[TRANSLATION]

The items provided through the Internet pursuant to the laws and the Company’s Articles of Incorporation for the Notice of the Annual General Meeting of Shareholders for the 19th Term

1) Stock Acquisition Rights of the Bank
2) Contents of Resolutions Concerning the Organization of a System to Ensure Business Relevance and Operational Status of the Said System “Outline of resolutions concerning a system to ensure business relevance”
3) Notes to the consolidated financial statements
4) Notes to the financial statements

(from April 1, 2018 to March 31, 2019)

The above items are provided through the Bank’s website(https://www.shinseibank.com) pursuant to the laws and Article 13 of the Company’s Articles of Incorporation.

Shinsei Bank, Limited

(Translation)

Stock Acquisition Rights of the Bank

(1) Stock acquisition rights of the Bank owned by the Directors, Outside Directors, and Audit & Supervisory Board Members of the Bank as of the end of the fiscal year ended March 31, 2019.

	Subscription Warrants Series 1 (The Equity Remuneration Type)	**Subscription Warrants Series 2 (The Equity Remuneration Type)**
Date of resolution at Board of Directors meeting	May 11, 2016	May 10, 2017
Issue date	May 26, 2016	May 25, 2017
Number of stock acquisition rights issued	1,343	1,673
Holdings by Directors (excluding Outside Directors)	895/ 1persons	1,115/ 1persons
Holdings by Outside Directors and Outside Statutory Auditors	—	—
Holdings by Standing Statutory Auditor	—	—
Class and number of shares that can be purchased through the exercise of stock acquisition rights	Common stock/ 8,950 shares (10 shares per stock acquisition right)	Common stock/ 11,150 shares (10 shares per stock acquisition right)
Per share amount to be paid upon exercise of stock acquisition rights	1 yen	1 yen
Exercise period of stock acquisition rights	From May 27, 2016 to May 26, 2046	From May 26, 2017 to May 25, 2047
Conditions for exercising stock acquisition rights	1) The Subscription Warrant Holder may only exercise the Subscription Warrants in a lump until the day on which ten (10) days have elapsed from the day following the day on which it ceases to be a director of the Bank (if the tenth (10th) day falls on a holiday, the following business day). 2) Notwithstanding the 1) above, if a proposal for approval of a merger agreement under which the Bank is to be dissolved, a proposal for approval of a split agreement or a split plan under which the Bank shall be split, or a proposal for approval of a share exchange agreement or a share transfer plan, under which the Bank will become a wholly owned subsidiary is approved at a general meeting of shareholders of the Bank (or resolved by the board of directors of the Bank if a resolution at a general meeting of shareholders is not required), the Subscription Warrant Holder may exercise the Subscription Warrants within 30 days from the following day of the day on which such proposal for approval is approved. 3) If any Subscription Warrant Holder dies, the successor thereof may only exercise the Subscription Warrants in a lump. 4) Other conditions shall be stipulated in the "Agreement on the granting of Stock Acquisition Rights" between the Bank and Stock Acquisition Rights holders based on resolutions of the annual general meeting of shareholders for the 15th term and the Board of Directors meeting held on the day shown above.	1) The Subscription Warrant Holder may only exercise the Subscription Warrants in a lump until the day on which ten (10) days have elapsed from the day following the day on which it ceases to be a director of the Bank (if the tenth (10th) day falls on a holiday, the following business day). 2) Notwithstanding the 1) above, if a proposal for approval of a merger agreement under which the Bank is to be dissolved, a proposal for approval of a split agreement or a split plan under which the Bank shall be split, or a proposal for approval of a share exchange agreement or a share transfer plan, under which the Bank will become a wholly owned subsidiary is approved at a general meeting of shareholders of the Bank (or resolved by the board of directors of the Bank if a resolution at a general meeting of shareholders is not required), the Subscription Warrant Holder may exercise the Subscription Warrants within 30 days from the following day of the day on which such proposal for approval is approved. 3) If any Subscription Warrant Holder dies, the successor thereof may only exercise the Subscription Warrants in a lump. 4) Other conditions shall be stipulated in the "Agreement on the granting of Stock Acquisition Rights" between the Bank and Stock Acquisition Rights holders based on resolutions of the annual general meeting of shareholders for the 15th term and the Board of Directors meeting held on the day shown above.
Favorable terms	—	—

