	562,624	575,700	6,866,295
Reserve for credit losses (Note 14)	(180,633)	(199,211)	(2,204,456)
Total assets	¥ 8,609,672	¥ 10,231,548	$ 105,072,884
LIABILITIES AND EQUITY			
Liabilities:			
Deposits, including negotiable certificates of deposit (Notes 15, 23 and 37)	¥ 5,362,411	¥ 5,610,687	$ 65,443,145
Debentures (Notes 16 and 37)	294,139	348,270	3,589,691
Call money (Notes 23 and 37)	210,163	160,330	2,564,851
Payables under securities lending transactions (Notes 23 and 37)	148,590	269,697	1,813,411
Trading liabilities (Notes 17, 37 and 38)	176,044	147,787	2,148,455
Borrowed money (Notes 18, 23 and 37)	476,731	1,672,790	5,818,051
Foreign exchanges (Note 10)	11	39	140
Short-term corporate bonds (Note 37)	50,700	22,800	618,745
Corporate bonds (Notes 19, 23 and 37)	168,797	179,611	2,060,014
Other liabilities (Notes 20, 23, 37 and 38)	465,698	569,362	5,683,408
Accrued employees' bonuses	7,262	8,084	88,628
Accrued directors' bonuses	40	38	490
Reserve for employees' retirement benefits (Note 21)	7,027	11,016	85,760
Reserve for directors' retirement benefits	231	285	2,825
Reserve for losses on interest repayments	50,913	43,199	621,351
Reserve under special law	1	1	15
Deferred tax liabilities (Note 31)	626	690	7,647
Acceptances and guarantees (Notes 22, 23 and 37)	562,624	575,700	6,866,295
Total liabilities	7,982,014	9,620,394	97,412,922
Equity:			
Common stock (Note 25)	512,204	512,204	6,250,971
Capital surplus	79,461	79,461	969,757
Stock acquisition rights (Note 26)	1,354	1,413	16,532
Retained earnings	58,863	55,087	718,369
Treasury stock, at cost (Note 25)	(72,558)	(72,558)	(885,511)
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities (Note 8)	(674)	(15,225)	(8,229)
Deferred gain (loss) on derivatives under hedge accounting	(11,754)	(10,197)	(143,448)
Foreign currency translation adjustments	(1,117)	(2,511)	(13,634)
Total	565,779	547,673	6,904,807
Minority interests (Note 24)	61,877	63,481	755,155
Total equity	627,657	611,154	7,659,962
Total liabilities and equity	¥ 8,609,672	¥ 10,231,548	$ 105,072,884

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

CONSOLIDATED STATEMENTS OF INCOME

Shinsei Bank, Limited, and Consolidated Subsidiaries
For the fiscal years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Interest income:			
Interest on loans and bills discounted	¥ 140,423	¥ 178,682	$ 1,713,740
Interest and dividends on securities	17,811	23,857	217,375
Interest on deposits with banks	370	296	4,520
Other interest income	1,116	4,301	13,625
Total interest income	159,722	207,137	1,949,260
Interest expenses:			
Interest on deposits, including negotiable certificates of deposit	29,039	34,546	354,397
Interest and discounts on debentures	1,478	2,392	18,042
Interest on other borrowings	5,750	7,305	70,177
Interest on corporate bonds	5,749	5,504	70,162
Other interest expenses	804	725	9,823
Total interest expenses	42,821	50,475	522,601
Net interest income	116,900	156,662	1,426,659
Fees and commissions income	46,915	49,112	572,559
Fees and commissions expenses	21,723	23,080	265,118
Net fees and commissions	25,191	26,032	307,441
Net trading income (loss) (Note 27)	13,635	11,649	166,406
Other business income (loss), net:			
Income on lease transactions and installment receivables, net	36,696	38,705	447,852
Net gain (loss) on monetary assets held in trust	8,121	5,270	99,114
Net gain (loss) on foreign exchanges	576	4,788	7,029
Net gain (loss) on securities	(3,322)	15,267	(40,545)
Net gain (loss) on other monetary claims purchased	1,408	(401)	17,189
Other, net (Note 28)	3,754	4,696	45,815
Net other business income (loss)	47,234	68,325	576,454
Total revenue	202,962	262,670	2,476,960
General and administrative expenses:			
Personnel expenses	53,488	57,586	652,770
Premises expenses	20,468	23,248	249,801
Technology and data processing expenses	17,296	19,230	211,086
Advertising expenses	9,172	9,260	111,939
Consumption and property taxes	6,369	7,776	77,737
Deposit insurance premium	4,684	5,452	57,171
Other general and administrative expenses	18,919	22,804	230,892
General and administrative expenses	130,399	145,360	1,591,396
Amortization of goodwill and other intangible assets	11,955	13,099	145,903
Total general and administrative expenses	142,354	158,459	1,737,299
Net business profit (loss)	60,607	104,210	739,661
Net credit costs (Note 29)	12,267	68,397	149,712
Other gains (losses), net (Note 30)	(32,994)	21,969	(402,668)
Income (loss) before income taxes and minority interests	15,345	57,782	187,281
Income taxes (benefit) (Note 31):			
Current	2,925	1,993	35,707
Deferred	2,433	5,229	29,700
Net income (loss) before minority interests	9,986	50,558	121,874
Minority interests in net income of subsidiaries	3,555	7,908	43,392
Net income (loss)	¥ 6,430	¥ 42,650	$ 78,482
	Yen		U.S. dollars (Note 1)
Basic net income (loss) per common share (Note 32)	¥ 2.42	¥ 21.36	$ 0.03

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Shinsei Bank, Limited, and Consolidated Subsidiaries
For the fiscal years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Net income (loss) before minority interests	**¥ 9,986**	¥ 50,558	**$ 121,874**
Other comprehensive income (Note 33):			
Unrealized gain (loss) on available-for-sale securities	**14,516**	(16,703)	**177,162**
Deferred gain (loss) on derivatives under hedge accounting	**(1,556)**	(6,870)	**(18,995)**
Foreign currency translation adjustments	**1,027**	(11,897)	**12,535**
Share of other comprehensive income in affiliates	**32**	(110)	**394**
Total other comprehensive income	**14,019**	(35,581)	**171,096**
Comprehensive income	**¥ 24,006**	¥ 14,977	**$ 292,970**
Total comprehensive income attributable to:			
Owners of the parent	**¥ 20,820**	¥ 17,385	**$ 254,092**
Minority interests	**3,185**	(2,407)	**38,878**

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Shinsei Bank, Limited, and Consolidated Subsidiaries
For the fiscal years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Common stock:			
Balance at beginning of the year	**¥ 512,204**	¥ 476,296	**$ 6,250,971**
Issuance of new shares (Note 25)	**—**	35,907	**—**
Balance at end of the year	**512,204**	512,204	**6,250,971**
Capital surplus:			
Balance at beginning of the year	**79,461**	43,554	**969,757**
Issuance of new shares (Note 25)	**—**	35,907	**—**
Balance at end of the year	**79,461**	79,461	**969,757**
Stock acquisition rights:			
Balance at beginning of the year	**1,413**	1,672	**17,244**
Net change during the year	**(58)**	(259)	**(712)**
Balance at end of the year	**1,354**	1,413	**16,532**
Retained earnings:			
Balance at beginning of the year	**55,087**	12,438	**672,292**
Dividends from surplus	**(2,653)**	—	**(32,389)**
Net income (loss)	**6,430**	42,650	**78,482**
Changes by inclusion of subsidiaries (former non-consolidated subsidiaries)	**(0)**	(0)	**(12)**
Changes by exclusion of consolidated subsidiaries	**(0)**	(0)	**(4)**
Balance at end of the year	**58,863**	55,087	**718,369**
Treasury stock, at cost:			
Balance at beginning of the year	**(72,558)**	(72,558)	**(885,511)**
Balance at end of the year	**(72,558)**	(72,558)	**(885,511)**
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities:			
Balance at beginning of the year	**(15,225)**	1,398	**(185,817)**
Net change during the year	**14,551**	(16,624)	**177,588**
Balance at end of the year	**(674)**	(15,225)	**(8,229)**
Deferred gain (loss) on derivatives under hedge accounting:			
Balance at beginning of the year	**(10,197)**	(3,327)	**(124,453)**
Net change during the year	**(1,556)**	(6,870)	**(18,995)**
Balance at end of the year	**(11,754)**	(10,197)	**(143,448)**
Foreign currency translation adjustments:			
Balance at beginning of the year	**(2,511)**	(741)	**(30,651)**
Net change during the year	**1,394**	(1,770)	**17,017**
Balance at end of the year	**(1,117)**	(2,511)	**(13,634)**
Minority interests:			
Balance at beginning of the year	**63,481**	176,221	**774,727**
Net change during the year	**(1,603)**	(112,740)	**(19,572)**
Balance at end of the year	**61,877**	63,481	**755,155**
Total equity:			
Balance at beginning of the year	**611,154**	634,954	**7,458,559**
Issuance of new shares	**—**	71,815	**—**
Net change in stock acquisition rights during the year	**(58)**	(259)	**(712)**
Dividends from surplus	**(2,653)**	—	**(32,389)**
Net income (loss)	**6,430**	42,650	**78,482**
Changes by inclusion of subsidiaries (former non-consolidated subsidiaries)	**(0)**	(0)	**(12)**
Changes by exclusion of consolidated subsidiaries	**(0)**	(0)	**(4)**
Net change in accumulated other comprehensive income during the year	**14,389**	(25,265)	**175,610**
Net change in minority interests during the year	**(1,603)**	(112,740)	**(19,572)**
Balance at end of the year	**¥ 627,657**	¥ 611,154	**$ 7,659,962**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Shinsei Bank, Limited, and Consolidated Subsidiaries
For the fiscal years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	**¥ 15,345**	¥ 57,782	**$ 187,281**
Adjustments for:			
Income taxes paid	**(3,092)**	(1,326)	**(37,746)**
Depreciation (other than leased assets as lessor)	**10,130**	11,823	**123,632**
Amortization of goodwill and other intangible assets	**11,955**	13,099	**145,903**
Impairment losses on long-lived assets	**1,092**	2,367	**13,331**
Net change in reserve for credit losses	**(11,946)**	2,568	**(145,793)**
Net change in reserve for losses on interest repayments	**7,714**	(26,889)	**94,148**
Net change in other reserves	**(4,873)**	(3,360)	**(59,479)**
Interest income	**(159,722)**	(207,137)	**(1,949,260)**
Interest expenses	**42,821**	50,475	**522,601**
Investment (gains) losses	**(3,714)**	(7,602)	**(45,334)**
Net exchange (gain) loss	**9,216**	15,215	**112,478**
Gains from the cancellation of issued corporate bonds and other instruments	**—**	(29,486)	**—**
Net change in trading assets	**(7,279)**	27,688	**(88,834)**
Net change in trading liabilities	**28,257**	(30,048)	**344,852**
Net change in loans and bills discounted	**128,328**	897,712	**1,566,128**
Net change in deposits, including negotiable certificates of deposit	**(247,047)**	(864,708)	**(3,014,984)**
Net change in debentures	**(54,131)**	(135,443)	**(660,619)**
Net change in borrowed money (other than subordinated debt)	**(1,182,159)**	486,924	**(14,427,133)**
Net change in corporate bonds (other than subordinated corporate bonds)	**(6,546)**	4,357	**(79,895)**
Net change in interest-bearing deposits with banks	**69,883**	5,007	**852,859**
Net change in call loans, receivables under repurchase agreements, receivables under securities borrowing transactions and other monetary claims purchased	**(113,809)**	75,186	**(1,388,936)**
Net change in call money, payables under repurchase agreements, payables under securities lending transactions, and short-term corporate bonds (liabilities)	**(43,373)**	(432,268)	**(529,332)**
Net change in foreign exchange assets and liabilities	**23,144**	(31,070)	**282,459**
Interest received	**163,093**	212,983	**1,990,403**
Interest paid	**(39,870)**	(41,372)	**(486,584)**
Net change in securities for trading purposes	**438**	1,887	**5,352**
Net change in monetary assets held in trust for trading purposes	**31,937**	36,246	**389,769**
Net change in lease receivables and leased investment assets	**9,629**	9,158	**117,513**
Other, net	**3,307**	(5,209)	**40,366**
Total adjustments	**(1,336,616)**	36,780	**(16,312,135)**
Net cash provided by (used in) operating activities	**(1,321,270)**	94,562	**(16,124,854)**
Cash flows from investing activities:			
Purchase of investments	**(786,802)**	(3,910,967)	**(9,602,182)**
Proceeds from sales of investments	**1,278,910**	1,921,619	**15,607,886**
Proceeds from maturity of investments	**883,190**	1,899,787	**10,778,505**
Purchase of premises and equipment (other than leased assets as lessor)	**(5,944)**	(7,284)	**(72,541)**
Purchase of intangible assets (other than leased assets as lessor)	**(6,702)**	(7,842)	**(81,796)**
Proceeds from sale of subsidiary's stocks	**4,912**	708	**59,956**
Other, net	**1,006**	(120)	**12,286**
Net cash provided by (used in) investing activities	**1,368,571**	(104,099)	**16,702,114**
Cash flows from financing activities:			
Proceeds from issuance of subordinated debt	**38,600**	2,400	**471,076**
Repayment of subordinated debt	**(47,000)**	(3,000)	**(573,590)**
Payment for redemption of subordinated corporate bonds	**—**	(3,607)	**—**
Proceeds from minority shareholders of subsidiaries	**91**	9	**1,115**
Payment for capital returned to minority shareholders of subsidiaries	**(760)**	(81,425)	**(9,275)**
Proceeds from issuance of stock	**—**	71,313	**—**
Dividends paid	**(2,653)**	—	**(32,389)**
Dividends paid to minority shareholders of subsidiaries	**(3,297)**	(9,833)	**(40,238)**
Net cash provided by (used in) financing activities	**(15,019)**	(24,144)	**(183,301)**
Foreign currency translation adjustments on cash and cash equivalents	**43**	(82)	**526**
Net change in cash and cash equivalents	**32,324**	(33,763)	**394,485**
Cash and cash equivalents at beginning of year	**300,474**	334,238	**3,667,007**
Cash and cash equivalents at end of year (Note 4)	**¥ 332,798**	¥ 300,474	**$ 4,061,492**

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 Consolidated Subsidiaries
For the fiscal years ended March 31, 2012 and 2011

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 conformity with the Banking Act of Japan (the "Banking Act"), and compiled from the consolidated financial statements prepared under the provisions set forth in the Accounting Standards for Consolidated Financial Statements (the Business Accounting Council, June 24, 1975) and 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 agree 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 ¥81.94 to U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2012. 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 concept. Under the control and influence concept, 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, 2012 and 2011 were as follows:

	2012	2011
Consolidated subsidiaries	**133**	121
Unconsolidated subsidiaries	**80**	84
Affiliates accounted for by the equity method	**15**	17
Affiliates accounted for not applying the equity method	**1**	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, 2012 were as listed below:

Name	Location	Percentage ownership
APLUS FINANCIAL Co., Ltd.	Japan	95.0%
Showa Leasing Co., Ltd.	Japan	97.0%
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, 2012, the fiscal year ending dates are March 31 for 90 subsidiaries, July 31 for 3 subsidiaries, August 31 for 1 subsidiary, September 30 for 1 subsidiary, December 31 for 34 subsidiaries, January 31 for 1 subsidiary and February 28 for 3 subsidiaries. Except for 8 subsidiaries which are consolidated as of March 31 rather than their fiscal year ends, those consolidated subsidiaries whose fiscal years end at dates other than March 31 are consolidated using their fiscal year end financial statements with appropriate adjustments made for significant transactions during the period from the ending dates of their fiscal years to the date of the Group's consolidated financial statements.

Major affiliates accounted for by the equity method as of March 31, 2012 were as listed below:

Name	Location	Percentage ownership
Comox Holdings Ltd.	Bermuda	49.9%
Jih Sun Financial Holding Co., Ltd.	Taiwan	30.4%

(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 allows 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 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, and accounted for negative goodwill, if any, to be systematically amortized to income over 20 years.

(C) GOODWILL AND OTHER INTANGIBLE ASSETS

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 OTHER INTANGIBLE ASSETS

The Bank conducts impairment testing for goodwill and other intangible assets 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 other intangible assets.

As the first step of the impairment test, we estimate the

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

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 other intangible assets, 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 other intangible assets. (i) Impairment loss for the total of goodwill and other intangible assets, is recognized as an amount by which the net asset book value exceeds the "value in use." The fair value of other intangible assets is determined in the same manner used to apply purchase accounting at the time of the initial acquisition, and (ii) the impairment loss on other intangible assets, is determined as the difference between the fair value 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 and non-interest-bearing deposits.

(G) OTHER MONETARY CLAIMS PURCHASED

The components of other monetary claims purchased are principally loans held for trading purposes. 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 profits 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 end of the fiscal year.

(I) MONETARY ASSETS HELD IN TRUST

The components of trust assets are accounted for based on the accounting standards appropriate for each asset type. Instruments held in trust for trading purposes are recorded at fair value and unrealized gains and losses are recorded in other business income (loss), net. Instruments held in trust classified as available-for-sale are recorded at fair value with the corresponding unrealized gains and losses recorded directly in a separate component of equity.

Instruments held in trust classified as available-for-sale for which fair value cannot be reliably determined are carried at cost.

(J) SECURITIES

Securities other than investments in unconsolidated subsidiaries and affiliates are classified into three categories, based principally on the Group's intent, as follows:

Trading securities are securities held in anticipation of gains arising from short-term changes in market value and/or held for resale to customers. Trading securities are carried at fair value with corresponding unrealized gains and losses recorded in income (loss).

Securities being held to maturity are debt securities for which the Group has both the 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, 2012 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 in financial difficulties and are very likely to go bankrupt in the future ("possibly bankrupt obligors"), except 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 are 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

uncollectible, has been charged off and totaled ¥165,992 million (U.S.$ 2,025,783 thousand) and ¥190,876 million as of March 31, 2012 and 2011, 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) RESERVE FOR EMPLOYEES' RETIREMENT BENEFITS

The Bank, APLUS FINANCIAL and Showa Leasing each have a non-contributory 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 reserve 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 fiscal year. Net actuarial gains and losses and prior 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 a new accounting standard for employees' retirement benefits and accounts for the liabilities 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.

(R) RESERVE FOR DIRECTORS' RETIREMENT BENEFITS

Retirement allowances for directors and statutory auditors are recorded to state the liability at the amount that would be required if all directors and statutory auditors retired at each balance sheet date.

(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 is 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"), for the acquisition of Shinsei Financial, under which the sharing of interest repayment costs between the Bank and GE is determined.

(T) RESERVE UNDER SPECIAL LAW

The reserve under special law is provided for contingent liabilities from brokering of securities transactions in accordance with Paragraph 1 of Article 46-5 of the Financial Instruments and Exchange Act of Japan.

(U) ASSET RETIREMENT OBLIGATIONS

In March 2008, the ASBJ published the accounting standard for asset retirement obligations, 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.

This standard was effective for fiscal years beginning on or after April 1, 2010.

The Group applied this accounting standard effective April 1, 2010. The effect of this change was to decrease income before income taxes and minority interests by ¥4,122 million for the fiscal year ended March 31, 2011.

(V) 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 recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.

(W) 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 issued in June 1993.

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 do not deem to transfer ownership of the lease 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.

(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 lease 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 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 ¥1,974 million (U.S.$24,097 thousand) and ¥2,776 million for the fiscal years ended March 31, 2012 and 2011, respectively, as compared to what would have been reported if the revised accounting standard was applied retroactively to all finance lease transactions as lessor.

(X) 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.

(Y) 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 by using a rate permissible under the Interest Rate Restriction Act of Japan or the amount determined by using rates on contracts with customers.

(Z) 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.

(AA) DERIVATIVES AND HEDGE ACCOUNTING

Derivatives are stated at fair value. Derivative transactions that

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

meet the hedge accounting criteria are primarily accounted for using the deferral method whereby unrealized gains and losses are deferred in a separate component of equity until the gains and losses on the hedged items are realized.

(a) Hedge of interest rate risks

Derivative transactions that meet the hedge accounting criteria for mitigating interest rate risks of the Bank's financial assets and liabilities are accounted for using the deferral method. The Bank adopted portfolio hedging to determine the effectiveness of its hedging instruments in accordance with Industry Audit Committee Report No. 24 of the Japanese Institute of Certified Public Accountants (JICPA). Under portfolio hedging activities to mitigate the change in fair value, a portfolio of hedged items with common maturities such as deposits or loans is designated and matched with a group of hedging instruments such as interest rate swaps, which offset the effect of fair value fluctuations of the hedged items by identified maturities. The effectiveness of the portfolio hedging is assessed by each group.

As for portfolio hedging activities to fix cash flows, the effectiveness is assessed based on the correlation between the base interest rate index of the hedged cash flow and that of the hedging instrument.

The interest rate swaps of certain consolidated subsidiaries which qualify for hedge accounting and meet specific matching criteria are not measured at fair value, but the net payments or receipts under the swap agreements are recognized and included in interest expenses or income.

(b) Hedge of foreign exchange fluctuation risks

The Bank applies either deferral hedge accounting or fair value hedge accounting in accordance with Industry Audit Committee Report No. 25 of the JICPA to the derivative transactions that meet the hedge accounting criteria for mitigating foreign currency fluctuation risks of the Bank's 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 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, 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 non-arbitrary 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.

(AB) 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.

(AC) ACCOUNTING CHANGES AND ERROR CORRECTIONS

In December 2009, 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:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) CONSOLIDATED

(a) Changes in Accounting Policies
When a new accounting policy is applied with revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(b) Changes in Presentations
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.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior-period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

The Group has presented "Recoveries of written-off claims" as part of "Net credit costs" since April 1, 2011, based on the revised Report No.14 "Practical Guidelines on Accounting Standards for Financial Instruments" issued by the Accounting Practice Committee of the JICPA. However, retrospective application was not made for the fiscal year ended March 31, 2011.

(AD) NEW ACCOUNTING PRONOUNCEMENTS

Accounting Standard for Retirement Benefits

On May 17, 2012, 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 Business Accounting Council in 1998 with effective date of April 1, 2000 and the other related practical guidances, being 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, are 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 under accumulated other comprehensive income in a separate component of equity, after adjusting for tax effects, and the 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 would not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and yet to be 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.

This accounting standard and the guidance are effective for the end of fiscal year beginning on or after April 1, 2013 with earlier application being permitted from the beginning of 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 Bank expects to apply the revised accounting standard from the end of the fiscal year beginning on April 1, 2013 and is in the process of measuring the effects of applying the revised accounting standard for the year ending March 31, 2014.

3. BUSINESS COMBINATIONS CONSOLIDATED

On October 1, 2011, the Bank acquired a portion of the business operated by Shinsei Financial, a consolidated subsidiary of the Bank, in accordance with the business transfer agreement dated September 30, 2011.

(A) OUTLINE OF THE TRANSACTION

(a) Business to be transferred
A portion of the unsecured personal loan business operated by Shinsei Financial

(b) Date of business transfer
October 1, 2011

(c) Overview and purpose of the transaction
Through the business transfer, the Bank acquired the Lake brand, the entire network of unmanned branches, ATMs, ACMs (automated contract machines), and a portion of other infrastruc-

3. BUSINESS COMBINATIONS (CONTINUED)

CONSOLIDATED

tural assets relating to the unsecured personal loan business. The Bank aims to improve its earnings power as well as to contribute to the development of a sound and healthy unsecured personal loan market, as one of the leading companies in the sector, by providing the service at the Bank, leveraging the Lake brand which has already achieved a certain level of recognition in the market.

(B) ACCOUNTING TREATMENT

In accordance with ASBJ Statement No.21 "Accounting Standard for Business Combinations" and ASBJ Guidance No.10 "Guidance on Accounting Standard for Business Combinations and Business Divestitures," the Bank accounted for the transaction as business combinations involving entities or operations of entities under common control, which has been eliminated in the consolidated financial statements.

4. 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, 2012 and 2011 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Cash and due from banks	**¥ 413,721**	¥ 452,751	**$ 5,049,083**
Interest-bearing deposits included in due from banks	**(80,923)**	(152,277)	**(987,591)**
Cash and cash equivalents	**¥ 332,798**	¥ 300,474	**$ 4,061,492**

5. OTHER MONETARY CLAIMS PURCHASED

CONSOLIDATED

(a) Other monetary claims purchased as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Trading purposes	**¥ 67,226**	¥ 105,345	**$ 820,435**
Other	**63,717**	51,661	**777,607**
Total	**¥ 130,943**	¥ 157,006	**$ 1,598,042**

(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, 2012 and 2011 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2012		2011		**2012**	
	Fair value	**Unrealized loss**	Fair value	Unrealized loss	**Fair value**	**Unrealized loss**
Trading purposes	**¥ 67,226**	**¥ 20,052**	¥ 105,345	¥ 23,296	**$ 820,435**	**$ 244,722**

6. TRADING ASSETS

CONSOLIDATED

Trading assets as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Trading securities	**¥ 45,542**	¥ 5,567	**$ 555,808**
Derivatives for trading securities	**2,247**	2,632	**27,427**
Securities held to hedge trading transactions	**12,901**	8,439	**157,450**
Derivatives for securities held to hedge trading transactions	**33,845**	53,855	**413,055**
Trading-related financial derivatives	**108,138**	119,384	**1,319,728**
Other	**—**	5,518	**—**
Total	**¥ 202,675**	¥ 195,396	**$ 2,473,468**

7. MONETARY ASSETS HELD IN TRUST

CONSOLIDATED

(a) Monetary assets held in trust as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Trading purposes	**¥ 132,025**	¥ 163,963	**$ 1,611,249**
Other	**135,602**	89,724	**1,654,905**
Total	**¥ 267,628**	¥ 253,688	**$ 3,266,154**

(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, 2012 and 2011 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2012		2011		**2012**	
	Fair value	**Unrealized loss**	Fair value	Unrealized loss	**Fair value**	**Unrealized loss**
Trading purposes	**¥ 132,025**	**¥ 6,637**	¥ 163,963	¥ 12,741	**$ 1,611,249**	**$ 81,000**

(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, 2012 and 2011.

8. SECURITIES

CONSOLIDATED

(a) Securities as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Trading securities	**¥ 613**	¥ 1,051	**$ 7,482**
Securities being held to maturity	**658,558**	553,992	**8,037,084**
Securities available for sale:			
Securities carried at fair value	**1,092,393**	2,600,007	**13,331,633**
Securities carried at cost whose fair value cannot be reliably determined	**80,207**	91,460	**978,859**
Investments in unconsolidated subsidiaries and affiliates	**41,720**	39,870	**509,157**
Total	**¥ 1,873,493**	¥ 3,286,382	**$ 22,864,215**

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, 2012 and 2011 were ¥87,441 million (U.S.$1,067,146 thousand) and ¥24,964 million, respectively. In addition, ¥11,066 million (U.S.$135,051 thousand) and ¥2,032 million of those securities were further pledged as of March 31, 2012 and 2011, 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, 2012 and 2011 were ¥ 45,008 million (U.S.$549,288 thousand) and ¥43,585 million, respectively.

8. SECURITIES (CONTINUED)

CONSOLIDATED

(b) The amortized/acquisition cost and the fair values of securities (other than trading securities) as of March 31, 2012 and 2011 were as follows:

	Millions of yen							
	2012				2011			
	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	**¥ 585,601**	**¥ 5,302**	**¥ —**	**¥ 590,903**	¥ 443,851	¥ 4,042	¥ 86	¥ 447,806
Japanese corporate bonds	**22,834**	**259**	**—**	**23,094**	59,558	653	—	60,211
Other	**50,122**	**4,006**	**574**	**53,555**	50,583	3,635	468	53,750
Total	**¥ 658,558**	**¥ 9,568**	**¥ 574**	**¥ 667,553**	¥ 553,992	¥ 8,331	¥ 555	¥ 561,769
Securities available for sale:								
Equity securities	**¥ 14,313**	**¥ 5,547**	**¥ 602**	**¥ 19,258**	¥ 17,690	¥ 1,678	¥ 4,514	¥ 14,854
Japanese national government bonds	**698,357**	**1,973**	**769**	**699,562**	2,020,466	882	2,595	2,018,753
Japanese local government bonds	**1,738**	**46**	**—**	**1,785**	1,729	56	—	1,786
Japanese corporate bonds	**231,061**	**378**	**3,212**	**228,227**	289,025	723	5,279	284,469
Other, primarily foreign debt securities	**158,236**	**4,411**	**3,160**	**159,488**	308,531	4,176	4,183	308,524
Total	**¥ 1,103,707**	**¥ 12,358**	**¥ 7,744**	**¥ 1,108,321**	¥ 2,637,444	¥ 7,518	¥ 16,573	¥ 2,628,388

	Thousands of U.S. dollars			
	2012			
	Amortized/ Acquisition cost	**Gross unrealized gain**	**Gross unrealized loss**	**Fair value**
Securities being held to maturity:				
Japanese national government bonds	**$ 7,146,710**	**$ 64,707**	**$ —**	**$ 7,211,417**
Japanese corporate bonds	**278,674**	**3,171**	**—**	**281,845**
Other	**611,700**	**48,898**	**7,009**	**653,589**
Total	**$ 8,037,084**	**$ 116,776**	**$ 7,009**	**$ 8,146,851**
Securities available for sale:				
Equity securities	**$ 174,678**	**$ 67,700**	**$ 7,350**	**$ 235,028**
Japanese national government bonds	**8,522,789**	**24,089**	**9,387**	**8,537,491**
Japanese local government bonds	**21,218**	**573**	**—**	**21,791**
Japanese corporate bonds	**2,819,888**	**4,614**	**39,201**	**2,785,301**
Other, primarily foreign debt securities	**1,931,128**	**53,843**	**38,571**	**1,946,400**
Total	**$ 13,469,701**	**$ 150,819**	**$ 94,509**	**$ 13,526,011**

Note: "Other, primarily foreign debt securities" includes other monetary claims purchased whose fair value can be reliably determined.

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. The amount written down is accounted for as an impairment loss. Impairment losses on securities other than trading purposes carried at fair value for the fiscal year ended March 31, 2012 were ¥8,761 million (U.S.$106,926 thousand), which consisted of ¥4,094 million (U.S.$49,971 thousand) for equity securities, ¥3,351 million (U.S.$40,899 thousand) for Japanese corporate bonds and ¥1,315 million (U.S.$16,056 thousand) for other securities.

Impairment losses on securities other than trading purposes carried at fair value for the fiscal year ended March 31, 2011 were ¥6,416 million, which consisted of ¥675 million for equity securities, ¥4,716 million for Japanese corporate bonds, ¥243 million for other securities and ¥780 million for other monetary claims purchased.

To determine whether an other-than-temporary impairment has occurred, the Bank applies the following rule, by the obligor classification of the security issuer based on the Bank'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

8. 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, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Unrealized gain (loss) before deferred tax on:			
Available-for-sale securities	**¥ 4,614**	¥ (9,055)	**$ 56,310**
The Bank's interests in available-for-sale securities held by partnerships recorded as securities whose fair value cannot be reliably determined and other adjustments	**(10)**	(67)	**(133)**
Securities being held to maturity, reclassified from available-for-sale in the past, under extremely illiquid market conditions	**(5,186)**	(5,922)	**(63,299)**
Deferred tax liabilities	**(177)**	(232)	**(2,171)**
Unrealized gain (loss) on available-for-sale securities before interest adjustments	**(761)**	(15,278)	**(9,293)**
Minority interests	**(6)**	(4)	**(77)**
The Bank's interests in unrealized gain (loss) on available-for-sale securities held by affiliates to which the equity method is applied	**93**	57	**1,141**
Unrealized gain (loss) on available-for-sale securities	**¥ (674)**	¥ (15,225)	**$ (8,229)**

(d) Available-for-sale securities sold during the fiscal year ended March 31, 2012 and 2011 were as follows:

	Millions of yen					
	2012			2011		
	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	**¥ 1,901**	**¥ 1,256**	**¥ 22**	¥ 1,530	¥ 33	¥ 2
Japanese national government bonds	**1,043,509**	**1,887**	**81**	1,701,469	8,685	717
Japanese local government bonds	**27,176**	**20**	**18**	25,459	16	37
Japanese corporate bonds	**51,047**	**114**	**312**	40,916	137	207
Other	**109,273**	**7,662**	**215**	101,150	13,776	131
Total	**¥ 1,232,908**	**¥ 10,940**	**¥ 650**	¥ 1,870,526	¥ 22,649	¥ 1,096

	Thousands of U.S. dollars		
	2012		
	Proceeds from sales	**Gains on sales**	**Losses on sales**
Available-for-sale securities sold:			
Equity securities	**$ 23,211**	**$ 15,329**	**$ 270**
Japanese national government bonds	**12,735,043**	**23,034**	**998**
Japanese local government bonds	**331,660**	**247**	**225**
Japanese corporate bonds	**622,983**	**1,392**	**3,813**
Other	**1,333,576**	**93,516**	**2,635**
Total	**$ 15,046,473**	**$ 133,518**	**$ 7,941**

9. LOANS AND BILLS DISCOUNTED

CONSOLIDATED

Loans and bills discounted as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Loans on deeds	**¥ 3,481,830**	¥ 3,550,636	**$ 42,492,435**
Loans on bills	**26,192**	30,785	**319,657**
Bills discounted	**11,054**	2,603	**134,915**
Overdrafts	**617,750**	707,436	**7,539,053**
Total	**¥ 4,136,827**	¥ 4,291,462	**$ 50,486,060**

(a) Risk-monitored loans

Loans and bills discounted included loans to bankrupt obligors of ¥8,145 million (U.S.$99,409 thousand) and ¥13,905 million as of March 31, 2012 and 2011, respectively, as well as non-accrual delinquent loans of ¥316,727 million (U.S.$3,865,363 thousand) and ¥317,951 million as of March 31, 2012 and 2011, respectively.

Non-accrual delinquent loans include loans classified as "possibly bankrupt" and "virtually bankrupt" under the Bank's self-assessment guidelines.

In addition to non-accrual delinquent loans as defined, certain other loans classified as "substandard" under the Bank'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 non-accrual delinquent loans. The balances of loans past due for three months or more as of March 31, 2012 and 2011 were ¥1,754 million (U.S.$21,414 thousand) and ¥2,259 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, non-accrual delinquent loans or loans past due for three months or more. The outstanding balances of restructured loans as of March 31, 2012 and 2011 were ¥45,321 million (U.S.$553,106 thousand) and ¥60,926 million, respectively.

(b) Loan participations

The total outstanding amounts deducted from the loan account for loan participations as of March 31, 2012 and 2011 were ¥18,441 million (U.S.$225,059 thousand) and ¥28,854 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 ¥7,891 million (U.S.$96,313 thousand) and ¥15,366 million as of March 31, 2012 and 2011, 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, 2012 and 2011 were ¥11,169 million (U.S.$136,313 thousand) and ¥2,731 million, respectively.

(d) Loan commitments

The Bank and certain of its consolidated subsidiaries issue commitments to extend credit and establish credit lines for overdrafts to meet the financing needs of their customers. The unfunded amounts of these commitments were ¥4,026,211 million (U.S.$49,136,097 thousand) and ¥4,752,171 million as of March 31, 2012 and 2011, out of which the amounts with original agreement terms of less than one year or which were cancelable were ¥3,806,561 million (U.S.$46,455,475 thousand) and ¥4,604,262 million as of March 31, 2012 and 2011, 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 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.

10. FOREIGN EXCHANGES

CONSOLIDATED

Foreign exchange assets and liabilities as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Foreign exchange assets:			
Foreign bills bought	**¥ 114**	¥ 128	**$ 1,398**
Foreign bills receivable	**8,133**	5,088	**99,262**
Due from foreign banks	**10,648**	36,853	**129,955**
Total	**¥ 18,896**	¥ 42,069	**$ 230,615**
Foreign exchange liabilities:			
Foreign bills payable	**¥ 9**	¥ 37	**$ 110**
Due to foreign banks	**2**	2	**30**
Total	**¥ 11**	¥ 39	**$ 140**

11. OTHER ASSETS

CONSOLIDATED

Other assets as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Accrued income	**¥ 16,300**	¥ 21,191	**$ 198,938**
Prepaid expenses	**2,888**	3,277	**35,250**
Fair value of derivatives	**81,914**	181,793	**999,691**
Financial stabilization fund contribution	**41,500**	70,239	**506,468**
Accounts receivable	**42,543**	59,828	**519,208**
Installment receivables	**347,935**	330,485	**4,246,226**
Security deposits	**13,269**	15,984	**161,940**
Suspense payments	**26,341**	21,920	**321,474**
Margin deposits for futures transactions	**5,383**	12,150	**65,702**
Cash collateral pledged for derivative transactions	**23,935**	11,819	**292,112**
Other	**84,702**	66,107	**1,033,712**
Total	**¥ 686,716**	¥ 794,798	**$ 8,380,721**

Installment receivables in other assets as of March 31, 2012 and 2011 include credits to bankrupt obligors of ¥368 million (U.S.$4,498 thousand) and ¥430 million, non-accrual delinquent credits of ¥10,259 million (U.S.$125,210 thousand) and ¥3,931 million, credits past due for three months or more of ¥320 million (U.S.$3,911 thousand) and ¥426 million, and restructured credits of ¥1,564 million (U.S.$19,098 thousand) and ¥2,610 million, respectively.

12. PREMISES AND EQUIPMENT

CONSOLIDATED

Premises and equipment as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Buildings	**¥ 30,693**	¥ 30,495	**$ 374,588**
Land	**7,634**	8,805	**93,178**
Tangible leased assets as lessor	**48,047**	50,989	**586,376**
Other	**19,851**	19,071	**242,269**
Subtotal	**106,227**	109,361	**1,296,411**
Accumulated depreciation	**(52,096)**	(59,262)	**(635,788)**
Net book value	**¥ 54,131**	¥ 50,099	**$ 660,623**

13. INTANGIBLE ASSETS — CONSOLIDATED

Intangible assets as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Software	**¥ 22,766**	¥ 25,044	**$ 277,838**
Goodwill, net:			
Goodwill	**47,574**	55,512	**580,607**
Negative goodwill	**(5,623)**	(5,986)	**(68,629)**
Intangible assets acquired in business combinations	**16,262**	20,521	**198,473**
Intangible leased assets as lessor	**7**	30	**91**
Other	**65**	890	**803**
Total	**¥ 81,053**	¥ 96,013	**$ 989,183**

14. RESERVE FOR CREDIT LOSSES — CONSOLIDATED

Reserve for credit losses as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Reserve for loan losses:			
General reserve for loan losses	**¥ 80,949**	¥ 102,752	**$ 987,908**
Specific reserve for loan losses	**95,768**	75,251	**1,168,758**
Reserve for loan losses to restructuring countries	**0**	12	**10**
Subtotal	**176,718**	178,015	**2,156,676**
Specific reserve for other credit losses	**3,915**	21,196	**47,780**
Total	**¥ 180,633**	¥ 199,211	**$ 2,204,456**

15. DEPOSITS, INCLUDING NEGOTIABLE CERTIFICATES OF DEPOSIT — CONSOLIDATED

Deposits, including negotiable certificates of deposit, as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Current	**¥ 14,995**	¥ 11,151	**$ 183,007**
Ordinary	**1,485,682**	1,452,943	**18,131,341**
Notice	**12,711**	12,269	**155,126**
Time	**3,292,790**	3,602,989	**40,185,382**
Negotiable certificates of deposit	**178,084**	174,046	**2,173,355**
Other	**378,147**	357,285	**4,614,934**
Total	**¥ 5,362,411**	¥ 5,610,687	**$ 65,443,145**

16. DEBENTURES
CONSOLIDATED

(a) Debentures as of March 31, 2012 and 2011 consisted of the following:

Issuer	Description	Issue	Maturity	Interest Rate (%)	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars 2012
Shinsei Bank, Limited	Five-year coupon debentures[1]	Apr. 2006 to Apr. 2012	Apr. 2011 to Apr. 2017	0.08 to 1.75	**¥ 292,239**	¥ 331,370	**$ 3,566,503**
	Three-year coupon debentures[2]	Apr. 2008 to Sept. 2008	Apr. 2011 to Sept. 2011	1.20 to 1.65	**—**	14,800	**—**
	Coupon debentures, payable in Euroyen[3]	Sept. 2004 to Aug. 2005	Sept. 2014 and Feb. 2025	0.00 to 3.105[4]	**1,900**	2,100	**23,188**
	Total				**¥ 294,139**	¥ 348,270	**$ 3,589,691**

Notes: (1)This includes a series of five-year Long-Term Credit Debentures.
(2)This includes a series of three-year Long-Term Credit Debentures.
(3)This includes a series of Long-Term Credit Debentures issued under Euro Note Programme.
(4)The maximum and minimum rates under contracts are presented if the interest rates are not decided as of March 31, 2012 and 2011.

(b) Annual maturities of debentures as of March 31, 2012 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2013	**¥ 60,441**	**$ 737,628**
2014	**52,353**	**638,929**
2015	**50,773**	**619,637**
2016	**64,719**	**789,838**
2017 and thereafter	**65,851**	**803,659**
Total	**¥ 294,139**	**$ 3,589,691**

17. TRADING LIABILITIES
CONSOLIDATED

Trading liabilities as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars 2012
Derivatives for trading securities	**¥ 1,589**	¥ 1,794	**$ 19,403**
Derivatives for securities held to hedge trading transactions	**39,649**	40,300	**483,880**
Trading-related financial derivatives	**86,746**	103,049	**1,058,661**
Trading securities sold for short sales	**48,058**	2,643	**586,511**
Total	**¥ 176,044**	¥ 147,787	**$ 2,148,455**

18. BORROWED MONEY
CONSOLIDATED

(a) Borrowed money as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars 2012
Subordinated debt	**¥ 93,000**	¥ 101,400	**$ 1,134,977**
Other	**383,731**	1,571,390	**4,683,074**
Total	**¥ 476,731**	¥ 1,672,790	**$ 5,818,051**

(b) The weighted average interest rate applicable to the total balance of borrowed money as of March 31, 2012 was 1.20%.

18. BORROWED MONEY (CONTINUED)

CONSOLIDATED

(c) Annual maturities of borrowed money as of March 31, 2012 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2013	**¥ 217,985**	**$ 2,660,309**
2014	**49,502**	**604,132**
2015	**40,653**	**496,143**
2016	**26,738**	**326,313**
2017 and thereafter	**141,850**	**1,731,154**
Total	**¥ 476,731**	**$ 5,818,051**

19. CORPORATE BONDS

CONSOLIDATED

(a) Corporate bonds as of March 31, 2012 and 2011 consisted of the following:

Issuer	Description	Issue	Maturity	Interest Rate (%)	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars 2012
Shinsei Bank, Limited	Unsecured straight bonds, payable in Euroyen[1]	Nov. 2005 to Aug. 2009	Jul. 2011 to Sept. 2037	0.00 to 10.00[5]	**¥ 5,551**	¥ 10,851	**$ 67,745**
	Unsecured subordinated bonds, payable in Yen[2]	Mar. 2005 to Dec. 2009	Mar. 2015 to Dec. 2017	1.96 to 3.40	**74,000**	74,000	**903,100**
	Unsecured subordinated notes, payable in Euro[3]	Feb. 2006 and Sept. 2010	Feb. 2016 and Sept. 2020	2.976 and 7.375	**59,909**	64,069	**731,139**
	Unsecured perpetual subordinated notes, payable in Euroyen[4]	Oct.2005	—	2.35 and 2.435	**4,500**	4,500	**54,918**
	Unsecured perpetual subordinated note, payable in Pounds Sterling	Dec.2006	—	5.625	**6,767**	6,874	**82,585**
Kusatsu GK	Unsecured straight bond, payable in Yen	Jul. 2010	Jun. 2011	2.30	**—**	1,000	**—**
Hotaka GK	Unsecured straight bond, payable in Yen	Dec. 2011	Dec. 2016	1.635	**3,000**	—	**36,612**
Marusei GK	Unsecured straight bond, payable in Yen	Jan. 2012	Dec. 2016	3.16586	**500**	—	**6,102**
AMOne GK	Unsecured straight bond, payable in Yen	Jan. 2009	Feb. 2046	2.18	**14,069**	17,815	**171,711**
Shinsei Bank Finance N.V.	Unsecured perpetual subordinated bond, payable in Yen	Dec.1996	—	1.88571	**500**	500	**6,102**
	Total				**¥ 168,797**	¥179,611	**$ 2,060,014**

Notes: (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, 2012 and 2011.

(b) Annual maturities of corporate bonds as of March 31, 2012 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2013	**¥ 1,961**	**$ 23,943**
2014	**1,586**	**19,359**
2015	**34,789**	**424,568**
2016	**59,131**	**721,639**
2017 and thereafter	**71,329**	**870,505**
Total	**¥ 168,797**	**$ 2,060,014**

20. OTHER LIABILITIES CONSOLIDATED

Other liabilities as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Accrued expenses	**¥ 61,258**	¥ 57,372	**$ 747,605**
Unearned income	**3,788**	889	**46,234**
Income taxes payable	**2,130**	2,072	**26,002**
Fair value of derivatives	**142,223**	234,580	**1,735,697**
Matured debentures, including interest	**14,097**	16,472	**172,043**
Trust account	**7,526**	7,386	**91,850**
Accounts payable	**70,348**	73,588	**858,543**
Deferred gains on installment receivables and credit guarantees	**26,751**	29,113	**326,471**
Asset retirement obligations	**7,663**	7,960	**93,526**
Deposits payable	**91,595**	89,479	**1,117,838**
Other	**38,315**	50,446	**467,599**
Total	**¥ 465,698**	¥ 569,362	**$ 5,683,408**

21. RESERVE FOR EMPLOYEES' RETIREMENT BENEFITS CONSOLIDATED

(a) The following table presents the funded status of the plans as of March 31, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Projected benefit obligation	**¥ 70,239**	¥ 74,248	**$ 857,212**
Fair value of plan assets	**(59,483)**	(57,591)	**(725,935)**
Funded status (projected benefit obligation in excess of plan assets)	**10,756**	16,657	**131,277**
Unrecognized prior service cost	**3,015**	3,535	**36,800**
Unrecognized net actuarial losses	**(9,742)**	(11,734)	**(118,893)**
Unrecognized obligation at transition	**(1,816)**	(2,421)	**(22,166)**
Net amount accrued on the balance sheets	**2,213**	6,036	**27,018**
Prepaid pension cost included in other assets	**(4,813)**	(4,980)	**(58,742)**
Reserve for employees' retirement benefits	**¥ 7,027**	¥ 11,016	**$ 85,760**

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.

As of March 31, 2011, "Projected benefit obligation" included ¥3,695 million of extraordinary severance benefit as a part of a business restructuring at Shinsei Financial.

(b) The following table provides the components of net periodic retirement benefit cost for the fiscal years ended March 31, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Service cost	**¥ 3,225**	¥ 3,488	**$ 39,358**
Interest cost	**1,463**	1,518	**17,867**
Expected return on plan assets	**(1,344)**	(1,307)	**(16,413)**
Amortization of prior service cost	**(520)**	(453)	**(6,349)**
Amortization of net actuarial losses	**2,521**	2,583	**30,768**
Amortization of unrecognized obligation at transition	**605**	605	**7,389**
Other (primarily consists of extraordinary severance benefit)	**754**	5,699	**9,210**
Net periodic retirement benefit cost	**¥ 6,705**	¥ 12,134	**$ 81,830**

For the fiscal year ended March 31, 2011, "Other (primarily consists of extraordinary severance benefit)" included ¥3,936 million of extraordinary severance benefit as a part of a business restructuring at Shinsei Financial.

21. RESERVE FOR EMPLOYEES' RETIREMENT BENEFITS (CONTINUED) CONSOLIDATED

(c) Assumptions used in calculation of the above information were as follows:

	2012	2011
Discount rate	**1.40-2.20%**	1.40-2.20%
Expected rate of return on plan assets	**2.00-3.50%**	0.75-3.50%
Method of attributing the projected benefits to periods of service	**Straight-line basis**	Straight-line basis
Period of amortization of prior service cost	**5.00-14.74 years**	5.00-14.74 years
Period of amortization of net actuarial losses	**5.00-14.74 years**	5.00-14.74 years
Period of amortization of unrecognized obligation at transition	**15 years**	15 years

22. ACCEPTANCES AND GUARANTEES CONSOLIDATED

Acceptances and guarantees as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Guarantees	**¥ 562,624**	¥ 575,700	**$ 6,866,295**

23. ASSETS PLEDGED AS COLLATERAL CONSOLIDATED

Assets pledged as collateral and liabilities collateralized as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Assets pledged as collateral:			
Cash and due from banks	**¥ 203**	¥ 866	**$ 2,484**
Trading assets	**33,915**	—	**413,900**
Monetary assets held in trust	**1,767**	1,752	**21,570**
Securities	**625,163**	2,131,834	**7,629,530**
Loans and bills discounted	**191,990**	315,268	**2,343,068**
Lease receivables and leased investment assets	**85,050**	83,980	**1,037,956**
Other assets	**32,278**	27,542	**393,932**
Premises and equipment	**—**	1,352	**—**
Liabilities collateralized:			
Deposits, including negotiable certificates of deposit	**¥ 568**	¥ 1,752	**$ 6,937**
Call money	**210,000**	160,000	**2,562,851**
Payables under securities lending transactions	**136,006**	265,028	**1,659,835**
Borrowed money	**172,673**	1,346,543	**2,107,320**
Corporate bonds	**14,069**	17,816	**171,710**
Other liabilities	**33**	26	**411**
Acceptances and guarantees	**920**	922	**11,234**

In addition, ¥364,798 million (U.S.$4,452,019 thousand) and ¥239,836 million of securities as of March 31, 2012 and 2011, were pledged as collateral for transactions, including exchange settlements, swap transactions and replacement of margin for future trading.

Also, ¥5,383 million (U.S.$65,702 thousand) and ¥12,150 million of margin deposits for futures transactions outstanding, ¥13,269 million (U.S.$161,940 thousand) and ¥15,984 million of security deposits, ¥23,935 million (U.S.$292,112 thousand) and ¥11,819 million of cash collateral pledged for derivative transactions were included in other assets as of March 31, 2012 and 2011, respectively.

24. PREFERRED SECURITIES ISSUED BY SUBSIDIARIES OUTSIDE JAPAN — CONSOLIDATED

The non-cumulative perpetual preferred securities issued by the Bank's wholly owned subsidiaries outside Japan as of March 31, 2012 and 2011 were as follows:

Issuer	Issued date	Issue amount (in millions)	Dividend rate[1]	Floating dividend start date	Type	Redemption date at the issuer's option	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars 2012
Shinsei Finance (Cayman) Limited	Feb. 2006	U.S.$775	6.418%	Jul. 2016	step-up	Jul. 2016[2]	**¥ 2,478**	¥2,500	**$ 30,250**
Shinsei Finance II (Cayman) Limited	Mar. 2006	U.S.$700	7.16%	Jul. 2016	non step-up	Jul. 2016[3]	**1,408**	1,420	**17,187**
Shinsei Finance III (Cayman) Limited	Mar. 2009	¥19,000	5.5%	Jul. 2014	non step-up	Jul. 2014[2]	**15,600**	15,600	**190,383**
	Mar. 2009	¥20,100	5.0%	Jul. 2019	step-up	Jul. 2014[2]	**18,000**	18,000	**219,673**
Shinsei Finance IV (Cayman) Limited	Mar. 2009	¥2,500	5.0%	Jul. 2019	step-up	Jul. 2014[2]	**2,500**	2,500	**30,510**
	Mar. 2009	¥6,600	5.5%	Jul. 2014	non step-up	Jul. 2014[2]	**6,600**	6,600	**80,547**
Shinsei Finance V (Cayman) Limited	Oct. 2009	¥4,000	5.5%	Jul. 2015	non step-up	Jul. 2015[2]	**4,000**	4,000	**48,816**
	Oct. 2009	¥5,000	floating	—	non step-up	Jul. 2015[2]	**5,000**	5,000	**61,020**
Total							**¥ 55,586**	¥55,621	**$ 678,386**

Notes: (1) Fixed dividend rates shown in this column are to be changed to floating dividend rates on the dividend payment date shown in "Floating dividend start date" column.
(2) These preferred securities are redeemable on any dividend payment date shown in this column or thereafter, at a price equal to the liquidation preference together with any dividends otherwise payable, subject to the prior approval of the Financial Services Agency of Japan ("FSA").
(3) The preferred securities issued by Shinsei Finance II (Cayman) Limited are redeemable on dividend payment date shown in this column or on each dividend payment date falling at ten year intervals thereafter, at a price equal to the liquidation preference together with any dividends otherwise payable, subject to the prior approval of the FSA.

The Bank repurchased U.S.$615 million of preferred securities of Shinsei Finance (Cayman) Limited, U.S.$458 million of preferred securities of Shinsei Finance II (Cayman) Limited and ¥2,400 million of preferred securities of Shinsei Finance III (Cayman) Limited in open-market transactions and cancelled all of the repurchased securities during the fiscal year ended March 31, 2011. No repurchase was made during the fiscal year ended March 31, 2012.

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, 2012 was 4,000,000 thousand shares.

The following table shows changes in the number of shares of common stock.

	Thousands: Issued number of shares	Thousands: Number of treasury stock
Fiscal year ended March 31, 2011:		
Beginning of year	2,060,346	96,427
Increase	690,000	—
Decrease	—	—
End of year	2,750,346	96,427
Fiscal year ended March 31, 2012:		
Beginning of year	**2,750,346**	**96,427**
Increase	**—**	**—**
Decrease	**—**	**—**
End of year	**2,750,346**	**96,427**

25. EQUITY (CONTINUED)

CONSOLIDATED

In March, 2011, the Bank issued 690,000,000 new shares of common stock through an international offering, at a issue price of ¥108 per share and the aggregate amount paid to the Bank was ¥71,815 million. As a result, the amount of common stock and capital surplus increased by ¥35,907 million, respectively.

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 such as: (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

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 (non-cash assets) to shareholders subject to a certain limitations and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act 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.

Net stock-based compensation expense was ¥11 million (U.S.$135 thousand) for the fiscal year ended March 31, 2012. However, income of ¥34 million was recognized for the fiscal year ended March 31, 2011, due to reversal of expenses associated with rights that were cancelled before vesting dates which exceeded compensation expense during the fiscal year. Gains on unexercised and forfeited stock acquisition rights was included in other gains (losses), net were ¥69 million (U.S.$847 thousand) and ¥225 million for the fiscal years ended March 31, 2012 and 2011, respectively. There were no stock acquisition rights issued during the fiscal year ended March 31, 2012 and 2011.

(a) Details of stock options

Stock options outstanding as of March 31, 2012 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

(b) 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, 2011				
Non-vested (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	5,298,000	250,000	2,693,000	1,921,000
Vested during the year	—	—	—	—
Exercised during the year	—	—	—	—
Forfeited during the year	229,000	—	364,000	377,000
Exercisable at the end of the year	5,069,000	250,000	2,329,000	1,544,000
Exercise price (Yen)	684	551	601	601
Weighted average stock price at the date of exercise (Yen)	—	—	—	—
Fiscal year ended March 31, 2012				
Non-vested (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	**5,069,000**	**250,000**	**2,329,000**	**1,544,000**
Vested during the year	**—**	**—**	**—**	**—**
Exercised during the year	**—**	**—**	**—**	**—**
Forfeited during the year	**156,000**	**—**	**110,000**	**—**
Exercisable at the end of the year	**4,913,000**	**250,000**	**2,219,000**	**1,544,000**
Exercise price (Yen)	**684**	**551**	**601**	**601**
Weighted average stock price at the date of exercise (Yen)	**—**	**—**	**—**	**—**

	7th	8th	9th	10th
Fiscal year ended March 31, 2011				
Non-vested (share)				
Outstanding at the beginning of the year	261,000	109,000	—	18,000
Granted during the year	—	—	—	—
Forfeited during the year	69,000	—	—	—
Vested during the year	192,000	109,000	—	18,000
Outstanding at the end of the year	—	—	—	—
Vested (share)				
Outstanding at the beginning of the year	428,000	128,000	108,000	18,000
Vested during the year	192,000	109,000	—	18,000
Exercised during the year	—	—	—	—
Forfeited during the year	114,000	50,000	—	—
Exercisable at the end of the year	506,000	187,000	108,000	36,000
Exercise price (Yen)	601	601	697	697
Weighted average stock price at the date of exercise (Yen)	—	—	—	—
Fiscal year ended March 31, 2012				
Non-vested (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	**506,000**	**187,000**	**108,000**	**36,000**
Vested during the year	**—**	**—**	**—**	**—**
Exercised during the year	**—**	**—**	**—**	**—**
Forfeited during the year	**32,000**	**—**	**—**	**—**
Exercisable at the end of the year	**474,000**	**187,000**	**108,000**	**36,000**
Exercise price (Yen)	**601**	**601**	**697**	**697**
Weighted average stock price at the date of exercise (Yen)	**—**	**—**	**—**	**—**

26. STOCK ACQUISITION RIGHTS (CONTINUED) CONSOLIDATED

	13th	14th	15th	16th
Fiscal year ended March 31, 2011				
Non-vested (share)				
Outstanding at the beginning of the year	—	—	317,000	17,000
Granted during the year	—	—	—	—
Forfeited during the year	—	—	113,000	—
Vested during the year	—	—	87,000	—
Outstanding at the end of the year	—	—	117,000	17,000
Vested (share)				
Outstanding at the beginning of the year	2,820,000	2,044,000	431,000	20,000
Vested during the year	—	—	87,000	—
Exercised during the year	—	—	—	—
Forfeited during the year	430,000	247,000	103,000	—
Exercisable at the end of the year	2,390,000	1,797,000	415,000	20,000
Exercise price (Yen)	825	825	825	825
Weighted average stock price at the date of exercise (Yen)	—	—	—	—
Fiscal year ended March 31, 2012				
Non-vested (share)				
Outstanding at the beginning of the year	**—**	**—**	**117,000**	**17,000**
Granted during the year	**—**	**—**	**—**	**—**
Forfeited during the year	**—**	**—**	**1,000**	**—**
Vested during the year	**—**	**—**	**116,000**	**17,000**
Outstanding at the end of the year	**—**	**—**	**—**	**—**
Vested (share)				
Outstanding at the beginning of the year	**2,390,000**	**1,797,000**	**415,000**	**20,000**
Vested during the year	**—**	**—**	**116,000**	**17,000**
Exercised during the year	**—**	**—**	**—**	**—**
Forfeited during the year	**154,000**	**—**	**19,000**	**—**
Exercisable at the end of the year	**2,236,000**	**1,797,000**	**512,000**	**37,000**
Exercise price (Yen)	**825**	**825**	**825**	**825**
Weighted average stock price at the date of exercise (Yen)	**—**	**—**	**—**	**—**

	17th	18th	19th	20th
Fiscal year ended March 31, 2011				
Non-vested (share)				
Outstanding at the beginning of the year	669,000	165,000	52,000	1,967,000
Granted during the year	—	—	—	—
Forfeited during the year	231,000	85,000	—	361,000
Vested during the year	250,000	24,000	4,000	1,280,000
Outstanding at the end of the year	188,000	56,000	48,000	326,000
Vested (share)				
Outstanding at the beginning of the year	1,162,000	881,000	88,000	47,000
Vested during the year	250,000	24,000	4,000	1,280,000
Exercised during the year	—	—	—	—
Forfeited during the year	192,000	86,000	—	230,000
Exercisable at the end of the year	1,220,000	819,000	92,000	1,097,000
Exercise price (Yen)	555	555	527	416
Weighted average stock price at the date of exercise (Yen)	—	—	—	—
Fiscal year ended March 31, 2012				
Non-vested (share)				
Outstanding at the beginning of the year	**188,000**	**56,000**	**48,000**	**326,000**
Granted during the year	**—**	**—**	**—**	**—**
Forfeited during the year	**—**	**—**	**—**	**71,000**
Vested during the year	**188,000**	**56,000**	**48,000**	**14,000**
Outstanding at the end of the year	**—**	**—**	**—**	**241,000**
Vested (share)				
Outstanding at the beginning of the year	**1,220,000**	**819,000**	**92,000**	**1,097,000**
Vested during the year	**188,000**	**56,000**	**48,000**	**14,000**
Exercised during the year	**—**	**—**	**—**	**—**
Forfeited during the year	**69,000**	**—**	**—**	**124,000**
Exercisable at the end of the year	**1,339,000**	**875,000**	**140,000**	**987,000**
Exercise price (Yen)	**555**	**555**	**527**	**416**
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, 2011			
Non-vested (share)			
Outstanding at the beginning of the year	970,000	183,000	76,000
Granted during the year	—	—	—
Forfeited during the year	563,000	2,000	17,000
Vested during the year	326,000	109,000	35,000
Outstanding at the end of the year	81,000	72,000	24,000
Vested (share)			
Outstanding at the beginning of the year	—	10,000	—
Vested during the year	326,000	109,000	35,000
Exercised during the year	—	—	—
Forfeited during the year	132,000	3,000	—
Exercisable at the end of the year	194,000	116,000	35,000
Exercise price (Yen)	416	407	221
Weighted average stock price at the date of exercise (Yen)	—	—	—
Fiscal year ended March 31, 2012			
Non-vested (share)			
Outstanding at the beginning of the year	**81,000**	**72,000**	**24,000**
Granted during the year	**—**	**—**	**—**
Forfeited during the year	**—**	**—**	**2,000**
Vested during the year	**—**	**—**	**—**
Outstanding at the end of the year	**81,000**	**72,000**	**22,000**
Vested (share)			
Outstanding at the beginning of the year	**194,000**	**116,000**	**35,000**
Vested during the year	**—**	**—**	**—**
Exercised during the year	**—**	**—**	**—**
Forfeited during the year	**73,000**	**—**	**3,000**
Exercisable at the end of the year	**121,000**	**116,000**	**32,000**
Exercise price (Yen)	**416**	**407**	**221**
Weighted average stock price at the date of exercise (Yen)	**—**	**—**	**—**

(c) 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, 2012 and 2011.