	Subscription Warrants Series 3 (The Equity Remuneration Type)
Date of resolution at Board of Directors meeting	May 11, 2018
Issue date	May 28, 2018
Number of stock acquisition rights issued	1,322
Holdings by Directors (excluding Outside Directors)	881/ 1persons
Holdings by Outside Directors and Outside Statutory Auditors	—
Holdings by Standing Statutory Auditor	—
Class and number of shares that can be purchased through the exercise of stock acquisition rights	Common stock/ 8,810 shares (10 shares per stock acquisition right)
Per share amount to be paid upon exercise of stock acquisition rights	1 yen
Exercise period of stock acquisition rights	From May 29, 2018 to May 28, 2048
Conditions for exercising stock acquisition rights	1)The Subscription Warrant Holder may only exercise the Subscription Warrants in a lump until the day on which ten (10) days have elapsed from the day following the day on which it ceases to be a director of the Bank (if the tenth (10th) day falls on a holiday, the following business day). 2)Notwithstanding the 1) above, if a proposal for approval of a merger agreement under which the Bank is to be dissolved, a proposal for approval of a split agreement or a split plan under which the Bank shall be split, or a proposal for approval of a share exchange agreement or a share transfer plan, under which the Bank will become a wholly owned subsidiary is approved at a general meeting of shareholders of the Bank (or resolved by the board of directors of the Bank if a resolution at a general meeting of shareholders is not required), the Subscription Warrant Holder may exercise the Subscription Warrants within 30 days from the following day of the day on which such proposal for approval is approved. 3) If any Subscription Warrant Holder dies, the successor thereof may only exercise the Subscription Warrants in a lump. 4)Other conditions shall be stipulated in the "Agreement on the granting of Stock Acquisition Rights" between the Bank and Stock Acquisition Rights holders based on resolutions of the annual general meeting of shareholders for the 15th term and the Board of Directors meeting held on the day shown above.
Favorable terms	—

(2) Stock Acquisition Rights of the Bank issued to employees, etc. during the fiscal year ended March 31, 2019

None

(Translation)

Contents of Resolutions Concerning the Organization of a System to Ensure Business Relevance and Operational Status of the Said System

1. Outline of resolutions concerning a system to ensure business Relevance

To create a system for ensuring business relevance (internal control systems) as resolved by the Board of Directors pursuant to Article 362, Paragraph 4, Item 6 of the Companies Act and Article 100, Paragraphs 1 and 3 of the Ordinance for Enforcement of Companies Act, we prescribe detailed rules in the "Internal Control Rules" and their related rules, and make resolutions at the Board of Directors meetings. "Executive directors" (*gyoumu-shikkou-torishimariyaku*), Executive Officers, Chief Officers, and Senior Officers are required to establish and operate internal control systems for the business areas they are responsible for, and all "executive directors" (*gyoumu-shikkou-torishimariyaku*), Executive Officers, Chief Officers, Senior Officers, and employees of the Bank are required to observe such internal control systems. Furthermore, the Board of Directors periodically verifies the status of internal control systems and the Bank's basic policy for building internal control systems. An outline of these activities is described below.

(1) Framework of the organization

Internal Control Rules stipulate that the internal control systems shall consist of ① a self-disciplined function in the business execution line in the field (hereinafter, the "First Line"), management functions that are independent from the business execution line in the field such as risk management and compliance functions (hereinafter, the "Second Line"), and an internal audit line (hereinafter, the "Third Line") and ② in order to capture and address serious risks and problems appropriately, the Board of Directors shall receive reports from the Second and Third Lines in a timely manner and shall examine major policies and controls regularly.

(2) System for ensuring that the Bank's directors and employees perform their duties in compliance with laws, regulations and the Articles of Incorporation (Article 362, Paragraph 4, Item 6 of the Companies Act; Article 100, Paragraph 1, Item 4 of the Ordinance for Enforcement of Companies Act)

We have established the "Shinsei Bank Group Code of Conduct" (the "Code of Conduct") as a basis of the system to ensure that the Bank's directors and employees perform their duties in compliance with laws, regulations, and the Articles of Incorporation. All officers and employees of the Bank are required to comply with it.

The Code of Conduct requires the Bank officers and employees to comply with the letter and spirit of all laws, regulations, and rules applicable to their duties at the Bank, and to follow internal procedures. In addition, it stipulates their obligation to report violations. The Code of Conduct also prescribes rules for respecting human rights, sincere and fair business activities, and behavior as an individual.

(3) System for retaining and managing information related to the execution of duties by directors of the Bank (Article 100, Paragraph 1, Item 1 of the Ordinance for Enforcement of Companies Act)

We endeavor to retain and manage information related to the performance of duties by the Bank's directors with due care required for each type of storage media in order to prevent information leakage. We also provide such information to the Audit & Supervisory Board Members of the Bank from time to time upon their request. In addition, we manage information regarding the performance of duties by the Bank's directors and employees pursuant to the Information Security Policy established by the Bank.