(d) 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, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Income (loss) from trading securities	**¥ 204**	¥ 771	**$ 2,493**
Income (loss) from securities held to hedge trading transactions	**(3,072)**	(2,857)	**(37,498)**
Income (loss) from trading-related financial derivatives	**16,525**	13,678	**201,683**
Other, net	**(22)**	56	**(272)**
Total	**¥ 13,635**	¥11,649	**$ 166,406**

28. OTHER BUSINESS INCOME (LOSS), NET

CONSOLIDATED

"Other, net" in other business income (loss), net, for the fiscal years ended March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Income (loss) from derivatives entered into for banking purposes, net	**¥(1,057)**	¥ 1,722	**$(12,900)**
Equity in net income (loss) of affiliates	**3,429**	1,333	**41,856**
Gain on lease cancellation and other lease income (loss), net	**(220)**	(84)	**(2,691)**
Other, net	**1,601**	1,725	**19,550**
Total	**¥ 3,754**	¥ 4,696	**$ 45,815**

29. NET CREDIT COSTS

CONSOLIDATED

Net credit costs for the fiscal years ended March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Losses on write-off or sales of loans	**¥ 5,777**	¥ 7,587	**$ 70,505**
Net provision (reversal) of reserve for loan losses:			
Net provision (reversal) of general reserve for loan losses	**(5,924)**	30,417	**(72,300)**
Net provision (reversal) of specific reserve for loan losses	**42,237**	31,286	**515,470**
Net provision (reversal) of reserve for loan losses to restructuring countries	**(11)**	(1)	**(138)**
Subtotal	**36,302**	61,703	**443,032**
Net provision (reversal) of specific reserve for other credit losses	**(17,281)**	15	**(210,901)**
Other credit costs (recoveries) relating to leasing business	**(1,698)**	(909)	**(20,722)**
Recoveries of written-off claims	**(10,832)**	—	**(132,202)**
Total	**¥ 12,267**	¥ 68,397	**$ 149,712**

Note: "Recoveries of written-off claims" are included in "Net credit costs" for the fiscal year ended March 31, 2012, and included in "Other gains(losses), net" for the fiscal year ended March 31, 2011, as described in "(AC) ACCOUNTING CHANGES AND ERROR CORRECTIONS" in Note 2 "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

30. OTHER GAINS (LOSSES), NET

CONSOLIDATED

Other gains (losses), net for the fiscal years ended March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Net gain (loss) on disposal of premises and equipment	**¥ (518)**	¥ (552)	**$ (6,330)**
Pension-related costs	**(317)**	(944)	**(3,878)**
Gains on write-off of unclaimed debentures	**1,232**	556	**15,047**
Recoveries of written-off claims	**—**	14,854	**—**
Provision of reserve for losses on interest repayments	**(32,885)**	(10,145)	**(401,342)**
Impairment losses on long-lived assets	**(1,092)**	(2,367)	**(13,331)**
Gains from the cancellation of issued corporate bonds and other instruments	**—**	29,486	**—**
Losses on application of new accounting standard for asset retirement obligations	**—**	(3,639)	**—**
Business restructuring cost	**(86)**	(4,737)	**(1,051)**
Gain on sale of subsidiary's stock	**2,488**	485	**30,370**
Loss on retirement of software at APLUS FINANCIAL	**(1,901)**	—	**(23,207)**
Other, net	**86**	(1,024)	**1,054**
Total	**¥ (32,994)**	¥ 21,969	**$ (402,668)**

Note: "Recoveries of written-off claims" are included in "Net credit costs" for the fiscal year ended March 31, 2012, and included in "Other gains(loses), net" for the fiscal year ended March 31, 2011, as described in "(AC) ACCOUNTING CHANGES AND ERROR CORRECTIONS" in Note 2 "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

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30. OTHER GAINS (LOSSES), NET (CONTINUED) — CONSOLIDATED

(a) Impairment losses on long-lived assets
For the fiscal year ended March 31, 2012, impairment losses on long-lived assets of ¥898 million (U.S.$10,971 thousand) were recognized by the Bank on the annex of the branches which were decided to be closed and the unused IT related properties, assuming their recoverable amount to be zero.

For the fiscal year ended March 31, 2011, impairment losses on long-lived assets of ¥816 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. In addition, impairment losses on long-lived assets of ¥860 million were recognized by Shinsei Financial on the properties of personal loan business which were decided to be closed or to be disposed earlier than original plan and the properties for rent and for sale whose fair value declined significantly. The recoverable amount of the assets was primarily measured at the net selling price at disposition.

(b) Gains from the cancellation of issued corporate bonds and other instruments
For the fiscal year ended March 31, 2011, the Bank recognized ¥29,486 million of gains from the cancellation of issued corporate bonds and other instruments, in connection with the cancellation of €343 million and £63 million of subordinated notes of the Bank in consequence of an exchange offering and repurchase in open-market transaction, and the repurchase and cancellation of $615 million of preferred securities of Shinsei Finance (Cayman) Limited, $458 million of preferred securities of Shinsei Finance II (Cayman) Limited, and ¥2,400 million of preferred securities of Shinsei Finance III (Cayman) Limited, in open-market transaction.

(c) Business restructuring cost
For the fiscal year ended March 31, 2011, business restructuring cost primarily contained an extraordinary severance benefit due to the business restructuring of Shinsei Financial amounting to ¥3,936 million.

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 a normal effective statutory tax rate of approximately 40.7% for each of the fiscal years ended March 31, 2012 and 2011.

(a) A reconciliation of the normal effective statutory tax rate with the actual effective tax rate for the fiscal years ended March 31, 2012 and 2011 was as follows:

	2012	2011
Normal effective statutory tax rate	**40.7%**	40.7%
Increase (decrease) in taxes resulting from:		
Permanently tax-exempt income	**(0.0)**	(0.9)
Amortization and impairment of goodwill	**20.4**	5.9
Equity in net income/loss of affiliates	**(9.1)**	(0.9)
Other non-deductible expenses	**0.5**	0.5
Foreign tax	**4.6**	0.1
Change in valuation allowance	**(340.2)**	(3.5)
Loss on sale of consolidated subsidiaries	**—**	(22.3)
Effect of tax rate reduction	**5.6**	—
Expiration of tax loss carryforwards	**316.7**	0.4
Other	**(4.3)**	(7.5)
Actual effective tax rate	**34.9%**	12.5%

"Act for Partial Revision to the Income Tax Act, etc. in order to Build a Tax Framework in Response to Changes in the Structure of the Economic Society" (Law No. 114 for 2011) and "Act on Special Measures for Securing Financial Resources Required to Implement Actions for Recovery from the Great East Japan Earthquake" (Law No. 117 for 2011) were promulgated in December 2, 2011. From the fiscal year beginning on or after April 1, 2012, the corporate tax rate will be reduced and the reconstruction special corporate tax will be imposed. 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 40.7% to 38.0% for temporary differences and tax loss carryforwards that are expected to be realized between the fiscal year beginning on April 1, 2012 and the fiscal year beginning on April 1, 2014; and to 35.6% for temporary differences and tax loss carryforwards that are expected to be realized in and after the fiscal year beginning on April 1, 2015. With these tax rate changes, deferred tax assets have decreased by ¥824 million (U.S.$10,063 thousand) and deferred tax liabilities have decreased by ¥162 million (U.S.$1,985 thousand) while unrealized gain (loss) on available-for-sale securities has increased by ¥30 million (U.S.$377 thousand) and income taxes-deferred have increased by ¥851 million (U.S.$10,395 thousand).

31. INCOME TAXES (CONTINUED)

CONSOLIDATED

From the fiscal year beginning on or after April 1, 2012, the use of tax loss carryforwards will be limited to the equivalent of 80% of taxable income before deducting tax loss carryforwards. Due to this limitation, deferred tax assets have decreased by ¥202 million (U.S.$2,475 thousand) and deferred tax liabilities have increased by ¥291 million (U.S.$3,561 thousand) while income taxes-deferred have increased by ¥494 million (U.S.$6,037 thousand) .

(b) The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities, as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Deferred tax assets:			
Tax loss carryforwards	**¥ 197,705**	¥ 268,434	**$ 2,412,803**
Reserve for credit losses	**156,784**	197,974	**1,913,407**
Securities	**38,362**	43,623	**468,175**
Reserve for losses on interest repayments	**18,145**	17,577	**221,450**
Monetary assets held in trust	**16,539**	20,994	**201,853**
Deferred loss on derivatives under hedge accounting	**5,299**	5,357	**64,673**
Unrealized loss on available-for-sale securities	**1,107**	6,122	**13,518**
Other	**38,470**	47,909	**469,501**
Subtotal	**472,415**	607,993	**5,765,380**
Valuation allowance	**(446,257)**	(576,842)	**(5,446,152)**
Total deferred tax assets	**26,157**	31,150	**319,228**
Offset with deferred tax liabilities	**(10,322)**	(12,547)	**(125,981)**
Net deferred tax assets	**¥ 15,834**	¥ 18,603	**$ 193,247**
Deferred tax liabilities:			
Temporary differences due to business combination (primarily related to identified intangible assets)	**¥ 6,591**	¥ 9,125	**$ 80,442**
Deferred gain on derivatives under hedge accounting	**1,700**	1,901	**20,747**
Asset retirement costs included in premises and equipment	**1,333**	1,453	**16,270**
Unrealized gain on available-for-sale securities	**212**	232	**2,595**
Other	**1,112**	524	**13,574**
Total deferred tax liabilities	**10,949**	13,238	**133,628**
Offset with deferred tax assets	**(10,322)**	(12,547)	**(125,981)**
Net deferred tax liabilities	**¥ 626**	¥ 690	**$ 7,647**

(c) The Bank has ¥141,619 million (U.S.$1,728,331 thousand) of tax loss carryforward related to corporate tax as of March 31, 2012. The schedule of tax loss carryforward and its expiration date are as follows:

	Amount		
Fiscal year ended March 31	Millions of yen	Thousands of U.S. dollars	Date of expiry
2009	¥ 108,010	$ 1,318,168	March 31, 2018
2011	21,017	256,496	March 31, 2020
2012	12,591	153,667	March 31, 2021
Total	¥ 141,619	$ 1,728,331	

31. INCOME TAXES (CONTINUED) CONSOLIDATED

In addition, other significant tax loss carryforwards of major subsidiaries as of March 31, 2012 are as follows:

Subsidiary	Fiscal period ended	Millions of yen	Thousands of U.S. Dollars	Date of expiry
APLUS FINANCIAL	September 30, 2005	¥ 2,649	$ 32,330	March 31, 2013
	March 31, 2006	4,399	53,696	March 31, 2013
	March 31, 2007	29,537	360,481	March 31, 2014
	March 31, 2008	11,826	144,337	March 31, 2015
	March 31, 2009	2	36	March 31, 2018
	March 31, 2010	10	122	March 31, 2019
	March 31, 2012	4,677	57,090	March 31, 2021
	Total	¥ 53,104	$ 648,092	
Shinsei Financial	December 31, 2007	¥ 28,327	$ 345,713	March 31, 2014
	December 31, 2008	38,731	472,675	March 31, 2018
	March 31, 2009	27,530	335,981	March 31, 2018
	March 31, 2010	148,459	1,811,812	March 31, 2019
	March 31, 2011	22,894	279,411	March 31, 2020
	March 31, 2012	26,621	324,889	March 31, 2021
	Total	¥ 292,565	$ 3,570,481	
Showa Leasing	March 31, 2007	¥ 4,081	$ 49,807	March 31, 2014
	March 31, 2008	707	8,629	March 31, 2015
	March 31, 2009	18	225	March 31, 2018
	March 31, 2010	106	1,302	March 31, 2019
	Total	¥ 4,913	$ 59,963	
Shinki	March 31, 2008	¥ 19,037	$ 232,338	March 31, 2015
	March 31, 2009	9,280	113,259	March 31, 2018
	March 31, 2010	5,605	68,404	March 31, 2019
	March 31, 2011	14,064	171,639	March 31, 2020
	March 31, 2012	5,351	65,309	March 31, 2021
	Total	¥ 53,338	$ 650,949	

The Bank cannot include the tax loss carryforwards of APLUS FINANCIAL, Shinsei Financial, Showa Leasing and Shinki in its own tax loss carryforwards because they are not wholly-owned subsidiaries and, therefore, cannot be included in the Bank's consolidated corporate tax return.

32. NET INCOME (LOSS) PER COMMON SHARE CONSOLIDATED

Diluted net income per common share for the fiscal year ended March 31, 2012 and 2011 are not disclosed because there is no effect from dilutive securities.

Basic net income (loss) per common share ("EPS") for the fiscal years ended March 31, 2012 and 2011 were as follows:

	Net income (loss) (Millions of yen)	Weighted average shares (Thousands)	EPS (Yen)	EPS (U.S. dollars)
For the fiscal year ended March 31, 2012:				
Basic EPS				
Net income (loss) available to common shareholders	**¥ 6,430**	**2,653,919**	**¥ 2.42**	**$ 0.03**
For the fiscal year ended March 31, 2011:				
Basic EPS				
Net income (loss) available to common shareholders	¥ 42,650	1,996,056	¥ 21.36	

33. OTHER COMPREHENSIVE INCOME — CONSOLIDATED

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

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Unrealized gain (loss) on available-for-sale securities:		
Gains (losses) arising during the fiscal year	¥ 7,296	$ 89,042
Reclassification adjustment to profit or loss	7,165	87,448
Amount before income tax effect	14,461	176,490
Income tax effect	55	672
Total	14,516	177,162
Deferred gain (loss) on derivatives under hedge accounting:		
Gains (losses) arising during the fiscal year	(4,799)	(58,575)
Reclassification adjustment to profit or loss	3,132	38,224
Amount before income tax effect	(1,667)	(20,351)
Income tax effect	111	1,356
Total	(1,556)	(18,995)
Foreign currency translation adjustments:		
Gains (losses) arising during the fiscal year	520	6,351
Reclassification adjustment to profit or loss	506	6,184
Amount before income tax effect	1,027	12,535
Income tax effect	—	—
Total	1,027	12,535
Share of other comprehensive income in affiliates:		
Gains (losses) arising during the fiscal year	32	394
Total	32	394
Total other comprehensive income	¥ 14,019	$ 171,096

The corresponding information for the year ended March 31, 2011 was not required under the accounting standard for presentation of comprehensive income as an exemption for the first year of adopting that standard and not disclosed herein.

34. LEASE TRANSACTIONS — CONSOLIDATED

(A) FINANCE LEASE TRANSACTIONS

AS LESSEE

For finance lease transactions, where the ownership of the property is not deemed to transfer to the lessee.

(a) Lease assets are primarily buildings, tools, equipment and fixtures included in "Premises and equipment," and software included in "Intangible assets."

(b) Depreciation method is described in "(W) LEASE TRANSACTIONS" in Note2 "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

AS LESSOR

(a) Breakdown of "Lease receivables and leased investment assets" as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Lease receivables	¥ 31,759	¥ 26,069	$ 387,598
Leased investment assets:			
Lease payment receivables	179,777	195,289	2,194,015
Estimated residual value	7,676	8,832	93,686
Interest equivalent	(21,988)	(24,150)	(268,348)
Other	206	176	2,520
Subtotal	165,672	180,146	2,021,873
Total	¥ 197,432	¥ 206,216	$ 2,409,471

34. LEASE TRANSACTIONS (CONTINUED) CONSOLIDATED

(b) Lease payment receivables for "Lease receivables and leased investment assets" as of March 31, 2012 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	**¥ 8,981**	**$ 109,605**	**¥ 62,193**	**$ 759,012**
Due after one year within two years	**8,158**	**99,570**	**44,563**	**543,854**
Due after two years within three years	**6,408**	**78,210**	**30,900**	**377,115**
Due after three years within four years	**4,591**	**56,039**	**18,579**	**226,744**
Due after four years within five years	**3,037**	**37,066**	**9,404**	**114,772**
Due after five years	**2,957**	**36,091**	**14,136**	**172,518**
Total	**¥ 34,134**	**$ 416,581**	**¥ 179,777**	**$ 2,194,015**

(B) OPERATING LEASE TRANSACTIONS

Non-cancelable operating lease obligations as lessee and lease payment receivables as lessor as of March 31, 2012 and 2011 were as follows:

AS LESSEE

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Lease obligations:			
Due within one year	**¥ 4,046**	¥ 4,135	**$ 49,380**
Due after one year	**21,021**	22,668	**256,553**
Total	**¥ 25,068**	¥ 26,804	**$ 305,933**

AS LESSOR

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Lease payment receivables:			
Due within one year	**¥ 3,832**	¥ 3,447	**$ 46,778**
Due after one year	**17,101**	13,011	**208,708**
Total	**¥ 20,934**	¥ 16,459	**$ 255,486**

35. SEGMENT INFORMATION CONSOLIDATED

(A) SEGMENT INFORMATION

Under the ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No.20 "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(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," "Structured Finance 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," "Treasury Sub-Group" and "Other Global Markets Group" as reportable segments. The Individual Group consists of "Retail Banking Sub-Group," "Shinsei Financial" and "APLUS FINANCIAL."

In the Institutional Group, the "Institutional Business Sub-Group" provides financial products and services for corporate banking business and public sector finance. The "Structured Finance Sub-Group" provides real estate finance, such as non-recourse 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. The "Showa Leasing" primarily provides leasing related financial products and services. The "Other Institutional Group" consists of asset-backed investment, advisory services 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 trading, and other capital markets transactions. The "Treasury Sub-Group" undertakes ALM related transactions and capital funding. The "Other Global Markets Group" consists of Shinsei Securities' businesses, alternative investment, 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, the "Shinsei Financial" provides consumer finance, and the "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 unsecured personal card loan business, "Shinsei Bank Card Loan - Lake," transferred from Shinsei Financial to the Bank from October 1, 2011, is included in the "Shinsei Financial" segment.

On April 1, 2011, we implemented organizational changes. As a result of this organizational change, classification of reportable segments was changed, and "REVENUE, PROFIT (LOSS), ASSETS, LIABILITIES AND OTHER ITEMS BY REORTABLE SEGMENTS" for the fiscal year ended March 31, 2011 is presented based on the new classification of reportable segment.

(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.

Effective April 1, 2011, recoveries of written-off claims are included in "Net credit cost," considering the revision of "Practical Guidelines on Accounting Standards for Financial Instruments" (JICPA Accounting Practice Committee Statement No. 14). However, retrospective application was not made for the fiscal year ended March 31, 2011.

As a result of this change, net credit costs decreased and segment profits increased by ¥16 million (U.S.$199 thousand) for the "Institutional Business Sub-Group," by ¥567 million (U.S.$6,931 thousand) for the "Structured Finance Sub-Group," by ¥90 million (U.S.$1,100 thousand) for the "Principal Transactions Sub-Group," by ¥20 million (U.S.$253 thousand) for the "Other Institutional Group," by ¥417 million (U.S.$5,097 thousand) for the "Financial Institutions Sub-Group," by ¥362 million (U.S.$4,418 thousand) for the "Markets Sub-Group," by ¥559 million (U.S.$6,824 thousand) for the "Other Global Markets Group," by ¥64 million (U.S.$793 thousand) for the "Retail Banking Sub-Group," by ¥8,676 million (U.S.$105,890 thousand) for the "Shinsei Financial," and by ¥57 million (U.S.$697 thousand) for the "APLUS FINANCIAL," for the fiscal year ended March 31, 2012, compared to the amounts that would have been calculated under the previous treatment.

35. SEGMENT INFORMATION (CONTINUED)

CONSOLIDATED

(c) REVENUE, PROFIT (LOSS), ASSETS, LIABILITIES AND OTHER ITEMS BY REPORTABLE SEGMENTS

	Millions of yen								
	Institutional Group					Global Markets Group			
Fiscal year ended March 31, 2012	Institutional Business Sub-Group	Structured Finance Sub-Group	Principal Transactions Sub-Group	Showa Leasing	Other Institutional Group	Financial Institutions Sub-Group	Markets Sub-Group	Treasury Sub-Group	Other Global Markets Group
Revenue:	¥ 9,357	¥ 21,030	¥ 11,211	¥ 12,463	¥ 8,273	¥ 3,373	¥ 6,231	¥ (6,122)	¥ 1,681
Net Interest Income	9,254	16,904	4,563	(2,588)	(846)	1,454	1,126	(9,267)	507
Non-interest Income[1]	102	4,125	6,648	15,052	9,120	1,918	5,105	3,145	1,173
Expenses	5,843	4,826	3,886	7,804	2,655	2,342	3,261	1,079	4,119
Net Credit Costs (Recoveries)	1,415	14,145	924	(1,371)	2,717	(490)	(1,471)	—	(727)
Segment Profit (Loss)	¥ 2,097	¥ 2,057	¥ 6,401	¥ 6,030	¥ 2,900	¥ 1,521	¥ 4,441	¥ (7,202)	¥ (1,710)
Segment Assets[2]	¥ 1,644,472	¥ 954,835	¥ 326,407	¥ 392,542	¥ 141,447	¥ 121,864	¥ 367,322	¥ 1,332,044	¥ 81,415
Segment Liabilities	¥ 351,374	¥ 67,383	¥ 6,012	¥ —	¥ 5,640	¥ 249,742	¥ 124,931	¥ 26,429	¥ 81,182
Includes:									
1. Equity in net income (loss) of affiliates	¥ —	¥ —	¥ 125	¥ —	¥ 2,253	¥ —	¥ —	¥ —	¥ 1,050
2. Investment in affiliates	—	—	3,762	—	34,989	—	—	—	3,003
Other:									
Goodwill (Negative Goodwill):									
Amortization	¥ —	¥ —	¥ —	¥ 2,265	¥ —	¥ —	¥ —	¥ —	¥ —
Unamortized balance	—	—	—	28,052	—	—	—	—	—
Other intangible assets:									
Amortization	¥ —	¥ —	¥ —	¥ 663	¥ —	¥ —	¥ —	¥ —	¥ —
Unamortized balance	—	—	—	3,619	—	—	—	—	—
Impairment losses on long-lived assets	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 1	¥ —	¥ 3

	Millions of yen					
	Individual Group					
		Consumer Finance Sub-Group				
Fiscal year ended March 31, 2012	Retail Banking Sub-Group	Shinsei Financial	APLUS FINANCIAL	Other	Corporate/ Other	Total
Revenue:	¥ 36,091	¥ 51,778	¥ 48,531	¥ 1,758	¥ (2,697)	¥ 202,962
Net Interest Income	29,147	55,506	12,546	1,576	(2,984)	116,900
Non-interest Income[1]	6,943	(3,728)	35,985	182	286	86,061
Expenses	31,366	30,717	30,232	364	(511)	127,988
Net Credit Costs (Recoveries)	1,221	(8,445)	5,206	231	(1,087)	12,267
Segment Profit (Loss)	¥ 3,503	¥ 29,506	¥ 13,092	¥ 1,162	¥ (1,097)	¥ 62,706
Segment Assets[2]	¥ 948,674	¥ 370,655	¥ 1,007,670	¥ 47,507	¥ —	¥ 7,736,861
Segment Liabilities	¥ 4,930,927	¥ 3,390	¥ 548,159	¥ 44	¥ —	¥ 6,395,219
Includes:						
1. Equity in net income (loss) of affiliates	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 3,429
2. Investment in affiliates	—	—	—	—	—	41,754
Other:						
Goodwill (Negative Goodwill):						
Amortization	¥ —	¥ 4,591	¥ 840	¥ (0)	¥ —	¥ 7,697
Unamortized balance	—	10,541	3,363	(6)	—	41,951
Other intangible assets:						
Amortization	¥ —	¥ 3,594	¥ —	¥ —	¥ —	¥ 4,258
Unamortized balance	—	12,643	—	—	—	16,262
Impairment losses on long-lived assets	¥ 48	¥ 193	¥ —	¥ —	¥ 845	¥ 1,092

35. SEGMENT INFORMATION (CONTINUED)

CONSOLIDATED

Fiscal year ended March 31, 2011	Millions of yen								
	Institutional Group					Global Markets Group			
	Institutional Business Sub-Group	Structured Finance Sub-Group	Principal Transactions Sub-Group	Showa Leasing	Other Institutional Group	Financial Institutions Sub-Group	Markets Sub-Group	Treasury Sub-Group	Other Global Markets Group
Revenue:	¥ 10,778	¥ 22,593	¥ 8,576	¥ 15,330	¥ 16,309	¥ 2,613	¥ 12,520	¥ 45,825	¥ 2,715
Net Interest Income	9,331	21,487	2,825	(3,180)	3,617	1,241	2,653	4,875	527
Non-interest Income[1]	1,446	1,106	5,751	18,510	12,692	1,371	9,866	40,950	2,187
Expenses	6,299	5,822	4,248	8,042	2,874	2,522	4,667	1,172	3,740
Net Credit Costs (Recoveries)	(141)	39,043	(609)	3,461	(3,844)	(838)	1,544	—	710
Segment Profit (Loss)	¥ 4,620	¥ (22,272)	¥ 4,937	¥ 3,826	¥ 17,279	¥ 929	¥ 6,308	¥ 44,652	¥ (1,736)
Segment Assets[2]	¥ 1,756,325	¥ 956,214	¥ 364,431	¥ 379,981	¥ 235,287	¥ 70,177	¥ 393,695	¥ 2,655,519	¥ 63,771
Segment Liabilities	¥ 309,110	¥ 64,419	¥ 8,813	¥ —	¥ 3,227	¥ 437,602	¥ 144,208	¥ 69,228	¥ 39,439
Includes:									
1. Equity in net income (loss) of affiliates	¥ —	¥ —	¥ (313)	¥ —	¥ 2,137	¥ —	¥ —	¥ —	¥ (489)
2. Investment in affiliates	—	—	4,452	—	33,284	—	—	—	1,970
Other:									
Goodwill (Negative Goodwill):									
Amortization	¥ —	¥ —	¥ —	¥ 2,265	¥ —	¥ —	¥ —	¥ —	¥ —
Unamortized balance	—	—	—	30,317	—	—	—	—	—
Other intangible assets:									
Amortization	¥ —	¥ —	¥ —	¥ 697	¥ —	¥ —	¥ —	¥ —	¥ —
Unamortized balance	—	—	—	4,283	—	—	—	—	—
Impairment losses on long-lived assets	¥ 104	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 5

Fiscal year ended March 31, 2011	Millions of yen					
	Individual Group					
		Consumer Finance Sub-Group				
	Retail Banking Sub-Group	Shinsei Financial	APLUS FINANCIAL	Other	Corporate/ Other	Total
Revenue:	¥ 43,326	¥ 69,695	¥ 50,870	¥ (6,719)	¥ (2,279)	¥ 292,156
Net Interest Income	33,821	75,899	14,489	(6,878)	(4,048)	156,662
Non-interest Income[1]	9,504	(6,203)	36,381	158	1,769	135,493
Expenses	33,183	38,076	32,811	441	(1,043)	142,859
Net Credit Costs (Recoveries)	2,574	11,423	13,814	830	426	68,397
Segment Profit (Loss)	¥ 7,567	¥ 20,195	¥ 4,244	¥ (7,991)	¥ (1,662)	¥ 80,899
Segment Assets[2]	¥ 913,348	¥ 452,743	¥ 993,892	¥ 74,694	¥ —	¥ 9,310,083
Segment Liabilities	¥ 5,032,234	¥ 10,218	¥ 563,899	¥ 42	¥ —	¥ 6,682,445
Includes:						
1. Equity in net income (loss) of affiliates	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 1,333
2. Investment in affiliates	—	—	—	—	—	39,707
Other:						
Goodwill (Negative Goodwill):						
Amortization	¥ —	¥ 5,212	¥ 894	¥ (0)	¥ —	¥ 8,371
Unamortized balance	—	15,011	4,204	(6)	—	49,526
Other intangible assets:						
Amortization	¥ —	¥ 4,030	¥ —	¥ —	¥ —	¥ 4,728
Unamortized balance	—	16,237	—	—	—	20,521
Impairment losses on long-lived assets	¥ 364	¥ 1,551	¥ —	¥ —	¥ 341	¥ 2,367

35. SEGMENT INFORMATION (CONTINUED)

CONSOLIDATED

	Thousands of U.S. dollars								
	Institutional Group					Global Markets Group			
Fiscal year ended March 31, 2012	Institutional Business Sub-Group	Structured Finance Sub-Group	Principal Transactions Sub-Group	Showa Leasing	Other Institutional Group	Financial Institutions Sub-Group	Markets Sub-Group	Treasury Sub-Group	Other Global Markets Group
Revenue:	$ 114,195	$ 256,652	$ 136,831	$ 152,108	$ 100,965	$ 41,166	$ 76,048	$ (74,717)	$ 20,517
Net Interest Income	112,946	206,302	55,693	(31,594)	(10,337)	17,750	13,746	(113,102)	6,200
Non-interest Income[1]	1,249	50,350	81,138	183,702	111,302	23,416	62,302	38,385	14,317
Expenses	71,319	58,902	47,427	95,243	32,406	28,589	39,798	13,178	50,276
Net Credit Costs (Recoveries)	17,273	172,635	11,285	(16,737)	33,163	(5,990)	(17,959)	—	(8,880)
Segment Profit (Loss)	$ 25,603	$ 25,115	$ 78,119	$ 73,602	$ 35,396	$ 18,567	$ 54,209	$ (87,895)	$ (20,879)
Segment Assets[2]	$20,069,227	$11,652,861	$ 3,983,498	$ 4,790,608	$ 1,726,233	$ 1,487,245	$ 4,482,827	$16,256,345	$ 993,597
Segment Liabilities	$ 4,288,197	$ 822,347	$ 73,379	$ —	$ 68,840	$ 3,047,869	$ 1,524,670	$ 322,550	$ 990,754
Includes:									
1. Equity in net income (loss) of affiliates	$ —	$ —	$ 1,535	$ —	$ 27,501	$ —	$ —	$ —	$ 12,820
2. Investment in affiliates	—	—	45,915	—	427,009	—	—	—	36,653
Other:									
Goodwill (Negative Goodwill):									
Amortization	$ —	$ —	$ —	$ 27,644	$ —	$ —	$ —	$ —	$ —
Unamortized balance	—	—	—	342,351	—	—	—	—	—
Other intangible assets:									
Amortization	$ —	$ —	$ —	$ 8,103	$ —	$ —	$ —	$ —	$ —
Unamortized balance	—	—	—	44,178	—	—	—	—	—
Impairment losses on long-lived assets	$ —	$ —	$ —	$ —	$ —	$ —	$ 22	$ —	$ 39

	Thousands of U.S. dollars					
	Individual Group					
		Consumer Finance Sub-Group				
Fiscal year ended March 31, 2012	Retail Banking Sub-Group	Shinsei Financial	APLUS FINANCIAL	Other	Corporate/ Other	Total
Revenue:	$ 440,462	$ 631,904	$ 592,287	$ 21,461	$ (32,919)	$ 2,476,960
Net Interest Income	355,719	677,402	153,118	19,236	(36,421)	1,426,658
Non-interest Income[1]	84,743	(45,498)	439,169	2,225	3,502	1,050,302
Expenses	382,802	374,875	368,964	4,444	(6,249)	1,561,974
Net Credit Costs (Recoveries)	14,901	(103,069)	63,542	2,825	(13,277)	149,712
Segment Profit (Loss)	$ 42,759	$ 360,098	$ 159,781	$ 14,192	$ (13,393)	$ 765,274
Segment Assets[2]	$11,577,673	$ 4,523,495	$12,297,668	$ 579,780	$ —	$94,421,057
Segment Liabilities	$60,177,289	$ 41,384	$ 6,689,763	$ 544	$ —	$78,047,586
Includes:						
1. Equity in net income (loss) of affiliates	$ —	$ —	$ —	$ —	$ —	$ 41,856
2. Investment in affiliates	—	—	—	—	—	509,577
Other:						
Goodwill (Negative Goodwill):						
Amortization	$ —	$ 56,035	$ 10,263	$ (7)	$ —	$ 93,935
Unamortized balance	—	128,653	41,049	(75)	—	511,978
Other intangible assets:						
Amortization	$ —	$ 43,865	$ —	$ —	$ —	$ 51,968
Unamortized balance	—	154,296	—	—	—	198,474
Impairment losses on long-lived assets	$ 596	$ 2,360	$ —	$ —	$ 10,314	$ 13,331

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 other intangible assets, 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 for the fiscal year ended March 31,2012. Recoveries of written-off claims are not included in "Net Credit Costs (Recoveries)" for the fiscal year ended March 31,2011.
(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 acceptance and guarantees.
(6) Regarding assets and liabilities not allocated to each business segment, based on rational allocation method, there are related revenue and expense items which are allocated to each business segment. For example, interest on other borrowings is considered a part of "Revenue" and included in segment income, although borrowed money is not allocated to each segment liabilities. In addition, depreciation is considered a part of "Expenses" and included in segment income, although premises and equipment excluding tangible leased assets and intangible assets excluding intangible leased assets are not allocated to each segment assets.
(7) "Corporate/Other" includes company-wide accounts which are not included in our reportable segments, allocation variance of indirect expense and elimination amount of inter-segment transactions.