The Information Security Policy recognizes information as important assets and requires appropriate management and protection of information assets.

(4) Regulations and other systems concerning the management of risk of losses for the Bank (Article 100, Paragraph 1, Item 2 of the Ordinance for Enforcement of Companies Act)

We have established the Risk Management Policy to manage the risk of losses for the Bank and created a risk management system based on this Policy.

The Risk Management Policy prescribes the basic policy for comprehending and actively managing the sum of risks assumed by the Bank and the Bank Group. The Bank manages its risks by integrating the "macro approach" (distribution and evaluation of capital and resources by the management organ) and the "standardized business management framework" (a progressively decentralized transaction approval process). As the specific "business management framework", the Policy provides for:

1) Risk classifications such as credit risk, market risk, liquidity risk, operational risk, and investment risk;
2) Composition, objectives, missions, and functions of various committee organizations corresponding to risks such as the Group Risk Policy Committee, Transaction Committee, Doubtful Debt Committee, Group ALM Committee, Market Business Management Committee, and Group New Business and Product Committee; and
3) Functions, roles and responsibilities of the divisions under the Chief Officer in charge of Group Risk Management and the divisions under the head of Credit Risk Management.

Moreover, we have established the Group Business Continuity Management Committee and various rules concerning the business continuity framework in order to continue important business operations and fulfill our responsibilities to customers and society as much as possible upon occurrence of large-scale disasters, accidents, or other events that disrupt our business activities.

(5) System to ensure that the Bank's directors efficiently perform their duties and responsibilities (Article 100, Paragraph 1, Item 3 of the Ordinance for Enforcement of Companies Act)

We have adopted the Executive Officer system and placed Chief Officers and Senior Officers in the Group Headquarters in order to ensure timely and efficient execution of daily business. Specifically, "Divisions" are designated as the most basic business unit in the bank, and under the direction of "executive directors" (*gyoumu-shikkou-torishimariyaku*) headed by the Representative Director and the President, Executive Officers, Chief Officers and Senior Officers who are delegated authorities by the Board of Directors undertake operations for which they are responsible, centering on Executive Officers who act as head of a specified field and Chief Officers, in accordance with the "Regulations of Business Execution."

The "Regulations of Business Execution" provide for basic matters for ensuring efficient execution of duties and responsibilities of directors and others. These include: standards for the election and dismissal of "executive directors" (*gyoumu-shikkou-torishimariyaku*), Executive Officers, and Officers, compliance with laws and regulations, a good manager's duty of care and duty of loyalty, duty not to compete, prohibition of actions constituting a conflict of interest, duty of reporting to the Board of Directors, actions to be taken when there is a concern that significant damage may be incurred to the Bank, retention and management of information concerning the execution of duties, establishment of the Group Executive Committee and the Executive Committee (composed of executive officers, such as executive directors, the Heads of Executive Officers and Chief Officers) established as a body to allow the President to make decisions on business execution matters), and the duties and authorities of "executive directors" (*gyoumu-shikkou-torishimariyaku*), Executive Officers, Chief Officers and Senior Officers, among other things.

(6) System to ensure business relevance of corporate groups consisting of the Bank and its parent company and subsidiaries (Article 362, Paragraph 4, Item 6 of the Companies Act; Article 100, Paragraph 1, Item 5 of the Ordinance for Enforcement of Companies Act)

To ensure our business operations are consistent with our overall management policies, business plans, risk management and compliance frameworks, we designate the Divisions in charge of each of our subsidiaries and affiliates and create a system for mainly specialized sections to provide guidance on and manage overall management of the subsidiaries and affiliates. The Bank's subsidiaries and affiliates also receive guidance on their business management and are managed in accordance with the Subsidiaries and Affiliates Policy and Group Headquarters Organization Management Policy.

The purpose of the Subsidiaries and Affiliates Policy is to maximize our Group value by clarifying the following three responsibilities with respect to the management of our subsidiaries and affiliates:

1) Supporting the subsidiaries and affiliates to show their autonomy, while ensuring that their initiatives are consistent with the Bank's overall strategy and directions;
2) Instructing the subsidiaries and affiliates to manage risks, perform administrative operations, and achieve operational efficiency in accordance with the scale and nature of their businesses; and
3) Ensuring that the subsidiaries and affiliates comply with rules (including firewall rules), maintain their reputation, and establish appropriate internal controls.

To achieve this goal, the Policy stipulates issues concerning instructions to and management of subsidiaries and affiliates such as the roles and responsibilities of the Divisions in charge of them, specialized sections and other relevant divisions within the Bank, items requiring approval of the Group Executive Committee, responsibilities of the subsidiaries and affiliates, responsibilities of the Bank's officers and employees in relation to the Bank's subsidiaries and affiliates, and other responsibilities of the Bank's officers and employees.

The Group Headquarters Organization Management Policy aims to operate the Group Headquarters efficiently. The Policy stipulates basic matters related to the organizations necessary for operating the Group Headquarters and related to managing the organizations, such as basic principles for forming the Group Headquarters, organization, division of duties, relationship between the Group Headquarters and Group member companies, members, titles, duties, and authority.

(7) Matters concerning employees who are required to assist the Audit & Supervisory Board Members of the Bank in fulfilling their duties and responsibilities and matters concerning ensuring the effectiveness of instructions given by the Audit & Supervisory Board Members of the Bank to the said employees (Article 100, Paragraph 3, Items 1 and 3 of the Ordinance for Enforcement of Companies Act)

We have established the Office of Audit & Supervisory Board Members to assist the Audit & Supervisory Board Members of the Bank in the performance of audits, and stipulate that the employees belonging to the Office of Audit & Supervisory Board Members are the employees who should assist the Audit & Supervisory Board Members in fulfilling their duties and responsibilities (the "Assistants"). The Assistants have an obligation to comply with the directions and orders the Audit & Supervisory Board Members give them and to report to the Audit & Supervisory Board Members the results of their work.

(8) Matters concerning the independence of the employees defined in the preceding paragraph from the Bank's directors (Article 100, Paragraph 3, Item 2 of the Ordinance for Enforcement of Companies Act)

The Office of Audit & Supervisory Board Members directly reports to the Audit & Supervisory Board Members of the Bank, and is established as an organization independent from the Bank's directors and their business lines. As such, the Office of Audit & Supervisory Board seeks prior approval from the Audit & Supervisory Board concerning the appointment, dismissal, reassignment and transfer of the Assistants and other important matters concerning employment. Furthermore, the Office seeks prior approval of the Audit & Supervisory Board when revising wages and other remuneration of the Assistants.

(9) Systems listed below and other systems concerning reporting to the Audit & Supervisory Board Members of the Bank (Article 100, Paragraph 3, Item 4 of the Ordinance for Enforcement of Companies Act)

① Directors and employees of the Bank are, when they have found any fact that could cause significant damage to the Bank, required to report without delay to the Audit & Supervisory Board Members of the Bank the matters concerning such a fact and other matters prescribed by the Bank's Board of Directors or Audit & Supervisory Board.

② Directors, Audit & Supervisory Board members, and employees of the Bank's subsidiary are, when they have found any fact that could cause significant damage to the subsidiary of the Bank, required to report without delay to the Audit & Supervisory Board Members of the Bank the matters concerning such a fact and other matters prescribed by the Bank's Board of Directors or Audit & Supervisory Board.

③ The directors and employees of the Bank and directors, Audit & Supervisory Board members, and employees of the subsidiary of the Bank who have received a report on matters prescribed in each of the preceding items are required to report such matters without delay to the Audit & Supervisory Board Members of the Bank.

④ In addition to the preceding items, the whistle-blowing system and reports made under the said system to the Audit & Supervisory Board Members of the Bank by directors and employees of the Bank, and directors, Audit & Supervisory Board members, and employees of the Bank's subsidiaries are handled appropriately pursuant to the "Compliance Hotline Procedure."

(10) System to ensure that people who made a report under the preceding paragraph are not treated disadvantageously on the ground they made the said report (Article 100, Paragraph 3, Item 5 of the Ordinance for Enforcement of Companies Act)

We ensure that a person who makes a report that falls under the preceding paragraph is not treated disadvantageously in relation to his/her employment conditions and other matters on the ground that the said person made the said report.

(11) Procedures for advance payment or refund of expenses incurred for the execution of duties by the Audit & Supervisory Board Members of the Bank and matters concerning the policy for handling other expenses or obligations incurred in the execution of such duties (Article 100, Paragraph 3, Item 6 of the Ordinance for Enforcement of Companies Act)

When the Audit & Supervisory Board Members of the Bank have requested advance payment and so forth of expenses incurred in relation to the execution of their duties pursuant to each item of Article 388 of the Companies Act, we ensure that the Bank shall promptly process such expenses or obligations unless it is deemed that such expenses or obligations are unnecessary for the execution of the relevant duties by the Audit & Supervisory Board Members. Furthermore, the Audit & Supervisory Board Members of the Bank may, as necessary, hire outside experts at the expense of the Bank within the scope permitted by laws.