35. SEGMENT INFORMATION (CONTINUED)

CONSOLIDATED

(d) RECONCILIATION BETWEEN THE SEGMENT INFORMATION AND THE CONSOLIDATED FINANCIAL STATEMENTS

(i) A reconciliation between total segment profit and income (loss) before income taxes and minority interests on the consolidated statements of income for the fiscal years ended March 31, 2012 and 2011 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Total segment profit	**¥ 62,706**	¥ 80,899	**$ 765,274**
Lump-sum payments	**(2,410)**	(2,501)	**(29,422)**
Amortization of goodwill and other intangible assets	**(11,955)**	(13,099)	**(145,903)**
Other gains (losses), net, excluding gains from the cancellation of issued corporate bonds and other instruments	**(32,994)**	(7,516)	**(402,668)**
Income (loss) before income taxes and minority interests	**¥ 15,345**	¥ 57,782	**$ 187,281**

(ii) A reconciliation between total segment assets and total assets on the consolidated balance sheets as of March 31, 2012 and 2011 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Total segment assets	**¥ 7,736,861**	¥ 9,310,083	**$ 94,421,057**
Cash and due from banks	**413,721**	452,751	**5,049,083**
Call loans	**15,745**	—	**192,159**
Receivables under resale agreements	**18,362**	—	**224,101**
Receivables under securities borrowing transactions	**114,080**	10,388	**1,392,250**
Foreign exchanges	**18,896**	42,069	**230,615**
Other assets excluding installment receivables	**338,780**	464,312	**4,134,495**
Premises and equipment excluding tangible leased assets	**36,839**	36,386	**449,588**
Intangible assets excluding intangible leased assets	**81,046**	95,982	**989,092**
Deferred issuance expense for debentures	**135**	182	**1,653**
Deferred tax assets	**15,834**	18,603	**193,247**
Reserve for credit losses	**(180,633)**	(199,211)	**(2,204,456)**
Total assets	**¥ 8,609,672**	¥ 10,231,548	**$ 105,072,884**

(iii) A reconciliation between total segment liabilities and total liabilities on the consolidated balance sheets as of March 31, 2012 and 2011 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Total segment liabilities	**¥ 6,395,219**	¥ 6,682,445	**$ 78,047,586**
Call money	**210,163**	160,330	**2,564,851**
Payables under securities lending transactions	**148,590**	269,697	**1,813,411**
Borrowed money	**476,731**	1,672,790	**5,818,051**
Foreign exchanges	**11**	39	**140**
Short-term corporate bonds	**50,700**	22,800	**618,745**
Corporate bonds	**168,797**	179,611	**2,060,014**
Other liabilities	**465,698**	569,362	**5,683,408**
Accrued employees' bonuses	**7,262**	8,084	**88,628**
Accrued directors' bonuses	**40**	38	**490**
Reserve for employees' retirement benefits	**7,027**	11,016	**85,760**
Reserve for directors' retirement benefits	**231**	285	**2,825**
Reserve for losses on interest repayments	**50,913**	43,199	**621,351**
Reserve under special law	**1**	1	**15**
Deferred tax liabilities	**626**	690	**7,647**
Total liabilities	**¥ 7,982,014**	¥ 9,620,394	**$ 97,412,922**

35. SEGMENT INFORMATION (CONTINUED) CONSOLIDATED

(B) RELATED INFORMATION

(a) INFORMATION BY SERVICES

Income regarding major services for fiscal year ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Loan Businesses	**¥ 151,256**	¥ 178,682	**$ 1,854,941**
Lease Businesses	**13,112**	13,672	**160,026**
Securities Investment Businesses	**14,489**	39,124	**176,831**

(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, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, therefore major customer information is not presented.

36. RELATED PARTY TRANSACTIONS

CONSOLIDATED

Related party transactions for the fiscal years ended March 31, 2012 and 2011 were as follows:

		Amount of the transaction			Balance at the end of fiscal year			
		Millions of yen		Thousands of U.S. dollars		Millions of yen		Thousands of U.S. dollars
Related party	Description of the transaction	**2012**	2011	**2012**	Account name	**2012**	2011	**2012**
Director of the Bank								
J. Christopher Flowers	Public offering of newly issued common stock[1]	**¥ —**	¥ 577	**$ —**	—	**¥ —**	¥ —	**$ —**
Companies in which a majority of the voting rights is owned by directors (including their subsidiaries)								
J.C. Flowers II L.P.[2]	Receipt of management fee[3]	**76**	116	**936**	Unearned income	**12**	19	**158**
	Investment[4]	**84**	83	**1,030**	—	**—**	—	**—**
	Dividend	**407**	374	**4,967**	—	**—**	—	**—**
J.C. Flowers III L.P.[2]	Investment[5]	**668**	1,441	**8,159**	—	**—**	—	**—**
	Dividend	**66**	—	**817**	—	**—**	—	**—**
NIBC Bank Ltd.[6]	Loan participation[7]	**—**	—	**—**	Loans and bills discounted	**—**	629	**—**
	Receipt of loan interests[7]	**—**	27	**—**	Accrued income	**—**	0	**—**
Saturn I Sub (Cayman) Exempt Ltd.[8]	Public offering of newly issued common stock[1]	**—**	879	**—**	—	**—**	—	**—**
Saturn Japan II Sub C.V.[9]	Public offering of newly issued common stock[1]	**—**	565	**—**	—	**—**	—	**—**
Saturn Japan III Sub C.V.[9]	Public offering of newly issued common stock[1]	**—**	1,978	**—**	—	**—**	—	**—**
Saturn IV Sub L.P.[9]	Public offering of newly issued common stock[1]	**—**	13,899	**—**	—	**—**	—	**—**

Notes: (1) The Bank assigned J. Christopher Flowers and these investment vehicles as expected allottees in connection with the public offering of Bank's newly issued common stock.
(2) The fund is operated by J.C. Flowers & Co. LLC, of which J. Christopher Flowers, a director of the Bank, serves as chairman.
(3) 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.
(4) The committed investment amounts are U.S.$200 million based on the limited partnership agreement.
(5) The committed investment amounts are U.S.$34,975 thousand and U.S.$99,950 thousand as of March 31, 2012 and 2011, respectively, based on the limited partnership agreement.
(6) NIBC Holding N.V. owns 100% of voting rights of the NIBC Bank Ltd., and New NIB Limited, 49% of which is owned by J. Christopher Flowers, a director of the Bank, indirectly controls NIBC Holding N.V.
(7) Considering the market circumstances, the transaction was concluded with the general terms and conditions that are identical to ones with independent third parties. Drawdown under the loan participation facility was completed during the fiscal year ended March 31, 2010. The outstanding loans were fully prepaid by the ultimate borrower in the fiscal year ended March 31, 2012.
(8) The investment vehicle is represented by J. Christopher Flowers, a director of the Bank, as a director.
(9) The investment vehicle is represented by J. Christopher Flowers, a director of the Bank, as a director of the ultimate general partner.

37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

CONSOLIDATED

(A) GROUP POLICY FOR FINANCIAL INSTRUMENTS

The group is composed of the Bank, subsidiaries and affiliates, and conducts total financial services, 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 maintains debentures and bonds issuance as a cost effective source of funding and diversifies sources of funding by securitization of loans or other assets. Subsidiaries and affiliates also use borrowings from other financial institutions as one source of funding.

(B) NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The financial instruments 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, non performing 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.

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 re-funding dates. Without solely relying on inter-bank funding, the Bank is aiming to cover its funding needs through core retail deposits and corporate deposits as well as capital.

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, Currency option
(3) Equity related	Equity index future, Equity index option, Equity option, and other
(4) Bond related	Bond futures
(5) Credit derivative	Credit default option

Among the risks associated with derivative transactions, market risk, credit risk and liquidity risk are to be specially noted for risk management.

(1) Market Risk	Risk that losses are incurred associated with changes in the value of financial instruments from fluctuation in market price, as well as volatilities inherent in derivative instruments
(2) Credit Risk	Risk that losses are incurred associated with the counterparty defaulting on contractual terms
(3) Liquidity Risk	Risk that additional costs are incurred associated with closing out the position of the financial instrument held

To appropriately reflect the risk mitigation effect of derivative transactions to the consolidated financial statements, the Group adopts hedge accounting where risks in assets and liabilities of the Group are hedged by interest rate swap, currency swap, etc.

In hedge accounting, effectiveness of hedging is assessed based on the conditions determined in the accounting standards such as "Accounting Standard for Financial Instruments."

(C) RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS

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 individual transactions, approval authority level is determined by 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 risk 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 a portfolio basis, 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 value of which are checked more than once a year. Credit risks involved in market transactions, such as derivative transactions, are controlled based on fair value and estimations of future value fluctuations.

As for risk management of the consumer finance business, risk management divisions of subsidiaries classify by quality of screening, quality of portfolio and performance of collection of claims and monitor these leading indicators monthly to recognize and tackle the aggravation of credit cost promptly. In case of the 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 subsidiaries 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.

Market risk management

Market risk which is 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 decision-making 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 decision-making for the management of the trading account are performed, the decision-making for which was previously performed at the ALM Committee and transferred to the Market Business Management Committee upon its foundation.

The interest rate risk of the net asset and/or liability in the banking account which has interest rate sensitivity is managed by "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 biweekly 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.

37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) CONSOLIDATED

The VaR in the Group's trading business as of March 31, 2012 and 2011 was ¥1,229 million (U.S.$15,007 thousand) and ¥3,784 million in the aggregate, respectively.

The Group conducts back testing to compare VaR calculated using the model with actual loss amounts. According to the result 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 market 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, fair value would decrease by ¥247 million (U.S.$3,020 thousand) and ¥1,674 million in the case of an increase of the index interest rates by 10 basis points (0.10%) and would increase by ¥478 million (U.S.$5,835 thousand) and ¥1,926 million in the case of a decrease by 10 basis points (0.10%), as of March 31, 2012 and 2011, 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 impact greater than the calculated amount.

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, 2012, 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 15%, more than 60% of which are non recourse loans for domestic real estate.

As of March 31, 2011, 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%, more than 60% of which are non recourse loans for domestic real estate.

(E) FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values of financial instruments are based on quoted price in active markets. If quoted price is not available, other rational valuation methodologies are used.

37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) CONSOLIDATED

Fair values of financial instruments as of March 31, 2012 and 2011 were as follows:

	Millions of yen					
	2012			2011		
	Carrying amount	**Fair value**	**Unrealized gain (loss)**	Carrying amount	Fair value	Unrealized gain (loss)
Assets:						
(1) Cash and due from banks	**¥ 413,721**	**¥ 413,721**	**¥ —**	¥ 452,751	¥ 452,751	¥ —
(2) Call loans	**15,745**	**15,745**	**—**	—	—	—
(3) Receivables under resale agreements	**18,362**	**18,510**	**147**	—	—	—
(4) Receivables under securities borrowing transactions	**114,080**	**114,080**	**—**	10,388	10,388	—
(5) Other monetary claims purchased						
Trading purposes	**67,226**	**67,226**	**—**	105,345	105,345	—
Other(1)	**62,521**	**62,600**	**79**	50,736	50,850	114
(6) Trading assets						
Securities held for trading purposes	**58,444**	**58,444**	**—**	19,524	19,524	—
(7) Monetary assets held in trust(1)	**267,040**	**268,932**	**1,892**	253,529	255,448	1,918
(8) Securities						
Trading securities	**613**	**613**	**—**	1,051	1,051	—
Securities being held to maturity	**658,558**	**667,553**	**8,994**	553,992	561,769	7,776
Securities available for sale	**1,092,393**	**1,092,393**	**—**	2,600,007	2,600,007	—
Equity securities of affiliates	**21,745**	**19,785**	**(1,960)**	20,041	27,913	7,872
(9) Loans and bills discounted(2)	**4,136,827**			4,291,462		
Reserve for credit losses	**(140,609)**			(140,368)		
Net	**3,996,218**	**4,106,373**	**110,155**	4,151,093	4,306,255	155,162
(10) Lease receivables and leased investment assets(1)	**192,093**	**193,838**	**1,744**	200,826	205,230	4,403
(11) Other assets						
Installment receivables	**347,935**			330,485		
Deferred gains on installment receivables	**(11,840)**			(12,244)		
Reserve for credit losses	**(11,408)**			(10,389)		
Net	**324,686**	**340,682**	**15,996**	307,852	328,812	20,960
Total	**¥ 7,303,453**	**¥ 7,440,502**	**¥ 137,049**	¥ 8,727,141	¥ 8,925,350	¥ 198,208
Liabilities:						
(1) Deposits, including negotiable certificates of deposit	**¥ 5,362,411**	**¥ 5,391,690**	**¥ (29,279)**	¥ 5,610,687	¥ 5,656,807	¥ (46,119)
(2) Debentures	**294,139**	**295,192**	**(1,053)**	348,270	350,222	(1,952)
(3) Call money	**210,163**	**210,163**	**—**	160,330	160,330	—
(4) Payables under securities lending transactions	**148,590**	**148,590**	**—**	269,697	269,697	—
(5) Trading liabilities						
Trading securities sold for short sales	**48,058**	**48,058**	**—**	2,643	2,643	—
(6) Borrowed money	**476,731**	**475,280**	**1,450**	1,672,790	1,661,932	10,858
(7) Short-term corporate bonds	**50,700**	**50,700**	**—**	22,800	22,800	—
(8) Corporate bonds	**168,797**	**154,623**	**14,173**	179,611	164,379	15,232
Total	**¥ 6,759,592**	**¥ 6,774,301**	**¥ (14,708)**	¥ 8,266,831	¥ 8,288,813	¥ (21,981)
Derivative instruments(3):						
Hedge accounting is not applied	**¥ (25,567)**	**¥ (25,567)**	**¥ —**	¥ (11,012)	¥ (11,012)	¥ —
Hedge accounting is applied	**(18,494)**	**(18,494)**	**—**	(11,046)	(11,046)	—
Total	**¥ (44,062)**	**¥ (44,062)**	**¥ —**	¥ (22,058)	¥ (22,058)	¥ —

	Contract amount	**Fair value**	Contract amount	Fair value
Other:				
Guarantee contracts(4)	**¥ 562,624**	**¥ (4,101)**	¥ 575,700	¥ (4,639)

37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED)

CONSOLIDATED

	Thousands of U.S. dollars		
	2012		
	Carrying amount	Fair value	Unrealized gain (loss)
Assets:			
(1) Cash and due from banks	$ 5,049,083	$ 5,049,083	$ —
(2) Call loans	192,159	192,159	—
(3) Receivables under resale agreements	224,101	225,900	1,799
(4) Receivables under securities borrowing transactions	1,392,250	1,392,250	—
(5) Other monetary claims purchased			
Trading purposes	820,435	820,435	—
Other[1]	763,010	763,986	976
(6) Trading assets			
Securities held for trading purposes	713,259	713,259	—
(7) Monetary assets held in trust[1]	3,258,972	3,282,066	23,094
(8) Securities			
Trading securities	7,482	7,482	—
Securities being held to maturity	8,037,084	8,146,851	109,767
Securities available for sale	13,331,633	13,331,633	—
Equity securities of affiliates	265,383	241,459	(23,924)
(9) Loans and bills discounted[2]	50,486,060		
Reserve for credit losses	(1,716,003)		
Net	48,770,057	50,114,395	1,344,338
(10) Lease receivables and leased investment assets[1]	2,344,325	2,365,613	21,288
(11) Other assets			
Installment receivables	4,246,226		
Deferred gains on installment receivables	(144,498)		
Reserve for credit losses	(139,234)		
Net	3,962,494	4,157,711	195,217
Total	$ 89,131,727	$ 90,804,282	$ 1,672,555
Liabilities:			
(1) Deposits, including negotiable certificates of deposit	$ 65,443,145	$ 65,800,475	$ (357,330)
(2) Debentures	3,589,691	3,602,544	(12,853)
(3) Call money	2,564,851	2,564,851	—
(4) Payables under securities lending transactions	1,813,411	1,813,411	—
(5) Trading liabilities			
Trading securities sold for short sales	586,511	586,511	—
(6) Borrowed money	5,818,051	5,800,346	17,705
(7) Short-term corporate bonds	618,745	618,745	—
(8) Corporate bonds	2,060,014	1,887,037	172,977
Total	$ 82,494,419	$ 82,673,920	$ (179,501)
Derivative instruments[3]:			
Hedge accounting is not applied	$ (312,030)	$ (312,030)	$ —
Hedge accounting is applied	(225,714)	(225,714)	—
Total	$ (537,744)	$ (537,744)	$ —

	Contract amount	Fair value
Other		
Guarantee contracts[4]	$ 6,866,295	$ (50,056)

Notes: (1) Carrying amount 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 of ¥463,248 million (U.S.$5,653,514 thousand) and ¥578,276 million held by consolidated subsidiaries included in Loans and bills discounted, reserve for losses on interest repayments of ¥50,913 million (U.S.$621,351 thousand) and ¥43,199 million is recognized for estimated losses on reimbursements of excess interest payments as of March 31, 2012 and 2011, respectively.
(3) Derivative instruments include derivative transactions both in trading assets and liabilities, and in other assets and liabilities. Derivative instruments are presented as net of assets and liabilities and presented with ( ) when a liability stands on net basis.
(4) Contract amount for guarantee contracts presents the amount of "Acceptances and guarantees" on the consolidated balance sheets.

37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) CONSOLIDATED

(Note 1) Valuation methodologies for financial instruments

Assets:

(1) Cash and due from banks

The fair values of due from banks with no maturities approximate carrying amounts. For due from banks with maturities, the fair values approximate carrying amounts because most of them are with short maturities of six months or less.

(2) Call loans and (4) Receivables under securities borrowing transactions

The fair values approximate carrying amounts because most of them are with short maturities of three months or less.

(3) Receivables under resale agreements

The fair values of the receivables under resale agreements with maturity of three months or less approximate carrying amounts because of their short term maturity. The fair values of the receivables under resale agreements with maturity of more than three months are determined by discounting contractual cash flows in case of the transactions with fixed interest rate, or expected cash flows based on the forward rate in case of the transactions with floating interest rate, using the risk free rate adjusted to account for credit risk (after consideration of collateral) with credit default swap (CDS) spreads etc. corresponding to internal credit rating of each borrower.

(5) Other monetary claims purchased

The fair values are measured at quoted prices from third parties, or determined using the discounted cash flow method.

(6) Trading assets

The fair values are measured at market prices or quoted prices from third parties.

(7) Monetary assets held in trust

The fair values are primarily determined using 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 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 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 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 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 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 non-marketable corporate debentures and corporate bonds under the Medium Term Note program are 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 actual funding rate of

37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED)

CONSOLIDATED

the latest issuance.

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 consists 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 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 probability of early redemption at the rates that consist of the risk free rate and the CDS spread of the Bank.

(7) Short-tem corporate bonds

The fair values of short-term corporate bonds 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

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2012**	2011	**2012**
Equity securities without readily available market price[(1)(2)]	**¥ 27,762**	¥ 31,167	**$ 338,815**
Investment in partnerships and others[(1)(2)]	**72,420**	80,122	**883,818**
Total	**¥ 100,182**	¥ 111,289	**$ 1,222,633**

Notes: (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, 2012 and 2011, impairment losses on equity securities without readily available market price of ¥3,172 million (U.S.$38,722 thousand) and ¥132 million, and on investment in partnerships and others of ¥1,524 million (U.S.$18,611 thousand) and ¥1,333 million were recognized, respectively.

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

	Millions of yen			
As of March 31, 2012	Less than 1 year	More than 1 year Less than 3 years	More than 3 years Less than 5 years	More than 5 years
Cash and due from banks	**¥ 413,721**	**¥ —**	**¥ —**	**¥ —**
Call loans	**15,745**	**—**	**—**	**—**
Receivables under resale agreements	**—**	**—**	**18,362**	**—**
Receivables under securities borrowing transactions	**114,080**	**—**	**—**	**—**
Other monetary claims purchased				
Other than trading purposes	**12,727**	**14,137**	**11,857**	**24,994**
Securities				
Held-to-maturity	**22,953**	**443,000**	**129,013**	**66,273**
Available-for-sale	**538,849**	**169,835**	**189,272**	**177,822**
Loans and bills discounted	**919,882**	**926,807**	**619,449**	**1,350,834**
Lease receivables and leased investment assets	**64,115**	**82,090**	**32,242**	**16,226**
Installment receivables	**137,868**	**128,648**	**40,321**	**22,704**
Total	**¥ 2,239,940**	**¥ 1,764,517**	**¥ 1,040,516**	**¥ 1,658,853**

37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) CONSOLIDATED

As of March 31, 2012	Thousands of U.S. dollars Less than 1 year	More than 1 year Less than 3 years	More than 3 years Less than 5 years	More than 5 years
Cash and due from banks	$ 5,049,083	$ —	$ —	$ —
Call loans	192,159	—	—	—
Receivables under resale agreements	—	—	224,101	—
Receivables under securities borrowing transactions	1,392,249	—	—	—
Other monetary claims purchased				
Other than trading purposes	155,327	172,538	144,704	305,038
Securities				
Held-to-maturity	280,120	5,406,395	1,574,486	808,808
Available-for-sale	6,576,147	2,072,677	2,309,886	2,170,153
Loans and bills discounted	11,226,294	11,310,812	7,559,791	16,485,660
Lease receivables and leased investment assets	782,472	1,001,832	393,494	198,029
Installment receivables	1,682,554	1,570,035	492,086	277,090
Total	$ 27,336,405	$ 21,534,289	$ 12,698,548	$ 20,244,778

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, 2012	Millions of yen Less than 1 year	More than 1 year Less than 3 years	More than 3 years Less than 5 years	More than 5 years
Deposits, including negotiable certificates of deposit	¥ 4,110,607	¥ 1,075,126	¥ 86,874	¥ 89,803
Debentures	60,441	103,126	130,471	100
Call money	210,081	81	—	—
Payables under securities lending transactions	141,590	7,000	—	—
Trading liabilities				
Trading securities sold for short sales	48,058	—	—	—
Borrowed money	217,985	90,156	72,975	95,613
Short-term corporate bonds	50,700	—	—	—
Corporate bonds	1,961	36,375	63,940	66,560
Total	¥ 4,841,427	¥ 1,311,867	¥ 354,261	¥ 252,077

As of March 31, 2012	Thousands of U.S. dollars Less than 1 year	More than 1 year Less than 3 years	More than 3 years Less than 5 years	More than 5 years
Deposits, including negotiable certificates of deposit	$ 50,166,066	$ 13,120,901	$ 1,060,216	$ 1,095,962
Debentures	737,628	1,258,565	1,592,277	1,220
Call money	2,563,851	1,000	—	—
Payables under securities lending transactions	1,727,982	85,428	—	—
Trading liabilities				
Trading securities sold for short sales	586,511	—	—	—
Borrowed money	2,660,309	1,100,275	890,592	1,166,876
Short-term corporate bonds	618,745	—	—	—
Corporate bonds	23,943	443,927	780,338	812,303
Total	$ 59,085,035	$ 16,010,096	$ 4,323,423	$ 3,076,361

Note: The cash flow of demand deposits is included in "Less than 1 year."

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, 2012 and 2011 are adjusted for credit risk by a reduction of ¥784 million (U.S.$9,575 thousand) and ¥1,648 million, respectively, and also adjusted for liquidity risk by a reduction of ¥2,655 million (U.S.$32,405 thousand) and ¥3,033 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, 2012 and 2011 were as follows:

	Millions of yen							
	2012				2011			
	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	¥ 19,509	¥ 2,036	¥ (124)	¥ (124)	¥ 23,062	¥ 5,346	¥ (33)	¥ (33)
Bought	12,763	—	58	58	15,353	4,298	10	10
Interest rate options (listed):								
Sold	25,446	—	3	(2)	—	—	—	—
Interest rate swaps (over-the-counter):								
Receive fixed and pay floating	4,075,297	2,825,508	76,703	76,703	3,706,439	3,076,033	75,834	75,834
Receive floating and pay fixed	3,290,090	2,305,448	(49,855)	(49,855)	2,964,241	2,360,654	(52,055)	(52,055)
Receive floating and pay floating	713,713	611,966	147	147	683,127	595,123	1,550	1,550
Interest rate swaptions (over-the-counter):								
Sold	1,115,182	543,124	(32,234)	22	715,560	514,330	(37,847)	(11,241)
Bought	1,548,115	946,771	23,234	3,262	1,063,178	923,418	23,691	7,436
Interest rate options (over-the-counter):								
Sold	140,678	116,208	(447)	394	112,662	83,462	(336)	332
Bought	104,056	92,586	232	(273)	133,325	54,125	142	(937)
Total			¥ 17,718	¥ 30,333			¥ 10,956	¥ 20,895

	Thousands of U.S. dollars			
	2012			
	Contract/Notional principal			
	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Futures contracts (listed):				
Sold	$ 238,095	$ 24,853	$ (1,517)	$ (1,517)
Bought	155,765	—	720	720
Interest rate options (listed):				
Sold	310,547	—	47	(25)
Interest rate swaps (over-the-counter):				
Receive fixed and pay floating	49,735,146	34,482,656	936,089	936,089
Receive floating and pay fixed	40,152,435	28,135,819	(608,441)	(608,441)
Receive floating and pay floating	8,710,195	7,468,470	1,796	1,796
Interest rate swaptions (over-the-counter):				
Sold	13,609,751	6,628,316	(393,395)	273
Bought	18,893,279	11,554,443	283,561	39,820
Interest rate options (over-the-counter):				
Sold	1,716,848	1,418,215	(5,460)	4,818
Bought	1,269,911	1,129,930	2,841	(3,339)
Total			$ 216,241	$ 370,194

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, 2012 and 2011 were as follows:

	Millions of yen							
	2012				2011			
	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)	**¥ 737,964**	**¥ 674,022**	**¥ (28,363)**	**¥ (28,363)**	¥ 722,916	¥ 690,903	¥ (26,420)	¥ (26,420)
Forward foreign exchange contracts (over-the-counter):								
Sold	**829,500**	**154,411**	**14,721**	**14,721**	1,044,503	269,716	57,732	57,732
Bought	**786,629**	**218,088**	**(3,489)**	**(3,489)**	923,632	388,150	(46,323)	(46,323)
Currency options (over-the-counter):								
Sold	**2,958,406**	**1,497,101**	**(24,106)**	**32,210**	4,721,024	2,457,893	(94,442)	9,536
Bought	**2,989,080**	**1,546,585**	**8,786**	**(36,377)**	4,808,445	2,539,182	76,856	(585)
Total			**¥ (32,451)**	**¥ (21,297)**			¥ (32,598)	¥ (6,060)

	Thousands of U.S. dollars			
	2012			
	Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**
Currency swaps (over-the-counter)	**$ 9,006,153**	**$ 8,225,807**	**$ (346,149)**	**$ (346,149)**
Forward foreign exchange contracts (over-the-counter):				
Sold	**10,123,270**	**1,884,442**	**179,663**	**179,663**
Bought	**9,600,066**	**2,661,565**	**(42,583)**	**(42,583)**
Currency options (over-the-counter):				
Sold	**36,104,545**	**18,270,702**	**(294,192)**	**393,104**
Bought	**36,478,896**	**18,874,607**	**107,226**	**(443,952)**
Total			**$ (396,035)**	**$ (259,917)**

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.

(c) EQUITY-RELATED TRANSACTIONS

Equity-related transactions as of March 31, 2012 and 2011 were as follows:

	Millions of yen							
	2012				2011			
	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	**¥ 381**	**¥ —**	**¥ (1)**	**¥ (1)**	¥ 9,679	¥ —	¥ (219)	¥ (219)
Bought	**8,316**	**—**	**446**	**446**	11,813	—	238	238
Equity index options (listed):								
Sold	**309,961**	**56,550**	**(9,769)**	**397**	215,135	53,860	(7,939)	777
Bought	**216,569**	**70,075**	**6,016**	**(1,644)**	220,043	65,485	18,323	(2,509)
Equity options (over-the-counter):								
Sold	**345,501**	**162,548**	**(27,912)**	**617**	343,048	200,441	(27,849)	(504)
Bought	**386,420**	**179,440**	**22,101**	**(2,194)**	369,520	226,338	23,332	162
Other (over-the-counter):								
Sold	**26,397**	**16,400**	**(3,049)**	**(3,049)**	22,900	22,900	(5,365)	(5,304)
Bought	**123,906**	**122,456**	**7,647**	**7,647**	135,159	131,465	14,590	14,567
Total			**¥ (4,521)**	**¥ 2,218**			¥ 15,111	¥ 7,208

	Thousands of U.S. dollars			
	2012			
	Contract/Notional principal			
	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Equity index futures (listed):				
Sold	**$ 4,655**	**$ —**	**$ (24)**	**$ (24)**
Bought	**101,497**	**—**	**5,449**	**5,449**
Equity index options (listed):				
Sold	**3,782,780**	**690,139**	**(119,232)**	**4,848**
Bought	**2,643,025**	**855,199**	**73,429**	**(20,071)**
Equity options (over-the-counter):				
Sold	**4,216,519**	**1,983,753**	**(340,641)**	**7,537**
Bought	**4,715,898**	**2,189,899**	**269,727**	**(26,778)**
Other (over-the-counter):				
Sold	**322,150**	**200,146**	**(37,219)**	**(37,219)**
Bought	**1,512,162**	**1,494,466**	**93,332**	**93,332**
Total			**$ (55,179)**	**$ 27,074**

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 Stock 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, 2012 and 2011 were as follows:

	Millions of yen							
	2012				2011			
	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	¥ 54,190	¥ —	¥ (57)	¥ (57)	¥ 6,146	¥ —	¥ 6	¥ 6
Bought	43,301	—	15	15	4,198	—	(12)	(12)
Bond futures options (listed):								
Sold	70,725	—	(130)	1	—	—	—	—
Bought	42,375	—	49	(7)	—	—	—	—
Total			¥ (122)	¥ (46)			¥ (5)	¥ (5)

	Thousands of U.S. dollars			
	2012			
	Contract/Notional principal			
	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Bond futures (listed):				
Sold	$ 661,348	$ —	$ (696)	$ (696)
Bought	528,458	—	192	192
Bond futures options (listed):				
Sold	863,132	—	(1,595)	22
Bought	517,147	—	601	(88)
Total			$ (1,498)	$ (570)

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 Stock Exchange and other exchanges.

(e) CREDIT DERIVATIVES TRANSACTIONS

Credit derivatives transactions as of March 31, 2012 and 2011 were as follows:

	Millions of yen							
	2012				2011			
	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	¥ 691,161	¥ 359,011	¥ 29	¥ 29	¥ 824,836	¥ 640,274	¥ (1,310)	¥ (1,310)
Bought	613,664	345,929	(81)	(81)	815,313	546,876	1,516	1,516
Other (over-the-counter):								
Bought	1,600	1,600	(2,699)	(1,099)	—	—	—	—
Total			¥ (2,751)	¥ (1,151)			¥ 205	¥ 205

	Thousands of U.S. dollars			
	2012			
	Contract/Notional principal			
	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Credit default option (over-the-counter):				
Sold	$ 8,434,975	$ 4,381,389	$ 361	$ 361
Bought	7,489,196	4,221,746	(997)	(997)
Other (over-the-counter):				
Bought	19,526	19,526	(32,939)	(13,412)
Total			$ (33,575)	$ (14,048)

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, 2012 and 2011 were as follows:

	Millions of yen					
	2012			2011		
	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	**¥ 633,265**	**¥ 605,865**	**¥ 4,525**	¥ 672,653	¥ 590,853	¥ 4,253
Receive floating and pay fixed	**290,968**	**268,023**	**(14,248)**	359,779	309,638	(12,101)
Total			**¥ (9,722)**			¥ (7,848)

	Thousands of U.S. dollars		
	2012		
	Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**
Interest rate swaps :			
Receive fixed and pay floating	**$ 7,728,408**	**$ 7,394,017**	**$ 55,233**
Receive floating and pay fixed	**3,550,994**	**3,270,976**	**(173,888)**
Total			**$ (118,655)**

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, 2012 and 2011 were as follows:

	Millions of yen					
	2012			2011		
	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	**¥ 7,750**	**¥ 1,450**	**¥ —**	¥ 40,324	¥ 7,900	¥ —

	Thousands of U.S. dollars		
	2012		
	Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**
Interest rate swaps :			
Receive floating and pay fixed	**$ 94,581**	**$ 17,696**	**$ —**

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, 2012 and 2011 were as follows:

	Millions of yen					
	2012			2011		
	Contract/Notional principal			Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**	Total	Maturity over 1 year	Fair value
Currency swaps	**¥ 51,981**	**¥ 20,477**	**¥ (8,772)**	¥ 164,033	¥ 15,187	¥ (3,197)

	Thousands of U.S. dollars		
	2012		
	Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**
Currency swaps	**$ 634,387**	**$ 249,911**	**$ (107,059)**

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.

38. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED) CONSOLIDATED

Forward foreign exchange contracts which meet specific matching criteria as of March 31, 2012 and 2011 were as follows:

	Millions of yen					
	2012			2011		
	Contract/Notional principal			Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**	Total	Maturity over 1 year	Fair value
Forward foreign exchange contracts	**¥ 62**	**¥ —**	**¥ (3)**	¥ —	¥ —	¥ —

	Thousands of U.S. dollars		
	2012		
	Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**
Forward foreign exchange contracts	**$ 768**	**$ —**	**$ (46)**

Notes:

(1) Hedged item is other assets.

(2) Forward foreign exchange contracts which meet specific matching criteria are accounted for as component of the hedged items.

39. SUBSEQUENT EVENTS CONSOLIDATED

The following appropriation of retained earnings of the Bank for the fiscal year ended March 31, 2012 was approved at the meeting of the Board of Directors held on May 8, 2012;

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, common stock, ¥1.00 (U.S.$0.01) per share	**¥ 2,653**	**$ 32,389**

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 balance sheets of Shinsei Bank, Limited (the "Bank") and consolidated subsidiaries (collectively, the "Group") as of March 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Bank's management. 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank and consolidated subsidiaries as of March 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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 conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 13, 2012

Member of
Deloitte Touche Tohmatsu Limited

NON-CONSOLIDATED BALANCE SHEETS (UNAUDITED)

Shinsei Bank, Limited
As of March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note)
	2012	2011	2012
ASSETS			
Cash and due from banks	¥ 330,047	¥ 313,424	$ 4,027,915
Call loans and bills bought	15,745	—	192,159
Receivables under resale agreements	18,362	—	224,101
Receivables under securities borrowing transactions	57,647	3,050	703,537
Other monetary claims purchased	210,693	408,701	2,571,319
Trading assets	156,661	182,828	1,911,910
Monetary assets held in trust	307,526	360,976	3,753,067
Securities	2,286,669	3,701,794	27,906,627
Valuation allowance for investments	(3,370)	(3,370)	(41,136)
Loans and bills discounted	4,102,638	3,973,251	50,068,808
Foreign exchanges	18,896	42,069	230,615
Other assets	450,254	350,248	5,494,925
Premises and equipment	21,471	18,236	262,040
Intangible assets	10,650	9,987	129,975
Deferred issuance expenses for debentures	135	182	1,653
Deferred tax assets	—	1,894	—
Customers' liabilities for acceptances and guarantees	11,600	9,603	141,574
Reserve for credit losses	(121,193)	(114,877)	(1,479,051)
Total assets	¥ 7,874,437	¥ 9,258,002	$ 96,100,038
LIABILITIES AND EQUITY			
Liabilities:			
Deposits, including negotiable certificates of deposit	¥ 5,788,219	¥ 5,739,304	$ 70,639,729
Debentures	296,839	352,570	3,622,641
Call money and bills sold	210,163	160,330	2,564,851
Payables under securities lending transactions	91,805	265,028	1,120,400
Trading liabilities	127,697	144,375	1,558,422
Borrowed money	245,728	1,405,648	2,998,882
Foreign exchanges	184	218	2,254
Corporate bonds	212,235	222,268	2,590,134
Other liabilities	240,790	335,798	2,938,617
Accrued employees' bonuses	3,728	4,149	45,497
Deferred tax liabilities	1,265	—	15,444
Acceptances and guarantees	11,600	9,603	141,574
Total liabilities	7,230,258	8,639,296	88,238,445
Equity:			
Common stock	512,204	512,204	6,250,971
Capital surplus	79,465	79,465	969,806
Stock acquisition rights	1,354	1,413	16,532
Retained earnings:			
Legal reserve	11,566	11,035	141,158
Unappropriated retained earnings	117,654	106,944	1,435,863
Unrealized gain (loss) on available-for-sale securities	(1,031)	(15,346)	(12,589)
Deferred gain (loss) on derivatives under hedge accounting	(4,476)	(4,452)	(54,637)
Treasury stock, at cost	(72,558)	(72,558)	(885,511)
Total equity	644,178	618,705	7,861,593
Total liabilities and equity	¥ 7,874,437	¥ 9,258,002	$ 96,100,038

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥81.94=U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2012.

NON-CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Shinsei Bank, Limited
For the fiscal years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note)
	2012	2011	**2012**
Interest income:			
Interest on loans and bills discounted	**¥ 64,073**	¥ 70,900	**$ 781,956**
Interest and dividends on securities	**42,800**	39,337	**522,339**
Interest on deposits with banks	**259**	176	**3,167**
Other interest income	**2,842**	9,494	**34,694**
Total interest income	**109,976**	119,908	**1,342,156**
Interest expenses:			
Interest on deposits, including negotiable certificates of deposit	**29,056**	34,581	**354,611**
Interest and discounts on debentures	**1,478**	2,392	**18,043**
Interest on other borrowings	**2,536**	2,391	**30,961**
Interest on corporate bonds	**8,613**	12,676	**105,116**
Other interest expenses	**393**	485	**4,798**
Total interest expenses	**42,078**	52,528	**513,529**
Net interest income	**67,897**	67,380	**828,627**
Fees and commissions income	**15,447**	13,846	**188,517**
Fees and commissions expenses	**9,673**	9,841	**118,053**
Net fees and commissions	**5,773**	4,005	**70,464**
Net trading income	**13,487**	10,617	**164,605**
Other business income (loss), net:			
Net gain (loss) on monetary assets held in trust	**12,245**	11,548	**149,446**
Net gain (loss) on foreign exchanges	**(1,313)**	2,209	**(16,027)**
Net gain (loss) on securities	**(4,049)**	14,928	**(49,419)**
Net gain (loss) on other monetary claims purchased	**82**	(373)	**1,011**
Other, net	**(175)**	2,847	**(2,146)**
Net other business income (loss)	**6,789**	31,160	**82,865**
Total revenue	**93,949**	113,163	**1,146,561**
General and administrative expenses:			
Personnel expenses	**22,347**	22,436	**272,730**
Premises expenses	**10,317**	9,755	**125,921**
Technology and data processing expenses	**7,843**	8,632	**95,723**
Advertising expenses	**3,701**	1,346	**45,174**
Consumption and property taxes	**3,521**	3,136	**42,971**
Deposit insurance premium	**4,684**	5,452	**57,171**
Other general and administrative expenses	**12,685**	12,252	**154,816**
Total general and administrative expenses	**65,101**	63,011	**794,506**
Net business profit	**28,847**	50,151	**352,055**
Net credit costs	**10,989**	40,322	**134,120**
Other gains (losses), net	**(1,614)**	2,295	**(19,699)**
Income (loss) before income taxes	**16,243**	12,124	**198,236**
Income taxes (benefit):			
Current	**163**	(597)	**1,990**
Deferred	**2,185**	1,551	**26,673**
Net income (loss)	**¥ 13,894**	¥ 11,170	**$ 169,573**

	Yen		U.S. dollars (Note)
Basic net income (loss) per common share	**¥ 5.23**	¥ 5.59	**$ 0.06**

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥81.94=U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2012.

NON-CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

Shinsei Bank, Limited
For the fiscal years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note)
	2012	2011	**2012**
Common stock:			
Balance at beginning of the year	**¥ 512,204**	¥ 476,296	**$ 6,250,971**
Issuance of new shares	**—**	35,907	**—**
Balance at end of the year	**512,204**	512,204	**6,250,971**
Capital surplus:			
Balance at beginning of the year	**79,465**	43,558	**969,806**
Issuance of new shares	**—**	35,907	**—**
Balance at end of the year	**79,465**	79,465	**969,806**
Stock acquisition rights:			
Balance at beginning of the year	**1,413**	1,672	**17,244**
Net change during the year	**(58)**	(259)	**(712)**
Balance at end of the year	**1,354**	1,413	**16,532**
Retained earnings:			
Legal reserve:			
Balance at beginning of the year	**11,035**	11,035	**134,681**
Dividends from surplus	**530**	—	**6,477**
Balance at end of the year	**11,566**	11,035	**141,158**
Unappropriated retained earnings:			
Balance at beginning of the year	**106,944**	95,773	**1,305,156**
Dividends from surplus	**(3,184)**	—	**(38,866)**
Net income (loss)	**13,894**	11,170	**169,573**
Balance at end of the year	**117,654**	106,944	**1,435,863**
Unrealized gain (loss) on available-for-sale securities:			
Balance at beginning of the year	**(15,346)**	361	**(187,285)**
Net change during the year	**14,314**	(15,707)	**174,696**
Balance at end of the year	**(1,031)**	(15,346)	**(12,589)**
Deferred gain (loss) on derivatives under hedge accounting:			
Balance at beginning of the year	**(4,452)**	(192)	**(54,343)**
Net change during the year	**(24)**	(4,260)	**(294)**
Balance at end of the year	**(4,476)**	(4,452)	**(54,637)**
Treasury stock, at cost:			
Balance at beginning of the year	**(72,558)**	(72,558)	**(885,511)**
Balance at end of the year	**(72,558)**	(72,558)	**(885,511)**
Total equity			
Balance at beginning of the year	**618,705**	555,947	**7,550,719**
Issuance of new shares	**—**	71,815	**—**
Net change in stock acquisition rights during the year	**(58)**	(259)	**(712)**
Dividends from surplus	**(2,653)**	—	**(32,389)**
Net income (loss)	**13,894**	11,170	**169,573**
Net change in unrealized gain (loss) on available-for-sale securities during the year	**14,314**	(15,707)	**174,696**
Net change in deferred gain (loss) on derivatives under hedge accounting during the year	**(24)**	(4,260)	**(294)**
Balance at end of the year	**¥ 644,178**	¥ 618,705	**$ 7,861,593**

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥81.94=U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2012.

BASEL II PILLAR III (MARKET DISCIPLINE) DISCLOSURE

This section describes the information consistent with the Japanese FSA Notification Number 15, based on Article 19.2.1.5.d of the Bank Law Enforcement Rule (Refer to Ministry of Finance Ordinance Number 10), herein referred to as Basel II Pillar III, issued on March 23, 2007. The Accord in this section refers to the Japanese FSA Notification Number 19, herein referred to as Basel II Pillar I, issued on March 27, 2006.

QUALITATIVE DISCLOSURE

1. RANGE OF CONSOLIDATION

(1) DIFFERENCES BETWEEN COMPANIES WHICH BELONG TO A GROUP OF COMPANIES (CONSOLIDATED GROUP) SUBJECTED TO CALCULATION OF CAPITAL RATIOS BASED ON THE ACCORD'S ARTICLE 26 OR 38 AND COMPANIES INCLUDING RANGE OF CONSOLIDATION BASED ON RULE WITH REGARD TO WORD, FORMAT AND PLAN OF CONSOLIDATED FINANCIAL STATEMENT RULE (REFER TO MINISTRY OF FINANCE ORDINANCE NUMBER 28)

- There are no subsidiaries excluding from consolidated group as "Insurance subsidiaries" of the Accord's Article 26.2 in companies including range of consolidation based on Consolidated Financial Statement Rule.
- Non-consolidated subsidiaries based on Article 5 of Consolidated Financial Statement Rule are financial related corporations. Their holdings of capital are parts of deductions from capital in the calculation of the consolidated capital ratios.
- In accordance with the Accord's Article 38, the Bank Group's five foreign special purpose companies, which issued preferred securities, are included in the calculation of the non-consolidated capital ratio.

(2) NUMBER OF CONSOLIDATED SUBSIDIARIES AND NAME AND BUSINESS OF MAJOR CONSOLIDATED SUBSIDIARIES

i) Number of consolidated subsidiaries

As of March 31, 2012, there were 133 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)

(3) NUMBER OF FINANCIAL AFFILIATES UNDER THE ACCORD'S ARTICLE 32 AND NAME AND BUSINESS OF MAJOR FINANCIAL AFFILIATES

As of March 31, 2012, there were no financial affiliates applied for proportional consolidation method.

(4) NUMBER OF UNCONSOLIDATED SUBSIDIARIES SUBJECTED TO DEDUCTIONS FROM CAPITAL BASED ON THE ACCORD'S ARTICLE 31.1.2.A TO C AND NAME AND BUSINESS OF MAJOR NON-CONSOLIDATED SUBSIDIARIES

As of March 31, 2012, there were 80 non-consolidated subsidiaries. 71 of these non-consolidated subsidiaries are subsidiaries of Showa Leasing Co., Ltd. The majority of the Showa Leasing subsidiaries are partnerships set up to accommodate leveraged leases.

(5) NUMBER OF COMPANIES WHICH DO NOT BELONG TO CONSOLIDATED GROUP BUT EXCLUSIVELY ENGAGE IN DEPENDENT BUSINESS OF ARTICLE 16.2.1.11 OR ARTICLE 16.2.1.12 OF BANKING ACT (ACT NUMBER 59 OF 1981) AND NAME AND BUSINESS OF MAJOR THOSE COMPANIES

As of March 31, 2012, there were no companies which did not belong to consolidated group but came under above Banking Act.

(6) SUMMARY OF RESTRICTIONS ON TRANSFER OF CASH AND CAPITAL IN CONSOLIDATED GROUP

As of March 31, 2012, there were no restrictions excluding restrictions under general regulations such as regulations on large-lot credit based on Banking Act.

2. TYPES OF CAPITAL INSTRUMENTS

The Bank has issued common shares, preferred securities, perpetual subordinated bonds and loans, and dated subordinated bonds and loans. Please see "Management Discussion and Analysis of Financial Condition and Results of Operations - Capital Ratios" on page 101 for details on the amount outstanding for each type of capital instrument.

QUALITATIVE DISCLOSURE (CONTINUED)

3. ASSESSMENT OF CAPITAL ADEQUACY OF THE BANK GROUP

As part of its comprehensive risk management, the Bank, at the start of its fiscal year, determines a Risk Capital budget in consideration of its regulatory capital. This Risk Capital budget is allocated to each business line and monitored. Each month the Executive Committee receives a report on the amount of Risk Capital used and the relevant regulatory capital. In this way, senior management can monitor and assess the availability of capital to support current and future activities. At least once a year, the Bank performs stress tests on its estimates of Risk Capital and regulatory capital.

While the capital ratios remain at a sufficient level that does not affect day-to-day operations, the Bank will aim to improve its capital ratios through improving profitability and other necessary measures, the risk weighted assets optimization, capital raising and other appropriate initiatives.

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 particular obligors, and managing the credit portfolio with an awareness of potential losses under a worst-case scenario.

To achieve these goals, the Bank defines the concrete policy regarding customer attributes to gain or control risks, products, markets, the type of industry and the form of transaction etc. in "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 div. And to secure the transparent and strict decision making process, the RMG has veto power. Thus the framework to put a brake on the sales promotion div. has been established. Each transaction is discussed and approved by the Credit Committee or other committees. The level of approval authority is decided based mainly on the total exposure to the obligor group and ratings, and the decision is made strictly.

As for transactions that require discussions about financial, legal and / or compliance issues, a certain framework has established: the relevant transactions are discussed by Transaction Approval Committee of which participants includes members of the divisions in charge of such issues so that the transactions can be assessed comprehensively and an appropriate decision can be made.

And 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 Shinsei is able to take preventive measures, and by deciding the measures to handle the obligor in future, Shinsei 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
- Properly reflecting obligors' consolidated-basis accounting system
- 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

QUALITATIVE DISCLOSURE (CONTINUED)

those adopted in the Bank have been introduced for major customers of leasing receivables at Showa Leasing.

(3) Pool Classification
Given the large number of retail exposures, the Bank pools these exposures based on characteristics that create reasonably homogeneous sub-portfolios of borrowers. In this way, the Bank conducts timely and regular analysis of both sub-portfolios of exposures as well as the entire Bank Group's portfolio. The principal retail exposures to which pool classification is applied are housing loans originated by the Bank itself, the installment credit receivables of APLUS and Zen-Nichi Shinpan, and small-lot leasing transactions 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 Shinsei Bank, the Portfolio and Risk Management Division undertakes risk analyses of portfolios, and monitors the segment-specific risk diversification status including industry classifications, ratings, specific customers/groups 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 ad hoc basis.

PRINCIPAL "CREDIT RISK MANAGEMENT STANDARDS"

For Basel II, 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," which document the framework. This documentation also covers the details of the Bank's internal rating system, which covers rating design and operation, internal control, use of internal rating and risk quantification.

These Standards contain "Basic Principles of the Internal Rating System for Credit Risk," and also provide the details of management policy and procedures in the form of specific rules for each group of exposures in the portfolio.

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's management of credit risk. Functions are divided into Credit Risk Management Sections, responsible for the management of each asset category, and the Credit Risk Control Section (a section specified in the Risk Management Group of the Bank), 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 evaluates the Bank's internal rating system 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
- Sovereign exposure
- Non-recourse real estate loans (specialized lending using slotting criteria)
- Credit trading claims
- Claims not subject to pool management
- Claims against individuals for the purpose of funding a business
- Claims against a business with exposure after "aggregation" *(nayose)* on a consolidated basis of ¥100 million or more

(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, spe-

QUALITATIVE DISCLOSURE (CONTINUED)

cific 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. Depending on the specific characteristics of the Bank Group's portfolios, the parameters used for internal control may differ from the parameters used in the course of calculating the regulatory capital ratio of the Bank Group. The existence of differences and the rationale for such differences is stated in the guidelines for parameter estimation and validation.

STRESS TESTS

Specific implementation guidelines are established for stress tests used in the assessment of capital adequacy, and credit risk stress tests to assess the effect of certain specific conditions on the Bank's regulatory capital requirements. Stress test results are reported to senior management at least once a year.

RESERVE POLICY

A reserve for credit losses of the Bank and its subsidiaries is provided as detailed below, pursuant to the predetermined internal rules for providing such reserves according to the obligor categorizations based on the self assessment of their assets.

A general reserve for claims against normal obligors, need-caution obligors and substandard obligors is provided based on the specific actual past loss experience.

A specific reserve for claims to possibly bankrupt, virtually bankrupt and legally bankrupt obligors is provided based on the full amount of the unsecured, un-guaranteed portion of the respective claims after a solvency assessment.

For claims against obligors that are possibly bankrupt (that is, those that are not presently bankrupt but are likely to go bankrupt in the future), a specific reserve is provided for the amount considered to be necessary based on an overall solvency assessment performed for the amount of claims, net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

For claims against obligors that are legally bankrupt (due to bankruptcy and special liquidation) or virtually bankrupt, a specific reserve is provided based on the amount of claims, net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

The reserve for loans to restructuring countries is provided based on the amount of expected losses due to the political and economic situation in each country.

Additionally, with regard to claims against possibly bankrupt obligors and substandard obligors, a reserve is provided based on the discounted cash flow method when the obligor's future cash flows for debt service are reasonably estimable and the balance of claims to such obligors is large.

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

The F-IRB Approach will be applied at a future date to the two portfolios and two entities listed below. Currently, these portfolios and entities are considered to be comprised of "roll-out" exposures. The Bank follows the Standardized Approach for evaluating these exposures.

(1) Residential mortgages at the Bank: because this business started in 2003, the Bank has not collected enough historical default data (especially for estimation of LGD) for F-IRB calculation. Once the Bank has collected sufficient historical default data (in three years), IRB (retail) will be applied to this portfolio.

(2) Shinki: a subsidiary consolidated to the Bank in fiscal year 2007. To secure historical data for a longer period and to further develop its internal rating system, the Bank Group plans to apply IRB (retail) for this subsidiary two years from now, the same period as expected IRB roll-out of its parent company, Shinsei Financial.

(3) Shinsei Financial: a subsidiary consolidated to the Bank in fiscal year 2008. To secure historical data for a longer period and to further develop its internal rating system, the Bank Group plans to apply IRB (retail) for this subsidiary two years from now.

(4) Card Loan Lake at the Bank: The Bank started this business in October 2011. To secure historical data and to develop its internal rating system, the Bank Group plans to apply IRB (retail) for this portfolio five years from now.

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.

QUALITATIVE DISCLOSURE (CONTINUED)

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

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 strictly control it based on estimation of future fair value volatility.

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 accurately 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.

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.

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).

QUALITATIVE DISCLOSURE (CONTINUED)

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 Approval Committee (TAC).

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.

Securities of subsidiaries and affiliated companies are stated at cost calculated by the moving-average method. Securities available-for-sale whose fair value is readily determinable are stated at fair value at the end of the fiscal year (sales cost is determined by the moving-average method) and securities whose fair value cannot be reliably determined are carried at cost using the moving-average method.

8. SECURITIZATION EXPOSURE RISK MANAGEMENT POLICIES AND 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, the Risk Management Group which is fully independent from the Business Group, 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.

Securitized exposure includes various risk characteristics that are unique to each product, as well as the following general risk characteristics.

(a) Market risk

Market risk is the risk of changes in the market value of positions held, caused by changes in the securitization market environment or interest rates.

(b) Credit risk

Credit risk primarily refers to the risk of interest/dividends on positions held not paid as scheduled due to default of some or all of debtors of underlying assets. Moreover, credit risk includes the risk of default of parties participating in the structure, such as originator, servicer, and swap counterparty.

(c) Liquidity risk

Liquidity risk is the risk of failure to sell the positions held at appropriate prices in a short period of time.

(d) Exchange risk

Exchange risk is the risk of changes in exchange rates in relation to the positions held in which investments were made in foreign currencies.

(e) Legal risk

Legal risk is the risk of suffering disadvantages due to inappropriate legal structure.

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 reporting, senior management is provided monthly reports on transactions needing caution because of changes in the environment/markets or for specific reasons, together with the Bank's overall portfolio status including securitized exposures. These comprehensive reports include credit risk amounts, outstanding investment amounts, portfolio changes, comprehensive risk characteristics, new and/or terminated transactions, etc. Furthermore, updates are provided to the Risk Management Group or the Risk Policy Committee on a quarterly basis.

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.

(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.

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, the 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, the Bank's investment amount is deducted from the Bank's capital.

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.

QUALITATIVE DISCLOSURE (CONTINUED)

NON-CONSOLIDATED SUBSUBIDIARIES AND AFFILIATES WHO HELD 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 non-consolidated 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.

(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 non-interest 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 RATINGS-BASED APPROACH FOR SECURITIZATION

The Bank is not using the internal rating-based approach 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 effect on balance sheet (including off balance sheet) fair value through fluctuations in interest rates, FX rates, stock prices, and etc.

(2) MARKET RISK MANAGEMENT POLICY

We manage market risk by segregating the overall balance sheet into a trading book and a banking book.

Market Business Management Committee is in charge of market risk management and risk review of trading book and a part of banking book investment. The Committee is chaired by CRO, secretariat by Market Risk Management Division, and composed of representatives of related divisions. The Committee has regular meeting twice a month to review customer related business movement, profit and loss/market risk situation and inherent risk in the business as a whole, including counter party risk, issuer risk and trading products risk and make decision on risk management.

The ALM Committee has monthly regular meeting, in principle, for review and decision making market risk, mainly interest rate and FX risk of banking asset and liability , funding, liquidity risk and active ALM strategy.

Risk limits on trading, e.g. Value at Risk ("VaR"), is approved by Executive Committee. The VaR is the maximum loss amount by future price fluctuation, which is estimated stochastically at a specific confidential level, assuming holding specific position for a specific time horizon In addition, we implement multi view point risk management using interest rate sensitivities and etc.,

The Market Risk Management Division is responsible for the objective and timely recognition, monitoring and reporting of market risk in both the trading and banking activities. In addition to reporting risk information to management, administrative unit and front office units, the Market Risk Management Division carries out regular risk analyses and recommendations to them.

(3) MARKET RISK MANAGEMENT FRAMEWORK

We have risk arising from the trading and banking activities. Each desk within the front unit is assigned with risk limits.

The Market Risk Management Division is responsible for the objective and timely recognition, monitoring and reporting

QUALITATIVE DISCLOSURE (CONTINUED)

of these market risk and carries out regular risk analysis and recommendations, as well as timely and appropriately providing management, administrative and front unit with risk information which meets their needs. At market business implementation, by making The Bank has established a organization system for effective checks and balances by making front, operation and risk unit independent respectively.

(4) QUANTITATIVE MARKET RISK MANAGEMENT

The Bank is enhancing risk management by quantifying market risk, reporting it objectively, and making adjustments according to market situation on daily basis.

Market risk management is implemented by repeat of following a five-step process.

- First step : Construction of a transaction information database.
- Second step : Clarification of data according to the nature of the risk.
- Third step : Quantification of the risk based on the risk nature.
- Fourth step : Calculation and report of the overall risk.
- Fifth step : Appropriate adjustment and control based on the reported risk calculations.

To obtain a precise picture of the risk situation, transaction data must be accurate and complete. Measurement definitions must have clear rationale and valuation criteria such as rates and prices must be reliable. The Bank's market risk measurement system meets all of these requirements.

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 Shinsei Bank and Shinsei Securities. 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

c) ADEQUATE PRICING METHOD ACCORDING TO TRANSACTION PROFILE TAKING POSSIBILITIES INTO CONSIDERATION THAT ACTUAL HOLDING PERIOD MAY EXCEED EXPECTED HOLDING PERIOD

The expected necessary length to close a position in the trading books is ten day and 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.

d) INTERNAL MODEL METHOD AND BACK-TESTING, STRESS-TESTING

The Bank and Shinsei Securities use a historical simulation VaR method 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.

(VaR data table) VaR amounts as calculated at the end of March 2012 together with the high, mean and low VaR in this fiscal year (99% confidence level, 10 day holding period).

		Millions of yen	
		Consolidated	Non-consolidated
VaR at the end of year		1,230	1,180
through FY	High	3,961	3,869
	Mean	2,395	2,266
	Low	1,052	1,019

We have added Stress VaR to previous mentioned VaR for Basel capital requirement calculation since as of 2011 December end. Please refer to following table.

Stressed VaR amounts as calculated at the end of March 2012 together with the high, mean and low VaR in this fiscal year(99% confidence level, 10 day holding period).