(12) Other systems to ensure that audits by the Audit & Supervisory Board Members of the Bank are performed effectively (Article 100, Paragraph 3, Item 7 of the Ordinance for Enforcement of Companies Act)

Directors and employees of the Bank are required to cooperate with audits by the Audit & Supervisory Board Members and are not permitted to take actions that obstruct their audits.

(13) Others

We declare in the “Charter of Shinsei Bank Group Corporate Behavior” resolved by the Board of Directors that we will take a firm and resolute stand against antisocial forces which threaten the order and security of our society, and that we will consistently prevent illegal interference by such antisocial forces and completely exclude and eliminate any relationships with antisocial forces.

In order to verify the effectiveness of the above-mentioned internal control systems, the Group Internal Audit Division conducts internal audits in accordance with the “Internal Audit Policy” determined by the Board of Directors with the approval of the Audit & Supervisory Board and President, and reports the audit results to the President and the Audit & Supervisory Board.

Notes to the consolidated financial statements

<Basis for Presentation of Consolidated Financial Statements and Significant Accounting Policies>

The definitions of subsidiaries and affiliates are based on the 8th paragraph of Article 2 of the Banking Act and Article 4-2 of the Banking Act Enforcement Order.

1. Basis for presentation of consolidated financial statements

(1) Scope of consolidation

(a) Consolidated subsidiaries: 83 companies

Major companies:

APLUS FINANCIAL Co., Ltd.
Showa Leasing Co., Ltd.
Shinsei Personal Loan Co., Ltd.
Shinsei Financial Co., Ltd.
Shinsei Trust & Banking Co., Ltd.
Shinsei Securities Co., Ltd.
Shinsei Investment & Finance Limited

In the current fiscal year, Shinsei Capital Partners, Ltd. and 6 other companies were newly consolidated due to their formation.

Godo Kaisha Koriyama 5 Gou and 3 other companies were excluded from the scope of consolidation due to liquidation, gumi Ventures, L.P. was excluded from the scope of consolidation due to the loss of its controlling interest and APPM FUNDING DESIGNATED ACTIVITY COMPANY and 1 other company were excluded from the scope of consolidation due to their decreased materiality.

(b) Unconsolidated subsidiaries: 96 companies

Major Company:

SL PACIFIC LIMITED

SL PACIFIC LIMITED and 32 other unconsolidated subsidiaries are operating companies that undertake leasing businesses based on the Tokumei Kumiai system (anonymous partnerships). Tokumei Kumiai's assets, profits and losses virtually belong to each anonymous partner but not to the operating companies, and Shinsei Bank, Limited (the "Bank") and its consolidated subsidiaries (collectively, the "Group") do not have any material transactions with these subsidiaries. Therefore, these subsidiaries were excluded from the scope of consolidation pursuant to Article 63, Paragraph 1, Item 2 of the Ordinance on Company Accounting.

Other unconsolidated subsidiaries were excluded from the scope of consolidation because they are immaterial to the financial condition and results of operations, such as assets, ordinary income, profit (the Group's interest portion), retained earnings (the Group's interest portion) and accumulated other comprehensive income (the Group's interest portion) of the Group.

(2) Application of the equity method

(a) Unconsolidated subsidiaries accounted for by the equity method: not applicable

(b) Affiliates accounted for by the equity method: 35 companies

Major Companies:

Jih Sun Financial Holding Co., Ltd.

In the current fiscal year, LS Holdings Co., Ltd. and 5 other companies were newly included in the scope of application of the equity method due to their formation and Asuka Corporate Advisory Co., Ltd. and 1 other company were newly included in the scope of application of the equity method due to the acquisition of shares or interest.

Tin Pan Alley Investment Limited Partnership and 2 other companies were excluded from the scope of application of the equity method due to liquidation.

(c) Unconsolidated subsidiaries accounted for not applying the equity method: 96 companies

Major Company:

SL PACIFIC LIMITED

SL PACIFIC LIMITED and 32 other unconsolidated subsidiaries are operating companies that undertake leasing businesses based on the Tokumei Kumiai system (anonymous partnership). Tokumei Kumiai's assets, profits and losses virtually belong to each anonymous partner but not to the operating companies, and the Group does not have any material transactions with these subsidiaries. Therefore, these subsidiaries were excluded from the scope of application of the equity method pursuant to Article 69, Paragraph 1, Item 2 of the Ordinance of Company Accounting.

Other unconsolidated subsidiaries were excluded from the scope of application of the equity method because they are immaterial to the financial condition and results of operations, such as profit (the Group's interest portion), retained earnings (the Group's interest portion) and accumulated other comprehensive income (the Group's interest portion) of the Group.