		Millions of yen	
		Consolidated	Non-consolidated
Stressed VaR at the end of year		3,764	3,620
through FY	High	5,476	5,359
	Mean	4,376	4,281
	Low	3,764	3,620

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QUALITATIVE DISCLOSURE (CONTINUED)

The validity of the VaR is verified through back-testing, which examines how frequently actual daily loss exceeds VaR for a one-day holding period. The back-testing results for fiscal year 2011 show that the number of days in which loss amount exceeded VaR for a one-day holding period on a consolidated basis was zero.

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. LIQUIDITY RISK MANAGEMENT

Liquidity risk management is implemented by ALM committee, by its approval of liquidity gap structure limits (limits for required funding amount on contract maturity basis) and minimum liquidity reserve levels. In addition, stress test is implemented monthly and reported to ALM committee.

Liquidity gap limit and minimum liquidity reserve level compliance is daily monitored by the Market Risk Management Division and reported to the management. Stress test, implemented by the Market Risk Management Division, is reviewed in timely and adequate manner for its appropriateness, cooperated with front unit.

Liquidity management framework, including these monitoring and test implement, is defined by "Cash Liquidity Risk Management Policy" and periodically reviewed by ALM committee.

11. BANKING BOOK INTEREST RATE RISK MANAGEMENT

a) Risk management policy and procedure

(1) Interest Rate Risk Management policy and procedure

The Bank's risk management of banking book assets and liabilities, which bears interest rate risk, is managed based on "Asset Liability Management Policy for Banking Account." In addition to daily risk monitoring, the ALM Committee meets on a monthly basis, in principle, in order to provide management with timely and appropriate reports on interest rate risk situation and etc., and reviews / makes decisions on ALM strategy and related topics.

The purpose ALM is to optimize the overall net interest income for the medium- to long-term by appropriately balancing interest rate risks on assets and liabilities and liquidity risks arising in the ordinary course of operations at business units. This optimization is achieved by maintaining the appropriate balance between the following two view points.

1) Static point of view: Stabilize fluctuations and the range of changes of net interest income within the Bank's estimation by adjusting interest rate risks within specified range resulting from gaps of the assets and liabilities' amount, terms, interest rate conditions and etc.

2) Active point of view: Increase net interest income by restructuring the assets and liabilities into higher efficiency of risk / return.

For banking book interest rate risk management, in addition to limits or guidelines including 100bpv and etc., net interest income simulation is used for risk situation monitoring. The Bank monitors the shape of the yield curve and regularly analyzes scenarios such as steepening and flattening to evaluate the impact of these scenario changes on assets and liabilities.

(2) Outlier criteria and stress scenarios

In the context of the outlier criteria for the second pillar of Basel II, the Bank has adopted a 2% shift scenario. This measures fluctuation in the economic value of assets and liabilities on the banking book as a result of a 2% interest rate shock. This scenario is consistent with the interest rate risk sensitivity analysis, which is used for internal control purposes.

(3) Calculation method for interest rate risk

Following assumptions are set for interest rate risk management.

QUALITATIVE DISCLOSURE (CONTINUED)

• Housing loan prepayments
Instead of using contractual maturity, the Bank calculates the cash flows using a particular prepayment ratio for hosing loans, considering actual prepayment data for similar loans, pricing at the housing loan securitization and etc.

• Definition of core deposits
The Bank has adopted an internal model for the maturity of core deposits and defines maturities of ordinary deposits by customer and currency.

The parameters and models for core deposits are reviewed as timely and appropriately.

b) Banking book interest rate risk calculation method by consolidated subsidiaries for internal management purpose

In general, consolidated subsidiaries conduct risk management under the supervision of the Board of Directors or ALM committee except for SPVs and other such entities whose risk management is integrated into the Bank's business units.

Interest rate risk at consolidated subsidiaries, which have interest rate-sensitive assets and liabilities, are calculated based on each subsidiary's interest rate risk management method .The Bank calculates interest rate risk on consolidated basis using them and conducts risk management by monitoring them.

The change in economic values for applied interest rate shock of 2% in the banking book at the end of March 2012:

	Billions of yen	
	Consolidated	Non-consolidated
JPY	¥(11.1)	¥(1.3)
USD	(2.8)	(2.8)
Other	(2.6)	(2.6)
Total	¥(16.6)	¥(6.8)

12. 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 the 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 monthly 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.

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:

QUALITATIVE DISCLOSURE (CONTINUED)

- "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 by 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 II

The Standardized Approach is adopted by the Bank.

Amount of required capital for Operational Risk at the end of fiscal year 2011:

	Millions of yen	
	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)
The Standardized Approach	¥31,001	¥12,202

QUALITATIVE DISCLOSURE (CONTINUED)

OVERVIEW OF PRINCIPAL "CREDIT RISK MANAGEMENT STANDARDS"

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QUALITATIVE DISCLOSURE (CONTINUED)

EXHIBIT

Type of Exposures			Shinsei Bank (Non-Consolidated) (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)	Shinsei Bank (Non-Consolidated) (e) Specialized Lending
Type of Internal Rating Approaches to be Used			• Obligor rating based on the rating estimation model • Facility rating based on the obligor ratings/expected losses	Rating in accordance with the capital rating structure model based on LTV.
Summary of Internal Rating System	Structure of Internal Rating System	Summary of 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 • Properly reflecting obligors' consolidated-basis accounting systems • Ensuring conformity with rating systems among industry classifications 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 rating and the credit status of individual transactions.	"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. As the risk profile is different from that of general corporate exposure and also the frequency of occurrence of actual default is quite low, the framework of Basel II permits the classification into a designated category by using the Guideline for Judging Risks based on FSA Notification ("Slotting Criteria") and calculation of risk assets. This "Slotting Criteria" is applied for calculating required regulatory capital, and internal ratings are estimated through the following process. • Quantitative rating is estimated based on LTV. • Qualitative adjustments are made on quantitative rating.
		Obligor Rating (Corporate) Facility Rating (Corporate)	**Obligor Rating** i) Model score: A quantitative model score is derived based on the financial data of a customer by applying a neural network model prepared by using external ratings as a benchmark. Financial data from "Nikkei Needs Financial Information" and "Shinsei Financial Analysis System Data" were used for calculation of model scores. ii) Verification of reliability of obligor financial data. iii) Overall adjustment: Unrealized profit or loss future financial projection, etc. Obligor ratings for Sovereign/Bank exposures are assigned based on specific rules as "Obligors Subject to Special Treatment." **Facility Rating** Derived on the basis of expected loss rate by taking into account the following factors. i) Probability of Default (PD) corresponding to an obligor rating/term of credit. ii) Loss Given Default (LGD) corresponding to the status of credit enhancement of a facility. Facility rating system is not implemented for equity exposures.	**Obligor Rating and Facility Rating** The obligor rating is derived based on the rating approach in line with the foregoing framework. However, as the facility rating is directly calculated, no particular distinction is made between the obligor rating and the facility rating.
	Usage of Various Estimated Values (Use Test)		Facility rating is derived and assigned based on Expected Loss (EL) calculated from the PD corresponding to the credit rating. EL using the foregoing PD is also applied to pricing. PDs are used for calculating and allocating Risk Capital. No specific pricing rule with PD/LGD Approach for Equity exposures.	In the rating system, a rating derived in accordance with the above is also used for credit assessment of a transaction.
	Management of Internal Rating System and Validation Procedures	Management of Internal Rating System	Portfolio and Risk Management Division (PRMD) of the Bank is in charge of designing the rating system and ratings are assigned by the Credit Rating Review Committee. PRMD is in charge of estimation and validation of parameters. Internal Audit Division (IAD) of the Bank audits all these processes.	Structured Risk Management Division (SRMD) of the Bank is in charge of the design/management of the rating system. SRMD and PRMD are jointly in charge of validation. IAD audits all these processes.
		Validation Procedures	**Quantitative Validation** Model ratings and final credit ratings are validated in a manner as multifaceted as possible using Shinsei Bank data, Showa Leasing data and external databases. 1) Back Testing: using historical data, credit ratings goodness of fit, and Accuracy Ratio (AR) by segments, such as industry and sales scale, are validated. 2) Benchmarking: Comparison between internal and external ratings and mapping analysis are performed for the obligors with external ratings. **Qualitative Validation** Examinations of the newly defaulting obligors and rating transition analyses are conducted, and operations of individual assessments are examined.	Quantitative Validation Back Testing: using historical data, verification on the default rate order by rating and accuracy of discrimination of default obligors are conducted. Qualitative Validation Examinations of the newly defaulting obligors and rating transition analyses are conducted.
Summary of Rating Assignment Procedures for Each Portfolio	Rating Assignment Procedures		The assigned rating is determined at the Credit Rating Review Committee through assessment by the business promotion section and the risk management group. Ratings are revised at least once a year.	SRMD is in charge of the assignment of internal ratings and mapping to the slotting criteria.
	Estimation of Parameters		PDs of corporate exposures are estimated by defining a default as any of the following: i) obligor categorization under self assessment falls to sub-standard (9B) or lower, ii) sale of claims at 30% economic loss, iii) amount of overdraft exceeds the maximum amount of the overdraft facility for 3 months. 1) Characterization of the Bank's internal data: Observation period is from end of March 2001, and population is obligors with loan exposures in (a) - (c). 2) Estimated PD data of the population that is treated as the corporate exposures at Showa Leasing (observation period: from end of March 2003). 3) For obligors at 3 rank or higher where track record of default is scarce, the PDs are estimated based on cumulative default rates from internal data, corporate bond spreads and data published by external rating agencies. 4) For Sovereign exposures, estimated PD for 0A and 1A is 0.00% and 0.01% respectively for required regulatory capital calculation purposes.	The mapping of internal ratings to the slotting criteria is as follows: i) Strong: 1AF - 4BF ii) Good: 4CF iii) Satisfactory: 5AF iv) Weak: 5BF - 6CF and 9A v) Default: 9B - 9E

QUALITATIVE DISCLOSURE (CONTINUED)

EXHIBIT

Type of Exposures			Shinsei Bank (Non-Consolidated) (f) Purchased Residential Mortgage Exposures (A portion is classified as Purchased Other Retail Exposures)	Showa Leasing (g) Exposures to Corporate, etc.
Type of Internal Rating Approaches to be Used			Pool classification by portfolio and by delinquency status	Obligor rating based on a rating estimation model Facility rating based on an obligor rating/ expected loss
Summary of Internal Rating System	Structure of Internal Rating System	Summary of Rating System	These exposures are housing loans originated by lenders other than the Bank, and purchased as portfolios by the Bank. Pools are classified on a portfolio basis and delinquency basis. Business purpose loans collateralized by real estate to retail customers are classified as purchased other retail exposures or purchased corporate exposures.	An obligor rating system has been introduced that is identical to the system used at the Bank. Facility ratings based on EL for each transaction are established.
		Obligor Rating (Corporate) Facility Rating (Corporate) Pool Classification (Retail)	**Pool Classification** Normal, Delinquent and Default pools are established for each portfolio.	**Obligor Rating** Same as (a) (b) and (c). **Facility Rating** The facility rating is established based on the EL of each transaction by reflecting the characteristics of risk profile of a transaction as well as the risk profile of an obligor.
	Usage of Various Estimated Values (Use Test)		PDs and LGDs are used for calculating and allocating Risk Capital.	• The facility rating is assigned based on EL using PD corresponding to the credit rating. • EL using PD is also applied to pricing. • PDs are used for calculating and allocating Risk Capital.
	Management of Internal Rating System and Validation Procedures	Management of Internal Rating System	SRMD is in charge of rating system design and pool assignment. SRMD estimates/validates parameters with support by PRMD. IAD audits all these processes.	PRMD of the Bank and Credit Risk Management Section (CRMS) of the Company are jointly responsible for the design of the rating system, and CRMS of the Company is in charge of rating assignment. PRMD of the Bank is in charge of the final approval process of parameter estimation and validation. Audit Division (AD) of the Company and IAD of the Bank jointly audit all these processes.
		Validation Procedures	**PD** Binominal test, comparison with track record of defaults in other housing loan portfolios. **LGD** Validation if estimated LGDs remain within a certain confidence level, and comparison with the track record of loss rate in other housing portfolios.	Same as (a) (b) and (c).
Summary of Rating Assignment Procedures for Each Portfolio	Rating Assignment Procedures		SRMD is in charge of pool assignment.	CRMS of the Company is in charge of rating assignment.
	Estimation of Parameters		**Definition of Default** Any of the following: i) three month delinquency, ii) relaxation of terms and conditions, iii) legal bankruptcy, iv) payment in subrogation by guarantors, v) acceleration, vi) loan sales at 30% economic loss. **PD** PDs are estimated based on historical data of each purchased housing loan portfolio. Period before loan purchase is also included in data observation period. **LGD** LGDs are estimated based on historical data of each purchased housing loan portfolio. **EAD** EAD for on-balance sheet items is the outstanding balance of beneficiary interest in trust. EAD for off-balance sheet items is zero, since no undrawn amount exists.	Default is defined as any of the following: i) three month delinquency, ii) relaxation of terms and conditions, iii) legal bankruptcy, iv) sales of receivables at 30% economic loss, v) Special Supervision or lower in self assessment of assets. PD estimation process is same as (a) (b) and (c).

QUALITATIVE DISCLOSURE (CONTINUED)

EXHIBIT

Type of Exposures			Showa Leasing (h) Other Retail Exposures	APLUS FINANCIAL, APLUS, APLUS PERSONAL LOAN, and Zen-Nichi Shinpan (i) Residential Mortgage/Qualifying Revolving Retail/Other Retail Exposures
Type of Internal Rating Approaches to be Used			Pool classification based on a matrix of obligor and transaction attributes and delinquency	Pool classification based on a matrix of obligor and transaction attributes and delinquency
Summary of Internal Rating System	Structure of Internal Rating System	Summary of Rating System	Small-lot lease receivables to corporate obligors in the Company are managed on a pool basis, and are treated as "retail" exposures. A credit rating is assigned to each obligor based on such factors as whether equity of obligor is listed or not, size of annual income, length of business history, credit score assigned by a credit agency. In addition, classification by type of asset leased is also implemented.	Main portfolio of the Group (APLUS FINANCIAL (including APLUS and APLUS PERSONAL LOAN), and Zen-Nichi Shinpan) is installment credit receivable, classified as other retail exposures. Credit is also extended through credit/loan cards, part of which are classified as qualifying revolving retail exposures. The Group retains but no longer originates housing loans. R-rating is assigned to each exposure of APLUS. R-ratings are risk grades based on obligor attributes, borrowing behavior information provided by credit information agencies and transaction history with the Company. For installment credit receivables, pool classification is also determined by type of asset being financed. For card exposures, card type and card limit amount is employed as criteria of pool classification. In APLUS FINANCIAL, a holding company, and APLUS and APLUS PERSONAL LOAN, subsidiaries, risks are managed comprehensively by APLUS FINANCIAL, as well as in each company, and major Credit Risk Management Standards, pool classification and parameter estimates are shared by these 3 companies. In Zen-Nichi Shinpan, which started adopting Foundation IRB from the end of March 2010, pool classification is established by portfolio such as installment credit receivables and card exposures.
		Pool Classification (Retail)	Criteria for pool classification are i) credit rating, ii) type of asset leased, and iii) obligor classification including delinquency.	Key criteria for pool classification are as follows: i) Obligor attributes such as R-rating ii) Transaction attributes such as type of assets financed for installment credit receivables, or card limit amount for card exposures iii) Delinquency
	Usage of Various Estimated Values (Use Test)		PDs and LGDs are used for calculating and allocating Risk Capital. For pricing purposes, PDs and LGDs, which are derived assuming that defaulted exposures do not recover to non-default status, are utilized.	PDs, LGDs and Credit Conversion Factors (CCFs) are used for calculating and allocating Risk Capital.
	Management of Internal Rating System and Validation Procedures	Management of Internal Rating System	CRMS of the Company and PRMD of the Bank are jointly in charge of the rating system design. Business Divisions/Branches of the Company assign exposures to pools, and CRMSs confirm and oversee pool assignment. CRMS and PRMD of the Bank jointly estimate and validate parameters, based on data provided by the Company. AD of the Company and IAD of the Bank jointly audit all these processes.	CRMS of the Group and PRMD of the Bank are jointly in charge of the rating system design. Business Divisions/Branches of the Group assign exposures to pools, and CRMS confirms and oversees pool assignment. CRMS and PRMD of the Bank jointly estimate and validate parameters, based on data provided by the Group. Internal Audit Section of the Group and IAD of the Bank jointly audit all these processes.
		Validation Procedures	**PD** Binominal test and verification of PDs and ratings goodness of fit. **LGD** Validation if estimated LGDs are remaining within a certain confidence level. **Pool Classification** Validation by Accuracy Ratio (AR).	**PD** Binominal test and verification of PDs and ratings goodness of fit. **LGD** Validation if estimated LGDs are remaining within a certain confidence level. **Pool Classification** Validation by Accuracy Ratio (AR).
Summary of Rating Assignment Procedures for Each Portfolio	Rating Assignment Procedures		As part of the approval process, Business Divisions/Branches of the Company assign exposures to pools, and CRMSs of the Company confirm pool assignment and oversee and control overall pool assignment processes.	Business Divisions/Branches of the Group assign exposures based on guidance provided by CRMS of the Group, and CRMS confirms pool assignment and controls overall pool assignment processes.
	Estimation of Parameters		**Definition of Default** Any of the following: i) three month delinquency, ii) relaxation of terms and conditions, iii) legal bankruptcy, iv) sales of receivables at 30% economic loss, v) Special Supervision or lower in self assessment of assets. **PD** PDs are estimated on the Company's historical data. **LGD** LGDs are estimated on the Company's historical data. **EAD** EAD for on-balance sheet items is defined as outstanding balance in compliance with U.S. Financial Accounting Standards Board (FASB). EAD for off-balance sheet items is zero, since no undrawn amount exists. **Data Observation Period** From April 2002 (from April 2005 for PD).	**Definition of Default** Any of the following: i) three month delinquency, ii) relaxation of terms and conditions, iii) legal bankruptcy, iv) sales of claims at 30% economic loss. **PD** PDs are estimated using the Group's historical data. **LGD** LGDs are estimated using the Group's historical data. **EAD** EAD for on-balance sheet items is the outstanding amount of principal plus uncollected commissions/interest/guarantee fee. EAD for off-balance sheet items is calculated by committed line amount of card exposures multiplied by Credit Conversion Factors (CCFs). CCFs are estimated for each card type, using historical data of the Group. **Data Observation Period** From April 2001 for installment credit receivables and card exposures of APLUS.

QUALITATIVE DISCLOSURE (CONTINUED)

SHINSEI BANK CORPORATE OBLIGOR RATING SYSTEM

Obligor Rating Categories	Corresponding Rating Assigned by R & I	Summary
0A		1. Japanese Government, BOJ 2. Government-affiliated agencies, expected high certainty from strong backup by the Government.
1A	AAA	Highest capability to meet its financial commitments on the obligations and many other positive factors.
2A	AA+	Very high capability to meet its financial commitment on the obligation and other positive factors.
2B	AA	
2C	AA-	
3A	A+	High capability to meet its financial commitments on the obligations and some good factors.
3B	A	
3C	A-	
4A	BBB+	There is adequate certainty of the fulfillment of obligations, but there are also some factors requiring attention in the event of serious adverse economic conditions in the future.
4B	BBB	
4C	BBB-	
5A	BB+	No problem regarding the certainty of the fulfillment of obligations for the time being, but some factors need to be closely watched in the event of adverse economic conditions in the future.
5B	BB	
5C	BB-	
6A	B+	No problem regarding the certainty of the fulfillment of obligations in the present situation, but special supervision is needed to monitor the trends in business performance and the protection of credit exposure.
6B	B	
6C	B-	
9A		Classified as "Other Need Caution" at the self-assessment
9B		Classified as "Sub-Standard" at the self-assessment
9C		Classified as "Possibly Bankrupt" at the self-assessment
9D		Classified as "Virtually Bankrupt" at the self-assessment
9E		Classified as "Bankrupt" at the self-assessment

QUANTITATIVE DISCLOSURE

1. NAMES OF UNCONSOLIDATED SUBSIDIARIES WITH LOWER LEVEL OF CAPITAL THAN REQUIRED LEVEL OF ADEQUACY CAPITAL AND AMOUNT OF SHORTAGE

Most of the 80 unconsolidated subsidiaries are special purpose companies (SPCs) or Limited Partnerships (LPs) for leverage leasing. As the economic risk associated with leveraged leasing has been hedged in these subsidiaries, the amount of invested equity is equal to applicable loss limits.

2. CAPITAL STRUCTURE

Please see "Management's Discussion and Analysis of Financial Condition and Results of Operations" "Capital Ratios" on page 101 for capital calculation details. The Bank was not required to deduct any excess deferred tax assets which banks are prohibited from including in their Tier I capital. The Bank has no Tier III capital.

3. CAPITAL ADEQUACY

AMOUNT OF REQUIRED CAPITAL FOR CREDIT RISK

(1) Portfolios under the Standardized Approach (SA)

Millions of yen

	2012		2011	
As of March 31	**Required capital amount (Consolidated)**	**Required capital amount (Non-consolidated)**	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)
Shinsei housing loans	**¥ 29,861**	**¥ 29,861**	¥ 28,520	¥ 28,520
Shinsei bank card loans Lake	**1,060**	**1,060**		
Subsidiaries of Showa Leasing	**1,926**	**—**	924	—
Shinsei Financial Group[1]	**25,475**	**—**	33,441	—
Other subsidiaries	**4,456**	**—**	3,953	—

Note: (1) APLUS FINANCIAL, APLUS, APLUS PERSONAL LOAN and Zen-Nichi Shinpan which are subsidiaries of Shinsei Financial Group adopt FIRB.

(2) Portfolios under the Internal Ratings-Based Approach (IRB)

Millions of yen

	2012		2011	
As of March 31	**Required capital amount (Consolidated)**	**Required capital amount (Non-consolidated)**	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)
Corporate (Excluding Specialized Lending)[1]	**¥ 202,681**	**¥ 197,072**	¥ 190,554	¥ 197,125
Specialized Lending[2]	**193,899**	**192,271**	230,668	229,566
Sovereign	**5,906**	**5,874**	7,692	7,661
Bank	**20,799**	**19,854**	20,228	17,800
Residential mortgages	**2,507**	**—**	3,163	—
Qualified revolving retails	**50,604**	**—**	58,951	—
Other retails	**149,821**	**—**	150,820	2,149
Equity	**12,600**	**137,855**	28,282	153,993
Regarded (Fund)	**25,253**	**19,040**	25,478	18,744
Securitization[3]	**58,548**	**65,879**	52,754	56,611
(Unrated securitization exposure)	**(40,592)**	**(40,592)**	(31,567)	(31,539)
Purchase receivables	**56,956**	**56,956**	71,033	71,033
Other assets	**6,946**	**2,889**	6,728	2,719
Total	**¥ 786,525**	**¥ 697,695**	¥ 846,355	¥ 757,406

Notes: (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.

QUANTITATIVE DISCLOSURE (CONTINUED)

AMOUNT OF REQUIRED CAPITAL FOR EQUITY EXPOSURE UNDER IRB

Millions of yen

As of March 31	2012 Required capital amount (Consolidated)	2012 Required capital amount (Non-consolidated)	2011 Required capital amount (Consolidated)	2011 Required capital amount (Non-consolidated)
Market-Based Approach				
Simplified Method	**¥ 3,384**	**¥ 6,437**	¥ 16,767	¥ 19,863
PD/LGD Method	**8,690**	**130,004**	10,883	132,648
Grandfathering Rule	**525**	**1,413**	631	1,482
Total	**¥ 12,600**	**¥ 137,855**	¥ 28,282	¥ 153,993

AMOUNT OF REQUIRED CAPITAL FOR REGARDED-METHOD EXPOSURE UNDER IRB

Millions of yen

As of March 31	2012 Required capital amount (Consolidated)	2012 Required capital amount (Non-consolidated)	2011 Required capital amount (Consolidated)	2011 Required capital amount (Non-consolidated)
Look Through	**¥ 2,006**	**¥ 2,006**	¥ 2,599	¥ 2,599
Revised Naivete Majority	**17,891**	**10,550**	21,208	13,298
Simplified [400%]	**840**	**1,982**	1,257	2,447
Simplified [1,250%]	**4,513**	**4,501**	412	398
Total	**¥ 25,253**	**¥ 19,040**	¥ 25,478	¥ 18,744

AMOUNT OF REQUIRED CAPITAL FOR MARKET RISK

Millions of yen

As of March 31	2012 Required capital amount (Consolidated)	2012 Required capital amount (Non-consolidated)	2011 Required capital amount (Consolidated)	2011 Required capital amount (Non-consolidated)
The Standardized Approach				
(Specific Risk)	**¥ 3,317**	**¥ 2,941**	¥ 5,308	¥ 4,819
Interest rate risk	**2,083**	**1,796**	4,097	3,667
Equity position risk	**61**	**61**	12	12
FX risk	**1,172**	**1,083**	1,199	1,139
Securitization risk	**84**	**—**		
The Standardized Approach (General Market Risk)	**—**	**—**	—	—
The Internal Models Approach (IMA) (General Market Risk)	**18,108**	**17,699**	8,298	8,134

AMOUNT OF REQUIRED CAPITAL FOR OPERATIONAL RISK

Millions of yen

As of March 31	2012 Required capital amount (Consolidated)	2012 Required capital amount (Non-consolidated)	2011 Required capital amount (Consolidated)	2011 Required capital amount (Non-consolidated)
The Standardized Approach	**¥ 31,001**	**¥ 12,202**	¥ 37,271	¥ 11,543

TOTAL CAPITAL ADEQUACY RATIO AND TIER I CAPITAL RATIO

As of March 31	2012 Consolidated	2012 Non-consolidated	2011 Consolidated	2011 Non-consolidated
Total capital adequacy ratio	**10.27%**	**13.10%**	9.76%	12.55%
Tier I capital ratio	**8.80%**	**11.18%**	7.76%	10.13%

TOTAL REQUIRED CAPITAL (DOMESTIC CRITERIA)

Millions of yen

As of March 31	2012 Consolidated	2012 Non-consolidated	2011 Consolidated	2011 Non-consolidated
Total required capital	**¥ 440,381**	**¥ 352,517**	¥ 469,748	¥ 373,010
Total risk assets x 4%	**¥ 244,100**	**¥ 236,945**	¥ 266,150	¥ 253,551

QUANTITATIVE DISCLOSURE (CONTINUED)

4. CREDIT RISK EXPOSURE (EXCLUDING SECURITIZATION AND REGARDED EXPOSURE)

AMOUNT OF CREDIT RISK EXPOSURE

Geographic, Industries or Maturity (Consolidated)

Millions of yen

	2012				2011			
	Total	Amount of Credit Risk Exposure			Total	Amount of Credit Risk Exposure		
As of March 31		Loans,etc.(1)	Securities(2)	Derivatives(3)		Loans,etc.(1)	Securities(2)	Derivatives(3)
Manufacturing	**¥ 381,040**	**¥ 377,123**	**¥ 0**	**¥ 3,916**	¥ 368,397	¥ 363,838	¥ 0	¥ 3,935
Agriculture	**896**	**896**	**—**	**—**	2,660	2,660	—	—
Mining	**867**	**867**	**—**	**—**	1,177	1,177	—	—
Construction	**39,290**	**39,251**	**36**	**2**	29,812	29,776	36	—
Electric power, gas, water supply	**56,635**	**56,508**	**32**	**93**	38,586	38,501	34	53
Information and communication	**44,332**	**44,313**	**—**	**18**	25,448	25,436	—	—
Transportation	**265,951**	**245,798**	**3,201**	**16,951**	313,475	278,930	12,163	20,057
Wholesale and retail	**154,523**	**153,393**	**636**	**492**	169,934	169,447	—	417
Finance and insurance	**1,168,231**	**1,083,199**	**31,651**	**53,381**	1,019,520	921,889	50,031	32,576
Real estate	**824,828**	**592,350**	**231,583**	**894**	877,228	589,890	285,283	3,633
Services	**447,765**	**438,989**	**6,825**	**1,950**	480,102	454,273	23,426	3,633
Government	**1,405,929**	**118,978**	**1,286,948**	**1**	2,602,338	137,946	2,464,391	—
Individuals	**2,396,210**	**2,395,842**	**—**	**368**	2,472,049	2,471,428	—	602
Others	**14,053**	**9,125**	**4,927**	**—**	1,995	1,686	309	—
Domestic Total	**7,200,556**	**5,556,638**	**1,565,844**	**78,072**	8,402,726	5,486,881	2,835,677	64,909
Foreign	**676,910**	**334,497**	**135,915**	**206,497**	846,800	292,007	267,515	298,335
Consolidated Total	**¥ 7,877,466**	**¥ 5,891,136**	**¥ 1,701,760**	**¥ 284,569**	¥ 9,249,527	¥ 5,778,889	¥ 3,103,193	¥ 363,245
To 1 year	**1,945,261**	**1,300,580**	**575,599**	**69,081**	2,663,957	1,386,421	1,195,505	67,921
1 to 3 years	**2,102,315**	**1,397,602**	**595,452**	**109,259**	2,834,531	1,423,290	1,244,897	153,902
3 to 5 years	**1,634,789**	**1,254,768**	**330,965**	**49,055**	1,719,458	1,163,444	496,538	64,117
Over 5 years	**1,637,460**	**1,381,687**	**198,599**	**57,173**	1,385,453	1,161,638	164,219	77,303
Undated	**557,640**	**556,497**	**1,143**	**—**	646,125	644,094	2,031	—
Consolidated Total	**¥ 7,877,466**	**¥ 5,891,136**	**¥ 1,701,760**	**¥ 284,569**	¥ 9,249,527	¥ 5,778,889	¥ 3,103,193	¥ 363,245

Geographic, Industries or Maturity (Non-consolidated)