(d) Affiliates accounted for not applying the equity method: 2 companies

Major Company:

H Holdings Co., Ltd.

H Holdings Co., Ltd. and 1 other company were excluded from the scope of application of the equity method because they are immaterial to the financial condition and results of operations, such as profit (the Group's interest portion), retained earnings (the Group's interest portion) and accumulated other comprehensive income (the Group's interest portion) of the Group.

(e) Companies not accounted for as affiliates even though the Group owns 20% to 50% of their voting rights: 1 company

Company:

ORTHOREBIRTH CO. LTD.

ORTHOREBIRTH CO. LTD. was not treated as an affiliate because the objective for the Group to own the voting rights was merely to obtain capital gains and the fact meets the requirement according to Paragraph 24 of the Accounting Standards Board of Japan (the "ASBJ") guidance No. 22 "Implementation Guidance on Determining a Subsidiary and an Affiliate."

(3) Fiscal year of consolidated subsidiaries

(a) Balance sheets dates of consolidated subsidiaries were as follows:

March 31:	53 companies
September 30:	3 companies
December 16:	1 company
December 31:	25 companies
February 28:	1 company

(b) Except for 4 subsidiaries which are consolidated using their provisional financial statements as of March 31, the Bank's fiscal year, those consolidated subsidiaries whose fiscal years end at dates other than March 31 are consolidated using their fiscal year-ends financial statements with appropriate adjustments made for material transactions that occurred during the period from the ending dates of their fiscal years to March 31.

All yen amounts are rounded down to millions of yen.

2. Accounting policies

(1) Recognition and measurement of trading assets/liabilities and trading income/losses

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. The income and losses resulting from trading activities are included in "Trading income" and "Trading losses".

Trading securities and monetary claims purchased for trading purposes are stated at market value at the consolidated balance sheet date 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 consolidated balance sheet date.

Trading income and trading losses include interest received and paid during the fiscal year and unrealized gains and losses resulting from the change in the value of securities and monetary claims purchased, and derivatives between the beginning and the end of the fiscal year.

In estimating fair values of derivative financial instruments included in trading accounts, liquidity risks and credit risks are reflected.

(2) Measurement of securities

(a) Securities for trading purposes (except for those included in trading accounts) are carried at fair value (cost of securities sold is determined by the moving-average method). Securities being held to maturity are carried at amortized cost (using the straight-line method) determined by the moving-average method. 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. Available-for-sale securities are carried at fair value at the consolidated balance sheet date (cost of securities sold is determined by the moving-average method) in principle, with the exception of those whose fair value cannot be reliably determined, which are carried at cost determined by the moving-average method. Investments in partnerships and others are carried at the amount of the Group's share of net asset value based on their most recent financial statements.

Unrealized gain (loss) on available-for-sale securities is directly recorded in a separate component of equity, after deducting the amount charged to profit or loss by applying fair value hedge accounting.

(b) The values of securities included in monetary assets held in trust are determined by the same methods as stated in (a) above.

(3) Measurement of derivatives

Derivatives (except for those included in trading accounts) are carried at fair value.

(4) Measurement of other monetary claims purchased

Other monetary claims purchased held for trading purposes (except for those included in trading accounts) are carried at fair value.

(5) Depreciation

(a) Premises and equipment (excluding leased assets as lessee)

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 are as follows:

Buildings: 3 – 50 years
Others: 2 – 20 years

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.

(b) Intangible assets (excluding leased assets as lessee)

The amortization method and the amortization period of identified intangible assets recognized by applying the purchase method to the acquisitions of Showa Leasing Co., Ltd., Shinsei Financial Co., Ltd., and their consolidated subsidiaries are as follows:

(i) Showa Leasing Co., Ltd.

	Amortization method	Amortization period
Customer relationship	Sum-of-the-years digits	20 years
Sublease contracts	Straight-line	Subject to the remaining contract years

(ii) Shinsei Financial Co., Ltd.

	Amortization method	Amortization period
Trade names and trademarks	Straight-line	10 years
Customer relationship	Sum-of-the-years digits	10 years

In addition, goodwill and negative goodwill, which were recorded prior to March 31, 2010, are amortized on a consistent basis primarily over 20 years. The total amount is written off in the fiscal year during which they occurred when the amount is not material.

Intangible assets other than the identified intangible assets mentioned above are amortized using the straight-line method. Capitalized software for internal use is amortized using the straight-line method based on the Group's estimated useful lives (primarily 5–15 years).