Millions of yen

	2012				2011			
	Total	Amount of Credit Risk Exposure			Total	Amount of Credit Risk Exposure		
As of March 31		Loans,etc.(1)	Securities(2)	Derivatives(3)		Loans,etc.(1)	Securities(2)	Derivatives(3)
Manufacturing	**¥ 315,388**	**¥ 311,471**	**¥ 0**	**¥ 3,916**	¥ 296,962	¥ 292,403	¥ 0	¥ 4,559
Agriculture	**298**	**298**	**—**	**—**	2,200	2,200	—	—
Mining	**488**	**488**	**—**	**—**	732	732	—	—
Construction	**12,423**	**12,420**	**—**	**2**	8,331	8,331	—	—
Electric power, gas, water supply	**56,465**	**56,338**	**32**	**93**	38,417	38,332	34	51
Information and communication	**27,988**	**27,969**	**—**	**18**	16,292	16,280	—	12
Transportation	**249,689**	**229,536**	**3,201**	**16,951**	290,863	256,319	12,163	22,380
Wholesale and retail	**90,827**	**89,698**	**636**	**492**	107,026	106,539	—	487
Finance and insurance	**1,451,940**	**1,366,006**	**51,573**	**34,360**	1,376,049	1,272,653	75,717	27,678
Real estate	**839,211**	**606,733**	**231,583**	**894**	856,237	568,899	285,283	2,054
Services	**391,030**	**382,139**	**6,932**	**1,958**	424,131	398,361	23,296	2,473
Government	**1,393,381**	**106,466**	**1,286,913**	**1**	2,592,713	128,357	2,464,356	—
Individuals	**835,246**	**834,878**	**—**	**368**	780,567	779,945	—	621
Others	**—**	**—**	**—**	**—**	—	—	—	—
Domestic Total	**5,664,378**	**4,024,444**	**1,580,874**	**59,059**	6,790,526	3,869,355	2,860,851	60,318
Foreign	**664,919**	**307,872**	**150,308**	**206,739**	855,040	283,730	283,129	288,180
Bank Total	**¥ 6,329,298**	**¥ 4,332,316**	**¥ 1,731,182**	**¥ 265,798**	¥ 7,645,567	¥ 4,153,086	¥ 3,143,981	¥ 348,499
To 1 year	**2,027,823**	**1,388,838**	**575,835**	**63,149**	2,748,237	1,460,375	1,205,469	82,392
1 to 3 years	**1,611,605**	**917,059**	**595,417**	**99,129**	2,312,962	916,305	1,244,897	151,759
3 to 5 years	**1,265,482**	**892,215**	**325,908**	**47,358**	1,307,637	755,317	496,538	55,781
Over 5 years	**1,333,098**	**1,063,944**	**212,992**	**56,162**	1,164,037	925,638	179,832	58,566
Undated	**91,288**	**70,259**	**21,029**	**—**	112,691	95,449	17,242	—
Bank Total	**¥ 6,329,298**	**¥ 4,332,316**	**¥ 1,731,182**	**¥ 265,798**	¥ 7,645,567	¥ 4,153,086	¥ 3,143,981	¥ 348,499

Notes: (1) Excluding purchased receivables
(2) Excluding equity exposures
(3) Credit equivalent amount basis

QUANTITATIVE DISCLOSURE (CONTINUED)

AMOUNT OF DEFAULT EXPOSURE BEFORE PARTIAL WRITE-OFF

Geographic, Industries

Millions of yen

	2012		2011	
	Default Exposure		Default Exposure	
As of March 31	**Consolidated**	**Non-consolidated**	Consolidated	Non-consolidated
Manufacturing	**¥ 17,784**	**¥ 12,524**	¥ 15,919	¥ 12,003
Agriculture	**38**	**—**	77	—
Mining	**—**	**—**	5	—
Construction	**2,144**	**11**	1,331	11
Electric power, gas, water supply	**—**	**—**	—	—
Information and communication	**33**	**—**	594	528
Transportation	**7,681**	**5,532**	1,473	—
Wholesale and retail	**851**	**—**	824	39
Finance and insurance	**77,641**	**77,566**	58,263	58,209
Real estate	**223,661**	**218,702**	244,869	236,210
Services	**30,788**	**28,336**	5,767	3,298
Government	**—**	**—**	—	—
Individuals	**149,550**	**5,744**	175,436	9,190
Others	**8,875**	**—**	1,040	—
Domestic Total	**519,051**	**348,419**	505,603	319,491
Foreign	**40,830**	**40,830**	70,716	72,854
Total	**¥ 559,882**	**¥ 389,250**	¥ 576,319	¥ 392,345

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

Consolidated

Millions of yen

	2012			2011		
As of March 31	**Start Amount**	**Change Amount**	**End Amount**	Start Amount	Change Amount	End Amount
General	**¥ 102,752**	**¥ (21,803)**	**¥ 80,949**	¥ 112,064	¥ (9,312)	¥ 102,752
Specific	**287,323**	**(21,648)**	**265,675**	282,080	5,243	287,323
Country	**12**	**(12)**	**0**	13	(1)	12
Total	**¥ 390,087**	**¥ (43,462)**	**¥ 346,625**	¥ 394,157	¥ (4,070)	¥ 390,087

Non-consolidated

Millions of yen

	2012			2011		
As of March 31	**Start Amount**	**Change Amount**	**End Amount**	Start Amount	Change Amount	End Amount
General	**¥ 48,379**	**¥ (8,752)**	**¥ 39,627**	¥ 50,677	¥ (2,298)	¥ 48,379
Specific	**156,764**	**(209)**	**156,555**	148,323	8,441	156,764
Country	**12**	**(12)**	**0**	13	(1)	12
Total	**¥ 205,156**	**¥ (8,973)**	**¥ 196,183**	¥ 199,013	¥ 6,143	¥ 205,156

Geographic (Consolidated)

Millions of yen

	2012				2011			
	Total	**Reserve Amount**			Total	Reserve Amount		
As of March 31		**General**	**Specific**	**Country**		General	Specific	Country
Domestic	**¥ 313,108**	**¥ 75,880**	**¥ 237,228**	**¥ —**	¥ 344,447	¥ 97,294	¥ 247,153	¥ —
Foreign	**33,516**	**5,069**	**28,447**	**0**	45,640	5,457	40,170	12
Total	**¥ 346,625**	**¥ 80,949**	**¥ 265,675**	**¥ 0**	¥ 390,087	¥ 102,752	¥ 287,323	¥ 12

QUANTITATIVE DISCLOSURE (CONTINUED)

Geographic (Non-consolidated)

Millions of yen

As of March 31	2012 Total	2012 Reserve Amount General	2012 Reserve Amount Specific	2012 Reserve Amount Country	2011 Total	2011 Reserve Amount General	2011 Reserve Amount Specific	2011 Reserve Amount Country
Domestic	**¥ 163,748**	**¥ 35,289**	**¥ 128,458**	**¥ —**	¥ 159,896	¥ 43,302	¥ 116,593	¥ —
Foreign	**32,434**	**4,337**	**28,096**	**0**	45,259	5,077	40,170	12
Total	**¥ 196,183**	**¥ 39,627**	**¥ 156,555**	**¥ 0**	¥ 205,156	¥ 48,379	¥ 156,764	¥ 12

Industries

Millions of yen

As of March 31	2012 Reserve Amount Consolidated	2012 Reserve Amount Non-consolidated	2011 Reserve Amount Consolidated	2011 Reserve Amount Non-consolidated
Manufacturing	**¥ 19,937**	**¥ 14,320**	¥ 16,932	¥ 10,335
Agriculture	**41**	**—**	128	47
Mining	**23**	**14**	105	19
Construction	**1,925**	**41**	1,823	126
Electric power, gas, water supply	**107**	**106**	135	133
Information and communication	**1,543**	**285**	2,016	316
Transportation	**1,912**	**1,548**	3,205	2,334
Wholesale and retail	**2,780**	**839**	5,158	2,078
Finance and insurance	**29,325**	**32,487**	24,931	27,402
Real estate	**83,072**	**85,875**	83,954	79,422
Services	**26,286**	**19,326**	17,622	8,861
Government	**95**	**—**	87	—
Individuals	**134,961**	**4,975**	164,357	7,582
Others	**4,511**	**3,927**	21,859	21,234
Foreign	**33,516**	**32,434**	45,640	45,259
Non-classified	**6,585**	**—**	2,129	—
Total	**¥ 346,625**	**¥ 196,183**	¥ 390,087	¥ 205,156

AMOUNT OF WRITE-OFFS

Industries

Millions of yen

	FY2011 Amount of write-off Consolidated	FY2011 Amount of write-off Non-consolidated	FY2010 Amount of write-off Consolidated	FY2010 Amount of write-off Non-consolidated
Manufacturing	**¥ 570**	**¥ —**	¥ 565	¥ 107
Agriculture	**17**	**—**	—	—
Mining	**—**	**—**	0	—
Construction	**135**	**—**	103	—
Electric power, gas, water supply	**—**	**—**	—	—
Information and communication	**81**	**—**	170	—
Transportation	**143**	**—**	4,413	4,380
Wholesale and retail	**621**	**28**	225	—
Finance and insurance	**3,950**	**3,950**	1,981	1,981
Real estate	**4,726**	**4,645**	4,348	4,325
Services	**722**	**—**	662	116
Government	**—**	**—**	—	—
Individuals	**54,481**	**58**	91,638	2,346
Others	**0**	**—**	—	—
Foreign	**5,275**	**5,275**	—	—
Non-classified	**—**	**—**	—	—
Total	**¥ 70,726**	**¥ 13,958**	¥ 104,110	¥ 13,259

QUANTITATIVE DISCLOSURE (CONTINUED)

AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)

Millions of yen

As of March 31	2012				2011			
	Consolidated		**Non—consolidated**		Consolidated		Non—consolidated	
	Rated	**Unrated**	**Rated**	**Unrated**	Rated	Unrated	Rated	Unrated
0%	**¥ 69**	**¥ 2,027**	**¥ —**	**¥ —**	¥ 122	¥ 8,666	¥ —	¥ —
10%	**—**	**—**	**—**	**—**	—	—	—	—
20%	**127,445**	**0**	**—**	**—**	73,808	0	—	—
35%	**—**	**634,533**	**—**	**634,533**	—	575,243	—	570,486
50%	**464**	**8,331**	**—**	**1,214**	875	12,770	—	2,270
75%	**—**	**593,394**	**—**	**215,055**	—	674,259	—	200,408
100%	**210**	**84,195**	**—**	**1,750**	129	99,285	—	3,560
150%	**0**	**2,218**	**—**	**526**	—	4,978	—	1,223
350%	**—**	**—**	**—**	**—**	—	—	—	—
Capital Deduction	**—**	**—**	**—**	**—**	—	—	—	—
Total	**¥ 128,190**	**¥ 1,324,700**	**¥ —**	**¥ 853,080**	¥ 74,936	¥ 1,375,204	¥ —	¥ 777,949

SPECIALIZED LENDING EXPOSURE UNDER SLOTTING CRITERIA AND EQUITY EXPOSURE UNDER MARKET-BASED SIMPLIFIED METHOD

(1) Specialized lending excluding high—volatility commercial real estate

Millions of yen

As of March 31	2012		2011	
	Amount of Exposure		Amount of Exposure	
Risk weight ratio	**Consolidated**	**Non-consolidated**	Consolidated	Non-consolidated
50%	**¥ 20,921**	**¥ 20,921**	¥ 22,451	¥ 22,451
70%	**55,596**	**53,525**	61,945	59,698
90%	**49,703**	**49,703**	13,490	13,490
115%	**81,629**	**81,629**	27,819	27,819
250%	**148,516**	**145,219**	259,675	256,389
0% (Default)	**153,493**	**152,425**	145,190	145,190
Total	**¥ 509,860**	**¥ 503,424**	¥ 530,572	¥ 525,040

(2) Specialized lending for high-volatility commercial real estate

Millions of yen

As of March 31	2012		2011	
	Amount of Exposure		Amount of Exposure	
Risk weight ratio	**Consolidated**	**Non-consolidated**	Consolidated	Non-consolidated
70%	**¥ 3,657**	**¥ 3,657**	¥ 461	¥ 461
95%	**13,520**	**13,520**	11,001	11,001
120%	**—**	**—**	—	—
140%	**—**	**—**	13,380	13,380
250%	**62,845**	**62,845**	68,644	68,644
0% (Default)	**70,425**	**70,425**	99,548	99,548
Total	**¥ 150,449**	**¥ 150,449**	¥ 193,037	¥ 193,037

(3) Equity exposure under Market-Based Simplified Method

Millions of yen

As of March 31	2012		2011	
Risk weight ratio	**Amount Consolidated**	**Amount Non-consolidated**	Amount Consolidated	Amount Non-consolidated
300%	**¥ 6,973**	**¥ 6,919**	¥ 583	¥ 421
400%	**4,746**	**13,789**	48,994	58,243
Total	**¥ 11,720**	**¥ 20,708**	¥ 49,577	¥ 58,664

QUANTITATIVE DISCLOSURE (CONTINUED)

PORTFOLIOS UNDER IRB EXCLUDING THE AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)

(1) Estimated average PD, LGD, Risk Weight Ratio and Exposure at Default (EAD) (on-balance and off-balance) for Corporate, Sovereign and Bank exposure

Corporate (Consolidated)

Millions of yen (except percentages)

As of March 31	2012					2011				
Credit rating	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)
0	0.03%	45.00%	21.69%	¥ 14,155	¥ —	0.03%	45.00%	23.86%	¥ 15,839	¥ —
1	0.03%	45.00%	11.81%	35,742	34,800	0.03%	45.00%	14.28%	33,707	26,175
2	0.06%	44.53%	23.48%	94,959	42,059	0.05%	44.39%	18.49%	118,787	39,577
3	0.12%	44.97%	32.15%	533,944	88,246	0.14%	44.93%	35.33%	486,233	38,983
4	0.36%	44.88%	54.58%	472,451	54,894	0.41%	44.89%	57.06%	501,949	67,228
5	1.09%	44.39%	86.19%	265,476	21,562	1.30%	44.16%	89.91%	157,733	19,055
6	3.11%	43.87%	116.58%	169,693	22,537	3.06%	41.79%	112.46%	131,104	20,385
9A	10.77%	45.24%	199.96%	243,103	31,596	11.46%	45.72%	208.63%	290,041	22,516
Default	100.00%	46.07%	—	113,021	753	100.00%	46.75%	—	81,501	3,594

Sovereign (Consolidated)

Millions of yen (except percentages)

As of March 31	2012					2011				
Credit rating	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)
0	0.00%	45.00%	—	¥ 1,717,876	¥ 16	0.00%	45.00%	—	¥ 3,009,792	¥ —
1	0.01%	45.00%	3.80%	—	32	0.01%	45.00%	7.28%	128,480	33
2	0.07%	45.00%	23.67%	163,380	4,459	0.06%	45.00%	25.69%	143,985	882
3	0.10%	44.95%	36.91%	69,735	1,212	0.10%	44.97%	35.66%	109,709	1,784
4	0.32%	52.98%	82.68%	2,939	34	0.36%	45.00%	71.78%	3,976	37
5	0.76%	45.00%	84.81%	—	178	0.89%	45.00%	119.91%	1	—
6	3.84%	45.00%	119.62%	0	—	—	—	—	—	—
9A	10.77%	45.00%	227.11%	0	—	11.46%	45.00%	185.74%	12	—
Default	100.00%	45.00%	—	15	—	100.00%	45.00%	—	50	—

Bank (Consolidated)

Millions of yen (except percentages)

As of March 31	2012					2011				
Credit rating	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)
0	0.03%	45.00%	11.78%	¥ 13,106	¥ —	0.03%	45.00%	15.87%	¥ 36,076	¥ 15
1	0.03%	45.00%	25.88%	18	—	0.03%	45.00%	7.64%	5,873	0
2	0.07%	45.48%	23.48%	68,146	120,227	0.06%	45.19%	21.45%	101,950	181,510
3	0.12%	45.41%	29.86%	305,035	100,451	0.13%	45.55%	28.96%	173,223	108,795
4	0.44%	45.00%	66.08%	9,588	22,720	0.52%	45.00%	67.63%	27,498	27,703
5	0.87%	45.00%	74.11%	33,461	1,427	0.93%	45.00%	78.17%	20,806	1,622
6	3.69%	45.00%	165.20%	10,090	574	3.49%	45.00%	161.46%	9,764	56
9A	10.77%	45.02%	186.51%	1,979	232	11.46%	45.01%	199.26%	3,658	891
Default	100.00%	45.00%	—	83	—	—	—	—	—	—

Corporate (Non-consolidated)

Millions of yen (except percentages)

As of March 31	2012					2011				
Credit rating	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)
0	0.03%	45.00%	21.69%	¥ 14,155	¥ —	0.03%	45.00%	23.95%	¥ 15,726	¥ —
1	0.03%	45.00%	11.82%	35,692	34,800	0.03%	45.00%	14.29%	33,525	26,175
2	0.06%	44.57%	24.83%	108,121	42,059	0.05%	44.39%	19.19%	118,783	39,577
3	0.12%	44.97%	32.08%	515,590	88,246	0.14%	44.92%	35.10%	465,335	38,983
4	0.38%	44.92%	53.43%	671,473	55,570	0.45%	44.92%	55.81%	763,769	68,486
5	1.09%	44.21%	85.75%	202,390	21,412	1.30%	43.80%	90.50%	104,445	18,955
6	2.87%	44.09%	108.37%	218,182	22,432	2.77%	42.44%	106.49%	165,125	24,666
9A	10.77%	45.28%	201.31%	204,790	31,618	11.46%	45.74%	205.79%	280,627	22,516
Default	100.00%	46.18%	—	101,696	1,353	100.00%	46.80%	—	79,194	3,594

QUANTITATIVE DISCLOSURE (CONTINUED)

Sovereign (Non-consolidated)

Millions of yen (except percentages)

As of March 31	2012					2011				
Credit rating	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)
0	0.00%	45.00%	—	¥ 1,706,167	¥ 16	0.00%	45.00%	—	¥ 3,000,670	¥ —
1	0.01%	45.00%	3.80%	—	32	0.01%	45.00%	7.28%	128,480	33
2	0.07%	45.00%	23.91%	160,180	4,459	0.06%	45.00%	25.94%	141,176	882
3	0.10%	44.95%	36.91%	69,733	1,212	0.10%	44.97%	35.66%	109,709	1,784
4	0.32%	52.98%	82.68%	2,939	34	0.36%	45.00%	71.78%	3,976	37
5	0.76%	45.00%	84.81%	—	178	0.89%	45.00%	119.91%	1	—
6	—	—	—	—	—	—	—	—	—	—
9A	10.77%	45.00%	227.11%	0	—	11.46%	45.00%	185.74%	12	—
Default	100.00%	45.00%	—	15	—	100.00%	45.00%	—	50	—

Bank (Non-consolidated)

Millions of yen (except percentages)

As of March 31	2012					2011				
Credit rating	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)
0	0.03%	45.00%	13.98%	¥ 8,596	¥ —	0.03%	45.00%	17.03%	¥ 31,678	¥ 15
1	0.03%	45.00%	25.88%	18	—	0.03%	45.00%	7.64%	5,873	0
2	0.07%	45.48%	23.53%	66,416	120,227	0.06%	45.19%	21.50%	99,473	181,510
3	0.12%	45.46%	31.03%	260,755	100,432	0.12%	45.78%	30.84%	89,040	108,716
4	0.41%	45.00%	59.96%	14,293	30,604	0.50%	45.00%	65.42%	25,760	37,269
5	0.85%	45.00%	74.03%	30,954	1,427	0.92%	45.00%	78.12%	19,817	1,622
6	3.71%	45.00%	166.70%	9,797	574	3.57%	45.00%	165.47%	9,157	56
9A	10.77%	45.17%	221.40%	59	232	11.46%	45.05%	223.57%	80	891
Default	100.00%	45.00%	—	83	—	—	—	—	—	—

Note: LGD after credit risk mitigation

(2) Estimated average PD, risk weight ratio and amount of exposure for equity exposure under PD/LGD method

(Consolidated)

Millions of yen (except percentages)

As of March 31	2012				2011			
Credit rating	PD	LGD	Risk Weight	Amount	PD	LGD	Risk Weight	Amount
0	0.00%	90.00%	—	¥ 1	0.00%	90.00%	—	¥ 9
1	—	—	—	—	—	—	—	—
2	0.07%	90.00%	200.02%	4,781	0.06%	90.00%	200.02%	4,136
3	0.15%	90.00%	200.52%	2,290	0.17%	90.00%	200.33%	2,245
4	0.41%	90.00%	263.64%	2,564	0.54%	90.00%	288.23%	3,026
5	0.94%	90.00%	294.61%	2,448	1.39%	90.00%	374.44%	6,345
6	2.85%	90.00%	343.90%	665	2.28%	90.00%	452.06%	50
9A	10.77%	90.00%	651.78%	8,457	11.46%	90.00%	581.24%	12,033
Default	100.00%	90.00%	—	701	100.00%	90.00%	—	19

(Non-consolidated)

Millions of yen (except percentages)

As of March 31	2012				2011			
Credit rating	PD	LGD	Risk Weight	Amount	PD	LGD	Risk Weight	Amount
0	0.00%	90.00%	—	¥ 1	0.00%	90.00%	—	¥ 9
1	—	—	—	—	—	—	—	—
2	0.07%	90.00%	200.02%	4,781	0.06%	90.00%	200.02%	4,136
3	0.15%	90.00%	200.00%	2,279	0.17%	90.00%	200.00%	2,237
4	0.38%	90.00%	299.76%	382,645	0.50%	90.00%	302.56%	382,864
5	0.95%	90.00%	294.08%	2,227	1.39%	90.00%	374.94%	6,303
6	3.73%	90.00%	337.47%	5,814	2.28%	90.00%	452.06%	50
9A	10.77%	90.00%	678.72%	38,151	11.46%	90.00%	658.96%	45,087
Default	100.00%	90.00%	—	3,827	100.00%	90.00%	—	987

QUANTITATIVE DISCLOSURE (CONTINUED)

(3) 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

(Consolidated)

Residential mortgage exposure

Millions of yen (except percentages)

As of March 31	2012							2011						
						Undrawn Commitments							Undrawn Commitments	
Pool	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	Amount	CCF	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	Amount	CCF
Normal	1.57%	69.29%	104.68%	¥10,723	¥9,393	¥ —	—	1.42%	72.55%	103.13%	¥13,045	¥10,415	¥—	—
Need caution	78.59%	52.40%	130.09%	3	168	—	—	79.01%	51.70%	126.03%	6	333	—	—
Default	100.00%	67.49%	—	500	145	—	—	100.00%	62.67%	—	970	180	—	—

Qualified revolving retail exposure

Millions of yen (except percentages)

As of March 31	2012							2011						
						Undrawn Commitments							Undrawn Commitments	
Pool	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	Amount	CCF	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	Amount	CCF
Normal	4.21%	85.61%	83.17%	¥108,451	¥20,193	¥2,192,205	0.92%	4.93%	85.67%	93.21%	¥117,233	¥22,540	¥2,729,828	0.83%
Need caution	71.48%	84.95%	182.68%	2,151	—	—	—	74.94%	87.36%	170.65%	3,984	—	—	—
Default	100.00%	84.68%	—	41,706	—	—	—	100.00%	85.63%	—	45,285	—	—	—

Other retail exposure

Millions of yen (except percentages)

As of March 31	2012							2011						
						Undrawn Commitments							Undrawn Commitments	
Pool	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	Amount	CCF	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	Amount	CCF
Normal	2.56%	61.70%	75.98%	¥320,388	¥705,974	¥179,702	1.26%	2.64%	62.03%	76.94%	¥317,737	¥89,839	¥196,217	1.44%
Need caution	79.87%	60.03%	88.85%	7,222	2,785	—	—	82.04%	59.28%	79.50%	9,300	4,207	—	—
Default	100.00%	59.42%	—	102,848	590	—	—	100.00%	57.90%	—	103,806	665	—	—

(Non-Consolidated)

Other retail exposure

Millions of yen (except percentages)

As of March 31	2012							2011						
						Undrawn Commitments							Undrawn Commitments	
Pool	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	Amount	CCF	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	Amount	CCF
Normal	There is no exposure as of March 31, 2012. A tie-up loan with APLUS Co., Ltd., which was the target exposure as of March 31, 2011, had been transferred to one of the Bank's consolidated subsidiaries.							3.45%	63.22%	87.16%	¥21,089	¥ —	¥ —	—
Need caution								76.84%	63.46%	105.33%	173	—	—	—
Default								100.00%	63.37%	—	47	—	—	—

Note: LGD is shown after credit risk mitigation.

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QUANTITATIVE DISCLOSURE (CONTINUED)

COMPARATIVE RESULTS OF ACTUAL LOSSES AND EXPECTED LOSSES FOR THE LAST TWO YEARS UNDER F-IRB APPROACH

Millions of yen

	FY2011	FY2010	FY2009
Results of actual losses (a)	**¥ 17,113**	¥ 17,233	¥ 8,570
Expected losses (b)	**18,734**	20,830	14,953
Differences ((b) - (a))	**1,621**	3,597	6,383

The above matrix shows the results of default (downgrade below substandard) losses (increase of reserve, write-offs and loss on sale) for the fiscal years 2009, 2010 and 2011 for the Bank's non-default corporate exposure at the start of the fiscal year, with expected losses calculated using estimated PD at the end of March 2012.

5. CREDIT RISK MITIGATION (CRM)

COVERED AMOUNT OF CRM BY COLLATERAL

FIRB

Millions of yen

	2012		2011	
As of March 31	**Eligible financial collateral**	**Other eligible FIRB collateral**	Eligible financial collateral	Other eligible FIRB collateral
Corporate	**¥ 7,253**	**¥ 153,196**	¥ 13,833	¥ 144,062
Sovereign	**—**	**—**	—	53
Bank	**—**	**—**	—	—
Total	**¥ 7,253**	**¥ 153,196**	¥ 13,833	¥ 144,116

COVERED AMOUNT OF CRM BY GUARANTEE OR CREDIT DERIVATIVES

Millions of yen

	2012		2011	
As of March 31	**Consolidated**	**Non-consolidated**	Consolidated	Non-consolidated
SA Exposures	**¥ —**	**¥ —**	¥ —	¥ —
IRB Exposures	**148,890**	**148,890**	134,102	134,102
Corporate	**9,339**	**9,339**	15,769	15,769
Sovereign	**80,833**	**80,833**	65,955	65,955
Bank	**58,717**	**58,717**	52,377	52,377
Residential mortgages	**—**	**—**	—	—
Qualified revolving retail	**—**	**—**	—	—
Other retail	**—**	**—**	—	—

QUANTITATIVE DISCLOSURE (CONTINUED)

6. COUNTERPARTY CREDIT RISK OF DERIVATIVES

(1) Measurement of EAD
Current Exposure Method
(2) Total amount of gross positive fair value
Refer to below table
(3) EAD before CRM
Refer to below table
(4) Net of: (2) + amount of gross add-on - (3)
Refer to below table
(5) Amount covered collateral
Zero
(6) EAD after CRM
Refer to below table

Millions of yen

As of March 31	2012 Consolidated	2012 Non-consolidated	2011 Consolidated	2011 Non-consolidated
Total amount of gross positive fair value	**¥ 583,383**	**¥ 594,860**	¥ 591,492	¥ 599,668
Amount of gross add-on	**253,278**	**239,097**	319,274	305,772
EAD before CRM	**836,661**	**833,958**	910,767	905,440
FX-related	**277,499**	**277,727**	422,899	423,973
Interest-related	**248,152**	**248,658**	211,906	212,314
Equity-related	**64,684**	**62,423**	71,135	68,493
Commodity-related	**—**	**—**	—	—
Credit derivatives	**246,247**	**245,070**	204,747	200,579
Others	**78**	**78**	78	78
Amount of net	**544,609**	**560,677**	543,243	556,862
EAD after net	**292,051**	**273,280**	367,523	348,578
Amount covered collateral	**—**	**—**	—	—
EAD after CRM	**292,051**	**273,280**	367,523	348,578

(7) Notional amount of credit derivatives which have counterparty risk

Consolidated

Millions of yen

As of March 31	2012		2011	
Notional amount	**Protection-buy**	**Protection-sell**	Protection-buy	Protection-sell
Single name	**¥ 587,696**	**¥ 401,199**	¥ 955,195	¥ 537,335
Multi name	**208,511**	**107,419**	223,601	103,696

Non-consolidated

Millions of yen

As of March 31	2012		2011	
Notional amount	**Protection-buy**	**Protection-sell**	Protection-buy	Protection-sell
Single name	**¥ 341,955**	**¥ 467,131**	¥ 529,394	¥ 605,368
Multi name	**146,071**	**112,219**	160,161	108,496

(8) Notional amount of credit derivatives which cover exposures by CRM

Millions of yen

As of March 31	2012 Consolidated	2012 Non-consolidated	2011 Consolidated	2011 Non-consolidated
Notional amount	**¥ 3,717**	**¥ 3,717**	¥ 6,405	¥ 6,405

QUANTITATIVE DISCLOSURE (CONTINUED)

7. SECURITIZATION

SECURITIZATION EXPOSURE ORIGINATED BY THE BANK GROUP (CREDIT RISK)

(1) Amount of original assets

Securitization by transfer of assets

Consolidated

As of March 31	2012	2011
	Millions of yen	
Type of original assets	**Amount of original asset**	Amount of original asset
Residential mortgages	**¥ 276,110**	¥ 353,679
Consumer loans	**3,754**	13,178
Commercial real estate loans	**13,524**	21,733
Corporate loans	**34,009**	28,423
Others	**—**	25
Total	**¥ 327,397**	¥ 417,039

Non-consolidated

As of March 31	2012	2011
	Millions of yen	
Type of original assets	**Amount of original asset**	Amount of original asset
Residential mortgages	**¥ 276,110**	¥ 353,679
Consumer loans	**292,768**	358,771
Commercial real estate loans	**13,524**	21,733
Corporate loans	**34,009**	28,423
Others	**184,353**	218,834
Total	**¥ 800,765**	¥ 981,440

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

Consolidated

As of March 31	2012	2011
	Millions of yen	
Type of original assets	**Amount of Default**	Amount of Default
Residential mortgages	**¥ 5,118**	¥ 5,263
Consumer loans	**135**	125
Commercial real estate loans	**13,374**	21,583
Corporate loans	**26,909**	28,423
Others	**—**	—
Total	**¥ 45,536**	¥ 55,394

Non-consolidated

As of March 31	2012	2011
	Millions of yen	
Type of original assets	**Amount of Default**	Amount of Default
Residential mortgages	**¥ 5,118**	¥ 5,263
Consumer loans	**—**	—
Commercial real estate loans	**13,374**	21,583
Corporate loans	**26,909**	28,423
Others	**—**	—
Total	**¥ 45,401**	¥ 55,269

Note: Includes originally securitized assets originated by the Bank Group, even though the Bank Group had no exposure to these particular assets.

QUANTITATIVE DISCLOSURE (CONTINUED)

(3) Amount of assets held for securitization trade

None.

(4) Summary of current year's securitization activities

Originate ¥7.7 billion of Corporate loans.

(5) Amount of recognized gain/loss by original asset type during FY2012

None.

(6) Amount of securitization exposure the Bank Group has by type of original assets

Securitization by transfer of assets

Consolidated

Excluding Resecuritization

As of March 31	2012	2011
	Millions of yen	
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 88,038**	¥ 119,851
Consumer loans	**3,754**	13,178
Commercial real estate loans	**—**	—
Corporate loans	**25,185**	24,523
Others	**—**	—
Total	**¥ 116,977**	¥ 157,553

Resecuritization

As of March 31	2012	2011
	Millions of yen	
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 919**	
Consumer loans	**—**	
Commercial real estate loans	**—**	
Corporate loans	**—**	
Others	**—**	
Total	**¥ 919**	

Non-consolidated

Excluding Resecuritization

As of March 31	2012	2011
	Millions of yen	
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 88,038**	¥ 119,851
Consumer loans	**199,800**	177,700
Commercial real estate loans	**—**	—
Corporate loans	**25,185**	24,523
Others	**149,860**	180,845
Total	**¥ 462,884**	¥ 502,920

Resecuritization

As of March 31	2012	2011
	Millions of yen	
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 919**	
Consumer loans	**—**	
Commercial real estate loans	**—**	
Corporate loans	**—**	
Others	**—**	
Total	**¥ 919**	

QUANTITATIVE DISCLOSURE (CONTINUED)

(7) Amount of securitization exposure and required capital the Bank Group has by risk weight ratio
Securitization by transfer of assets
Consolidated
Excluding Resecuritization

Millions of yen

As of March 31	2012		2011	
Band of risk weight ratio	**Amount**	**Required Capital amount**	Amount	Required Capital amount
To 12%	**¥ 19,667**	**¥ 116**	¥ 25,088	¥ 151
Over 12% to 20%	**76,228**	**1,219**	96,425	1,543
Over 20% to 50%	**—**	**—**	—	—
Over 50% to 75%	**—**	**—**	—	—
Over 75% to 100%	**12,987**	**1,037**	25,115	1,994
Over 100% to 250%	**7,943**	**1,103**	10,723	1,102
Over 250% to 425%	**—**	**—**	20	4
Over 425%	**151**	**99**	181	128
Total	**¥ 116,977**	**¥ 3,577**	¥157,553	¥ 4,925

Resecuritization

Millions of yen

As of March 31	2012		2011	
Band of risk weight ratio	**Amount**	**Required Capital amount**	Amount	Required Capital amount
To 30%	**¥ 526**	**¥ 13**		
Over 30% to 50%	**—**	**—**		
Over 50% to 100%	**392**	**21**		
Over 100% to 225%	**—**	**—**		
Over 225% to 500%	**—**	**—**		
Over 500%	**—**	**—**		
Total	**¥ 919**	**¥ 35**		

Non-consolidated
Excluding Resecuritization

Millions of yen

As of March 31	2012		2011	
Band of risk weight ratio	**Amount**	**Required Capital amount**	Amount	Required Capital amount
To 12%	**¥ 212,728**	**¥ 1,912**	¥ 321,033	¥ 2,901
Over 12% to 20%	**143,728**	**2,364**	102,725	1,650
Over 20% to 50%	**46,600**	**1,917**	50,900	2,158
Over 50% to 75%	**32,500**	**2,067**	5,400	343
Over 75% to 100%	**21,800**	**1,792**	22,862	1,828
Over 100% to 250%	**5,526**	**884**	—	—
Over 250% to 425%	**—**	**—**	—	—
Over 425%	**—**	**—**	—	—
Total	**¥ 462,884**	**¥ 10,937**	¥ 502,920	¥ 8,882

Resecuritization

Millions of yen

As of March 31	2012		2011	
Band of risk weight ratio	**Amount**	**Required Capital amount**	Amount	Required Capital amount
To 30%	**¥ 526**	**¥ 13**		
Over 30% to 50%	**—**	**—**		
Over 50% to 100%	**392**	**21**		
Over 100% to 225%	**—**	**—**		
Over 225% to 500%	**—**	**—**		
Over 500%	**—**	**—**		
Total	**¥ 919**	**¥ 35**		

QUANTITATIVE DISCLOSURE (CONTINUED)

(8) Amount of increase of capital by securitization (to be deducted from Tier I capital)

As of March 31	Millions of yen 2012		2011	
Type of original assets	**Consolidated**	**Non-consolidated**	Consolidated	Non-consolidated
Residential mortgages	**¥ 9,740**	**¥ 9,740**	¥ 10,088	¥ 10,088
Consumer loans, installment receivables	**—**	**—**	6	—
Commercial real estate loans	**0**	**0**	0	0
Others	**—**	**—**	—	—
Total	**¥ 9,740**	**¥ 9,740**	¥ 10,095	¥ 10,088

(9) Amount of securitization exposure which should be deducted from capital under the Accord Article 247

As of March 31	Millions of yen 2012		2011	
Type of original assets	**Consolidated**	**Non-consolidated**	Consolidated	Non-consolidated
Residential mortgages	**¥ 15,279**	**¥ 15,279**	¥ 3,412	¥ 3,412
Consumer loans, installment receivables	**—**	**—**	—	—
Commercial real estate loans	**150**	**150**	150	150
Others	**—**	**—**	21	—
Total	**¥ 15,429**	**¥ 15,429**	¥ 3,583	¥ 3,562

(10) Securitization exposure subject to early amortization

None.

(11) Credit risk mitigation for resecuritization exposure

None.

(12) Amount of credit risk asset of securitization under SA subject to the Accord Supplementary Provision 15

None.

SECURITIZATION EXPOSURE IN WHICH THE BANK GROUP INVESTS (CREDIT RISK)

(1) Amount of securitization exposure the Bank Group has by type of original asset

Consolidated

Excluding Resecuritization

As of March 31	Millions of yen 2012	2011
Type of original assets	Amount of Exposure	Amount of Exposure
Residential mortgages	**¥ 4,225**	¥ 10,313
Consumer loans	**—**	—
Commercial real estate loans	**85,210**	72,572
Corporate loans	**21,482**	41,794
Others	**63,699**	118,484
Total	**¥ 174,617**	¥ 243,165

Resecuritization

As of March 31	Millions of yen 2012	2011
Type of original assets	Amount of Exposure	Amount of Exposure
Residential mortgages	**¥ —**	
Consumer loans	**—**	
Commercial real estate loans	**—**	
Corporate loans	**17,792**	
Others	**—**	
Total	**¥ 17,792**	

QUANTITATIVE DISCLOSURE (CONTINUED)

Non-consolidated

Excluding Resecuritization

As of March 31	Millions of yen	
	2012	2011
Type of original assets	Amount of Exposure	Amount of Exposure
Residential mortgages	**¥ 4,225**	¥ 10,313
Consumer loans	**—**	—
Commercial real estate loans	**85,210**	72,572
Corporate loans	**21,482**	41,794
Others	**58,793**	106,385
Total	**¥ 169,711**	¥ 231,067

Resecuritization

As of March 31	Millions of yen	
	2012	2011
Type of original assets	Amount of Exposure	Amount of Exposure
Residential mortgages	**¥ —**	
Consumer loans	**—**	
Commercial real estate loans	**—**	
Corporate loans	**17,792**	
Others	**—**	
Total	**¥ 17,792**	

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

Consolidated

Excluding Resecuritization

As of March 31	Millions of yen			
	2012		2011	
Band of risk weight ratio	**Amount**	**Required Capital amount**	Amount	Required Capital amount
To 12%	**¥ 101,419**	**¥ 614**	¥ 156,984	¥ 1,160
Over 12% to 20%	**6,643**	**84**	10,385	133
Over 20% to 50%	**—**	**—**	2,450	51
Over 50% to 75%	**2,006**	**127**	6,992	444
Over 75% to 100%	**—**	**—**	1,000	84
Over 100% to 250%	**28,048**	**5,109**	28,265	4,094
Over 250% to 425%	**36,500**	**8,043**	37,088	10,292
Over 425%	**—**	**—**	—	—
Total	**¥ 174,617**	**¥ 13,978**	¥ 243,165	¥ 16,262

Resecuritization

As of March 31	Millions of yen			
	2012		2011	
Band of risk weight ratio	**Amount**	**Required Capital amount**	Amount	Required Capital amount
To 30%	**¥ 17,792**	**¥ 364**		
Over 30% to 50%	**—**	**—**		
Over 50% to 100%	**—**	**—**		
Over 100% to 225%	**—**	**—**		
Over 225% to 500%	**—**	**—**		
Over 500%	**—**	**—**		
Total	**¥ 17,792**	**¥ 364**		

QUANTITATIVE DISCLOSURE (CONTINUED)

Non-consolidated

Excluding Resecuritization

Millions of yen

As of March 31	2012		2011	
Band of risk weight ratio	**Amount**	**Required Capital amount**	Amount	Required Capital amount
To 12%	**¥ 96,513**	**¥ 584**	¥ 144,886	¥ 1,088
Over 12% to 20%	**6,643**	**84**	10,385	133
Over 20% to 50%	**—**	**—**	2,450	51
Over 50% to 75%	**2,006**	**127**	6,992	444
Over 75% to 100%	**—**	**—**	1,000	84
Over 100% to 250%	**28,048**	**5,109**	28,265	4,094
Over 250% to 425%	**36,500**	**8,043**	37,088	10,292
Over 425%	**—**	**—**	—	—
Total	**¥ 169,711**	**¥ 13,949**	¥ 231,067	¥ 16,190

Resecuritization

Millions of yen

As of March 31	2012		2011	
Band of risk weight ratio	**Amount**	**Required Capital amount**	Amount	Required Capital amount
To 30%	**¥ 17,792**	**¥ 364**		
Over 30% to 50%	**—**	**—**		
Over 50% to 100%	**—**	**—**		
Over 100% to 225%	**—**	**—**		
Over 225% to 500%	**—**	**—**		
Over 500%	**—**	**—**		
Total	**¥ 17,792**	**¥ 364**		

(3) Amount of securitization exposure which should be deducted from capital under the Accord Article 247

Millions of yen

As of March 31	2012		2011	
Type of original assets	**Consolidated**	**Non-consolidated**	Consolidated	Non-consolidated
Residential mortgages	**¥ 263**	**¥ 263**	¥ 671	¥ 671
Consumer loans, installment receivables	**—**	**—**	—	—
Commercial real estate loans	**—**	**—**	1,928	1,928
Corporate loans	**15,159**	**15,159**	15,287	15,287
Others	**—**	**—**	—	—
Total	**¥ 15,422**	**¥15,422**	¥ 17,888	¥ 17,888

(4) Credit risk mitigation for resecuritization exposure

None.

(5) Amount of credit risk asset of securitization under SA subject to the Accord Supplementary Provision 15

None.

QUANTITATIVE DISCLOSURE (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

Consolidated

Excluding Resecuritization

Millions of yen

As of March 31	2012	2011
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 3,530**	¥
Consumer loans	**—**	
Commercial real estate loans	**—**	
Corporate loans	**—**	
Others	**—**	
Total	**¥ 3,530**	¥

Resecuritization

Millions of yen

As of March 31	2012	2011
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 888**	¥
Consumer loans	**—**	
Commercial real estate loans	**—**	
Corporate loans	**—**	
Others	**—**	
Total	**¥ 888**	¥

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

Consolidated

Excluding Resecuritization

Millions of yen

As of March 31	2012		2011	
Band of risk weight ratio	**Amount**	**Required Capital amount**	Amount	Required Capital amount
1.6%	**¥ 3,530**	**¥ 56**	¥	¥
4%	**—**	**—**		
8%	**—**	**—**		
28%	**—**	**—**		
Total	**¥ 3,530**	**¥ 56**	¥	¥

Resecuritization

Millions of yen

As of March 31	2012		2011	
Band of risk weight ratio	**Amount**	**Required Capital amount**	Amount	Required Capital amount
3.2%	**¥ 888**	**¥ 28**	¥	¥
8%	**—**	**—**		
18%	**—**	**—**		
52%	**—**	**—**		
Total	**¥ 888**	**¥ 28**	¥	¥

(3) Amount of securitization exposure targeted for comprehensive risk

None.

(4) Amount of securitization exposure which should be deducted from capital under the Accord Article 302.5.2

None.

QUANTITATIVE DISCLOSURE (CONTINUED)

8. MARKET RISK (UNDER INTERNAL MODEL APPROACH)

VAR AT THE END OF MARCH 2012 AND 2011 AND THE HIGH, MEAN AND LOW VAR

Millions of yen

	2012		2011	
As of March 31	**Consolidated**	**Non-consolidated**	Consolidated	Non-consolidated
VaR at term end	**¥ 1,230**	**¥ 1,180**	¥ 3,785	¥ 3,734
VaR through this term				
High	**3,961**	**3,869**	3,964	3,912
Mean	**2,395**	**2,266**	2,251	2,186
Low	**1,052**	**1,019**	1,478	1,434

STRESSED VAR AT THE END OF MARCH 2012 AND 2011 AND THE HIGH, MEAN AND LOW VAR

Millions of yen

	2012		2011	
As of March 31	**Consolidated**	**Non-consolidated**	Consolidated	Non-consolidated
VaR at term end	**¥ 3,764**	**¥ 3,620**	¥	¥
VaR through this term				
High	**5,476**	**5,359**		
Mean	**4,376**	**4,281**		
Low	**3,764**	**3,620**		

There are no additional and comprehensive risks calculated during FY 2012.
The trading portfolio experienced no losses that exceeded the specified VaR threshold.

9. EQUITY EXPOSURE IN BANKING BOOK

BOOK VALUE AND FAIR VALUE

Millions of yen

	2012		2011	
As of March 31	**Consolidated**	**Non-consolidated**	Consolidated	Non-consolidated
Market-based approach				
Listed equity exposure	**¥ 6,973**	**¥ 6,919**	¥ 583	¥ 421
Unlisted equity exposure	**4,746**	**13,789**	48,994	58,243
PD/LGD method				
Listed equity exposure	**10,129**	**10,129**	13,842	13,842
Unlisted equity exposure	**11,780**	**429,596**	14,021	427,833

GAIN OR LOSS ON SALE OR DEPRECIATION OF EQUITY EXPOSURE

Millions of yen

	FY2011		FY2010	
	Consolidated	**Non-consolidated**	Consolidated	Non-consolidated
Gain (loss) on sale	**¥ 8,617**	**¥ 8,602**	¥ 2,284	¥ 2,280
Loss of depreciation	**9,034**	**502**	851	726

UNREALIZED GAIN OR LOSS WHICH IS RECOGNIZED ON BALANCE SHEET AND NOT RECOGNIZED ON PROFIT AND LOSS STATEMENT

Millions of yen

	2012		2011	
As of March 31	**Consolidated**	**Non-consolidated**	Consolidated	Non-consolidated
Unrealized gain (loss)	**¥ 5,332**	**¥ 5,101**	¥ (2,891)	¥ (3,453)

UNREALIZED GAIN OR LOSS WHICH IS NOT RECOGNIZED BOTH ON BALANCE SHEET AND ON PROFIT AND LOSS STATEMENT

None.

QUANTITATIVE DISCLOSURE (CONTINUED)

AMOUNT OF EQUITY EXPOSURE UNDER GRANDFATHERING RULE SUBJECT TO THE ACCORD SUPPLEMENTARY PROVISION 13

	Millions of yen			
	2012		2011	
As of March 31	**Consolidated**	**Non-consolidated**	Consolidated	Non-consolidated
Grandfathering rule (100% risk weight apply)	**¥ 6,196**	**¥ 16,665**	¥ 7,449	¥ 17,477

10. AMOUNT OF REGARDED EXPOSURE UNDER THE ACCORD ARTICLE 167

	Millions of yen			
	2012		2011	
As of March 31	**Consolidated**	**Non-consolidated**	Consolidated	Non-consolidated
Regarded exposure (fund)	**¥ 61,299**	**¥ 43,010**	¥ 73,802	¥ 53,979

11. 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			
	2012		2011	
As of March 31	**Consolidated**	**Non-consolidated**	Consolidated	Non-consolidated
JPY	**¥ (1.1)**	**¥ (1.3)**	¥ (33.2)	¥ (3.5)
USD	**(2.8)**	**(2.8)**	(0.0)	(0.0)
Others	**(2.6)**	**(2.6)**	(0.2)	(0.2)
Total	**¥ (16.6)**	**¥ (6.8)**	¥ (33.4)	¥ (3.7)

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 high level of remuneration, etc." and who have a material impact on the 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 six companies list below. While there are five consolidated subsidiaries, etc. with total assets accounting for 2% or more of consolidated total assets, three of those five companies are included in the following six companies. The remaining two companies are an SPC established for investment purposes and another SPC established for securitization, and these companies are excluded because they do not pay any remuneration.

DISCLOSURE ITEMS CONCERNING REMUNERATION, ETC. (CONTINUED)

Shinsei Trust & Banking Co., Ltd.
Shinsei Securities Co., Ltd.
APLUS FINANCIAL Co., Ltd.
Showa Leasing Co., Ltd.
SHINKI Co., Ltd.
Shinsei Financial Co., Ltd.

(b) Scope of the "persons who receive a high level of remuneration, etc."

The "persons who receive a high level of 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 in the fiscal year reported)." In the fiscal year reported, there were eight 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 high level 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 that 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 eight 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 a year (of this amount, ¥50 million is for outside directors); for Statutory Auditors: up to ¥60 million 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 consultations among Statutory Auditors.

1) 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 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 content.

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 Directors, the Standing Statutory Auditors, and two outside Statutory Auditors, and is 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 a 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.

DISCLOSURE ITEMS CONCERNING REMUNERATION, ETC. (CONTINUED)

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 amount 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 AMOUNTS PAYABLE, AND THE 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, 2011 to March 31, 2012)
(For both consolidated / and non-consolidated bases)

Category	Number of people	Total amount of remuneration, etc. (in million yen)										
			Total amount of fixed remuneration	Basic remuneration	Stock option given as compensation	Other	Total amount of variable remuneration	Basic remuneration	Bonus	Other	Retirement allowance	Other
Applicable Officers (excl. outside officers)	5	164	146	146	0	0	12	0	12	0	6	0
Applicable Employees, etc.	8	497	423	251	10	162	29	0	29	0	46	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 five people in total consisting of two fulltime Directors, one Standing Statutory Auditor, and two Standing Statutory Auditors who resigned during the fiscal year reported.
(3) The amount of remuneration paid to Applicable Officers includes remuneration paid during the fiscal year reported; that is, remuneration paid to them as employees before being appointed as officers and remuneration paid to them as employees after resigning as officers.
(4) 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 (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.
(5) Eight people who received remuneration at or over ¥40 million 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 eight people during the fiscal year reported (April 2011 to March 2012).
(6) 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 for 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.
(7) 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. 14th 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. 16th Warrant	From June 1, 2009 to June 23, 2015	From June 1, 2011 to June 23, 2015
Shinsei Bank, Ltd. 17th Warrant	From June 1, 2009 to May 8, 2017	From June 1, 2011 to May 8, 2017
Shinsei Bank, Ltd. 18th Warrant	From June 1, 2009 to May 8, 2017	From June 1, 2011 to May 8, 2017
Shinsei Bank, Ltd. 20th Warrant	From June 1, 2010 to May 13, 2018	From June 1, 2012 to May 13, 2018
Shinsei Bank, Ltd. 21st 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, 2012

As of March 31, 2012, the Shinsei Bank Group consisted of Shinsei Bank, Limited, 213 subsidiaries (comprising 133 consolidated companies including APLUS FINANCIAL Co., Ltd., Showa Leasing Co., Ltd. and Shinsei Financial Co., Ltd. and 80 unconsolidated subsidiaries) and 16 affiliated companies (15 affiliated companies accounted for using the equity method, such as Jih Sun Financial Holding Co., Ltd. and 1 affiliated company not accounted for using equity method). The Shinsei Bank Group provides a wide variety of financial products and services to domestic institutional and individual customers through the "Institutional Group," "Global Markets Group" and "Individual Group."

Shinsei Bank, Limited

- Institutional Group
  - Head Office and domestic branch offices
  - Major subsidiary: •Showa Leasing Co., Ltd. •Shinsei Trust & Banking Co., Ltd. •Shinsei Servicing Company
- Global Markets Group
  - Head Office and domestic branch offices
  - Major subsidiaries: •Shinsei Securities Co., Ltd. •Shinsei Investment Management Co., Ltd.
- Individual Group
  - Head Office and domestic branches
  - Major subsidiaries: •Shinsei Financial Co., Ltd. •SHINKI Co., Ltd. •APLUS FINANCIAL Co., Ltd.

MAJOR SUBSIDIARIES AND AFFILIATES

Name	Location	Main business
Major Domestic Subsidiaries		
Showa Leasing Co., Ltd.	Tokyo, Japan	Leasing*1
Shinsei Trust & Banking Co., Ltd.	Tokyo, Japan	Trust banking*1
Shinsei Securities Co., Ltd.	Tokyo, Japan	Securities*2
Shinsei Investment Management Co., Ltd.	Tokyo, Japan	Investment trust and discretionary investment advisory*2
Shinseigin Finance Co., Ltd.	Tokyo, Japan	Finance*1
Shinsei Servicing Company	Tokyo, Japan	Servicing business*1
Shinsei Property Finance Co., Ltd.	Tokyo, Japan	Real estate collateral finance*3
APLUS FINANCIAL Co., Ltd.	Osaka, Japan	Holding company*3
APLUS Co., Ltd.	Osaka, Japan	Installment credit*3
APLUS Personal Loan Co., Ltd.	Osaka, Japan	Finance*3
Zen-Nichi Shinpan Co., Ltd.	Okayama, Japan	Installment credit*3
Shinsei Financial Co., Ltd.	Tokyo, Japan	Finance*3
SHINKI Co., Ltd.	Tokyo, Japan	Finance*3
Shinsei Information Technology Co., Ltd.	Tokyo, Japan	Information technology*4
Major Overseas Subsidiaries		
Shinsei International Limited	London, UK	Securities*1
Shinsei Bank Finance N.V.	Curaçao, Netherlands Antilles	Finance*2
Shinsei Finance (Cayman), Limited	Grand Cayman, Cayman Islands	Finance*2
Shinsei Finance II (Cayman), Limited	Grand Cayman, Cayman Islands	Finance*2
Shinsei Finance III (Cayman), Limited	Grand Cayman, Cayman Islands	Finance*2
Shinsei Finance IV (Cayman), Limited	Grand Cayman, Cayman Islands	Finance*2
Shinsei Finance V (Cayman), Limited	Grand Cayman, Cayman Islands	Finance*2
Major Affiliates Accounted for Using the Equity Method		
Comox Holdings Ltd.	Hamilton, Bermuda	Holding company*2
Jih Sun Financial Holding Co., Ltd.	Taipei, Taiwan	Finance*1

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

EMPLOYEES

	2010	2011	**2012**
Consolidated			
Number of Employees	6,116	5,718	**4,830**
Non-Consolidated			
Number of Employees	1,997	1,907	**1,895**
Male	1,086	1,042	**1,044**
Female	911	865	**851**
Average age	39 years 6 months	40 years	**40 years 6 months**
Average years of service	11 years	11 years 8 months	**12 years 1 months**
Average monthly salary	¥504 thousand	¥493 thousand	**¥489 thousand**

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

AS OF MARCH 31, 2012

Capital (in millions)	Established	Acquired	Equity stake held by Shinsei Bank and consolidated subsidiaries (%)		
				Equity stake held by Shinsei Bank	Equity stake held by consolidated subsidiaries of Shinsei Bank
¥ 29,360	1969.4	2005.3	97.0%	97.0%	—%
5,000	1996.11	—	100.0	100.0	—
8,750	1997.8	—	100.0	100.0	—
495	2001.12	—	100.0	100.0	—
50	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	91.5
15,000	2009.4	2009.4	100.0	—	100.0
1,000	2009.4	2009.4	100.0	—	100.0
1,000	1957.4	2006.3	97.3	—	97.3
91.518	1991.6	2008.9	100.0	100.0	—
24,119	1954.12	2007.12	100.0	—	100.0
100	1983.8	—	100.0	100.0	—
£ 3	2004.9	—	100.0%	100.0%	—%
$ 2	1976.3	—	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$ 27,748	2002.2	2006.7	30.4	—	30.4

NETWORK

DOMESTIC OUTLETS:	AS OF JULY 1, 2012
42 outlets (29 branches including head office, 13 annexes), 28 Shinsei Financial Centers (branches including head office), 12 Shinsei Consulting Spots (annexes and sub-branch), 9 Housing Loan Centers (head office/branches 8, annex 1) for the retail banking business	

HOKURIKU

Kanazawa Branch

KINKI

Kyoto Branch
Osaka Branch (for Institutional business only)
Umeda Branch—Osaka Shiten nai Annex
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

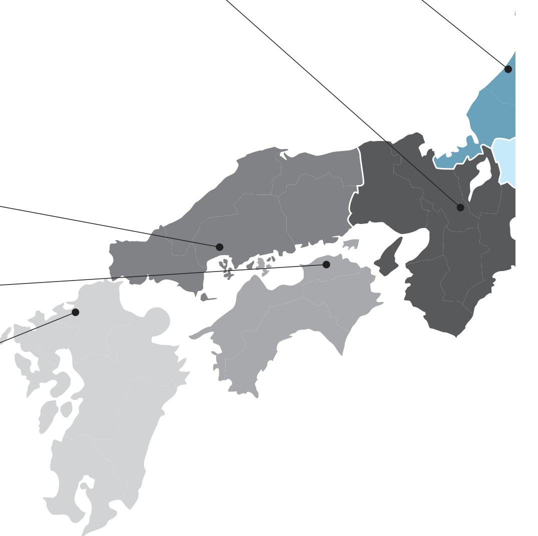
Hiroshima Branch

SHIKOKU

Takamatsu Branch

KYUSHU

Fukuoka Branch

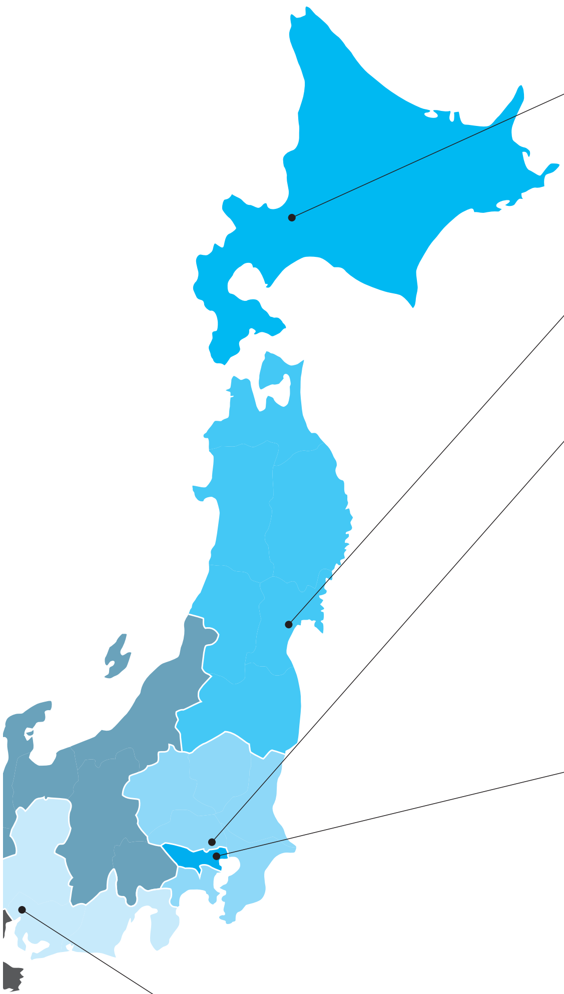


DOMESTIC SUB-BRANCHES (ATM ONLY):	AS OF JULY 1, 2012
Tokyo Metro stations	41 locations
Other train stations	11 locations
Other	59 locations

SHINSEI BANK CARD LOAN—LAKE UNSTAFFED BRANCHES	AS OF JULY 1, 2012
Shinsei Bank Card Loan—Lake unstaffed branches	790 locations

ACCESS TO SEVEN BANK, LTD. ATMS	AS OF JULY 1, 2012
Access to Seven Bank, Ltd. ATMs	15,376 locations

AS OF JULY 1, 2012



HOKKAIDO

Sapporo Branch

TOHOKU

Sendai Branch

KANTO (EXCEPT TOKYO)

Head Office—Urawa Annex
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
Roppongi Branch—Omotesando Hills Annex
Hiroo Branch
Futakotamagawa Branch
Futakotamagawa Branch—Jiyugaoka Annex
Hachioji Branch
Machida Branch

TOKAI

Nagoya Branch

STOCK INFORMATION

AS OF MARCH 31, 2012

Shares Outstanding and Capital

1,000 shares, millions of yen

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

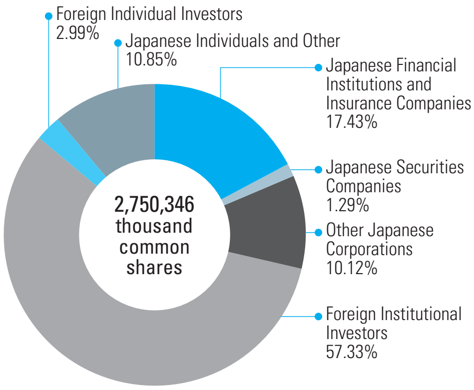
* Figure includes number of preferred shares outstanding

Largest Shareholders(1)(2)

Rank	Shareholders	Thousands of Common Shares	%
1	SATURN IV SUB LP (JPMCB 380111)	399,676	14.53
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)	119,956	4.36
5	SHINSEI BANK,LIMITED	96,427	3.50
6	UBS SECURITIES LLC–HFS CUSTOMER SEGREGATED ACCOUNT	90,540	3.29
7	J.CHRISTOPHER FLOWERS	81,135	2.95
8	THE MASTER TRUST BANK OF JAPAN, LTD. (TRUST ACCOUNT)	80,090	2.91
9	GOLDMAN, SACHS & CO.REG	78,858	2.86
10	SSBT OD05 OMNIBUS ACCOUNT–TREATY CLIENTS	61,880	2.24
11	JAPAN TRUSTEE SERVICE BANK,LTD. (TRUST ACCOUNT)	56,507	2.05
	Total (includes treasury shares)	2,750,346	100.00

(1) As of March 31, 2012, a group of investors, including affiliates of J.C. Flowers & Co. LLC., holds 652,848,291 common shares or 24.59% of Shinsei's outstanding common shares, excluding treasury shares.
(2) As of March 31, 2012,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.

Breakdown of Shareholders

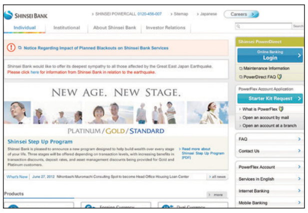


(1) "Japanese Financial Institutions and Insurance Companies" includes the Resolution and Collection Corporation.
(2) "Other Japanese Corporations" includes the Deposit Insurance Corporation.
(3) "Japanese Individuals and Other" includes treasury shares.

WEBSITE

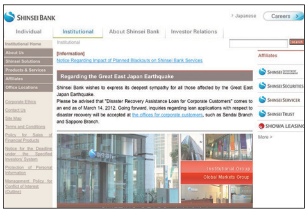
Our English and Japanese websites provide a wide range of corporate data as well as information for individual and institutional customers, and investors.

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

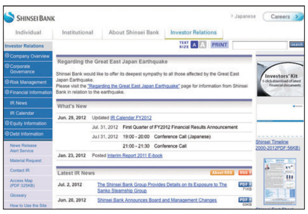


http://www.shinseibank.com/institutional/en/
This website provides information on our products, services and solutions for institutional customers. It also contains details of our branches and affiliates.

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.

For further information, please contact:
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