(c) Leased assets (as lessee)

Depreciation of leased assets under finance lease transactions that are deemed to transfer ownership of the leased property to the lessee, which are included in "Other intangible assets," is computed using the same method which is applied to the owned properties.

Depreciation of leased assets under finance lease transactions that are not deemed to transfer ownership of the leased property to the lessee, which are included in "Other premises and equipment," is computed using the straight-line method over the leasing period. Residual values of leased assets are the guaranteed value determined in the lease contracts or zero for assets without such guaranteed value.

(6) Deferred charges

Deferred issuance expenses for corporate bonds, which are included in other assets, are amortized using the straight-line method over the term of the corporate bonds.

Corporate bonds are stated at amortized costs using the straight-line method.

(7) 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 for claims to obligors with larger claims than a predetermined amount, a specific reserve is provided for the amount considered to be necessary based on an overall solvency assessment performed for the amount of claims net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

With regard to claims to possibly bankrupt obligors, restructured loans and certain claims for which the reserve has been provided based on the discounted cash flow method (as mentioned below) in previous fiscal years, provided that obligors' cash flows for debt service are reasonably estimable and the balance of claims to such obligors 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 cases where it is difficult to reasonably estimate future cash flows, the reserve is provided based on the 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 sales promotion divisions and credit analysis divisions based on the predetermined internal rules for self-assessment of asset quality. The risk management divisions, which are independent from sales promotion divisions and credit analysis divisions, conduct 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 uncollectible, has been charged off in principle and totaled ¥53,786 million.

(8) Accrued employees' bonuses

Accrued employees' bonuses are provided in the amount of the estimated bonuses that are attributable to the current fiscal year.

(9) Accrued directors' bonuses

Accrued directors' bonuses are provided in the amount of the estimated bonuses that are attributable to the current fiscal year.

(10) Reserve for reimbursement of debentures

The reserve for reimbursement of debentures is provided for estimated losses on future reimbursement requests of debentures derecognized from liabilities.

(11) Reserve for losses on interest repayments

The reserve for losses on interest repayments of consolidated subsidiaries is provided for estimated losses on reimbursements of excess interest payments in the amount of the estimated future reimbursement requests based on past experience.

(12) Accounting for employees' retirement benefits

The difference between retirement benefit obligations and plan assets is recognized as liability for retirement benefits or asset for retirement benefits.

The retirement benefit obligation is estimated using the benefit formula basis for attributing the expected benefits to the current fiscal year. The past service cost and the actuarial gain (loss) are amortized as follows:

Past service cost:	Amortized using the straight-line method over the average remaining service period (10.00 years) from the fiscal year of occurrence.
Actuarial gain (loss):	Amortized using the straight-line method over the average remaining service period (7.49-12.21 years) primarily from the fiscal year of occurrence.

Certain consolidated subsidiaries recognize voluntary retirement payments at the consolidated balance sheet date as retirement benefit obligations under the nonactuarial method.

(13) Revenue and expense recognition

(a) Revenue recognition for installment sales finance business

Revenue from installment sales finance business is recognized primarily using installment bases as follows:

(Contracts based on add-ons)	
Installment credit	Sum-of-the-months digits method
Guarantees (lump-sum receipt of guarantee fee when contracted)	Sum-of-the-months digits method
Guarantees (installment of guarantee fee)	Straight-line method
(Contracts based on credit balances)	
Installment credit	Credit-balance method
Guarantees (installment of guarantee fee)	Credit-balance method

(Notes)

1. In "Sum-of-the-months digits method," the commission amount regarded as revenue at the time of each installment payment is calculated by dividing the total commission amount by the sum of the months of installment payments.

2. In "Credit-balance method," the commission amount regarded as revenue at the time of each installment payment is calculated by multiplying the respective outstanding principal by a contracted commission ratio.

(b) Revenue and expense recognition for leasing business

For finance lease transactions, lease income is recognized based on lease payments for each of the leasing period, and lease cost is calculated by deducting the interest allocated for each period from lease income.

With regard to finance lease transactions entered into prior to April 1, 2008, that are not deemed to transfer ownership of the leased property to the lessee, leased investment assets are recognized at the amount of book values of those leased properties as of March 31, 2008, in accordance with the transitional treatment in the "Accounting Standard for Lease Transactions" (Accounting Standards Board of Japan ("ASBJ") Statement No. 13) that was effective from April 1, 2008. As a result, income before income taxes for the current fiscal year has increased by ¥90 million, as compared to what would have been reported if the revised accounting standard was applied retroactively to all finance lease transactions as lessor.

(c) Revenue recognition for interest on consumer lending business

Consolidated subsidiaries specializing in the consumer lending business accrued interest income at the balance sheet date at the lower of the amount determined using a rate permissible under the Interest Rate Restriction Act of Japan and the amount determined using rates on contracts with customers.

(14) Translation of foreign currency-denominated assets and liabilities

Foreign currency-denominated assets and liabilities of the Bank are translated into Japanese yen at exchange rates as of the consolidated balance sheet date, except for investments in unconsolidated subsidiaries and affiliates not being accounted for by the equity method which are translated at the relevant historical exchange rates.

Foreign currency-denominated assets and liabilities of consolidated subsidiaries are translated at exchange rates of their respective balance sheet dates.

(15) Hedge accounting

(a) Hedge of interest rate risks

The Bank applies deferral hedge accounting for derivative transactions that meet hedge accounting criteria for mitigating interest risks of its financial assets and liabilities.

The Bank adopted portfolio hedging to determine the effectiveness of hedging instruments in accordance with "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in the Banking Industry" (Industry Audit Committee Report No. 24 issued, in February 13 2002, by the Japanese Institute of Certified Public Accountants (the "JICPA")). Under portfolio hedging 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 instruments.

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. Other certain consolidated subsidiaries apply deferral hedge accounting.

(b) Hedge of foreign exchange fluctuation risks

The Bank applies either deferral hedge accountings or fair value hedge accounting for derivative transactions for the purpose of hedging foreign exchange fluctuation risks of its financial assets and liabilities denominated in a foreign currency.

Under deferral hedge accounting, which is in accordance with "Accounting and Auditing Treatment of Accounting Standards for Foreign Exchange Transactions in the Banking Industry" (Industry Audit Committee Report No. 25 issued by JICPA, in July 29 2002), hedged items are identified by grouping the foreign currency-denominated financial assets and liabilities by currency and designating derivative transactions such as currency swap transactions, funding 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 (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) Intercompany and intracompany derivative transactions

Gains (losses) on intercompany and intracompany derivative hedging transactions between the trading book and the banking book are not eliminated since offsetting transactions with third parties are appropriately entered into in conformity with the nonarbitrary and strict hedging policy in accordance with Industry Audit Committee Reports No. 24 and No. 25 of the JICPA. As a result, in the banking book, realized gains (losses) on such intercompany and intracompany transactions are reported in current earnings and valuation gains (losses) that meet the hedge accounting criteria are deferred.

(16) Consumption tax

The national consumption tax and the local consumption tax of the Bank and its consolidated domestic subsidiaries are excluded from transaction amounts.

(17) Consolidated corporate tax system

The consolidated corporate tax system is adopted by the Bank and certain consolidated domestic subsidiaries.

(**Unapplied Accounting Standards, etc.**)

The Group has not applied the following revised and newly-established accounting standards published by March 31, 2019.

1. “Accounting Standard for Revenue Recognition” (ASBJ Statement No.29, March 30, 2018)
“Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No.30, March 30, 2018)

(1) Outline

Those accounting standards were issued to show the accounting treatment and disclosure of revenue from contracts with customers.

Those accounting standards were prepared applying basic principles of IFRS 15 "Revenue from Contracts with Customers" which was applied on or after January 1, 2018, while adding alternative accounting treatments within a range not to impair the comparability if there were some practical accounting treatments in our country to be considered.

(2) Effective date

The Group plans to apply those accounting standards from the beginning of the fiscal year beginning on April 1, 2021.

(3) The impact of the application

The impact of the application is under evaluation at the time of the preparation of these consolidated financial statements.

2. “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (ASBJ Practical Issues Task Force (PITF) No. 18, September 14, 2018)

(1) Outline

This accounting standard was revised mainly in the part of the consolidation process for foreign affiliates which are accounted by the equity method. When the affiliates elected present as other comprehensive income for subsequent changes in the fair value of investments in equity instruments, the changes in the fair value should be recycled from other comprehensive income to profit and loss, for the period in which those instruments are disposed.

(2) Effective date

The Group plans to apply this accounting standard from the beginning of the fiscal year beginning on April 1, 2019.

(3) The impact of the application

The impact of the application is under evaluation at the time of the preparation of these consolidated financial statements.

(**Supplementary information**)

(Application of IFRS 9 “Financial Instruments” in certain foreign affiliates accounted for by the equity method)

From the beginning of fiscal year ended March 31, 2019, certain foreign affiliates accounted for by the equity method of the Bank, have adopted IFRS 9 “Financial Instruments.”

IFRS 9 sets out new requirements with regards to classification and measurement of financial instruments, impairment and hedge accounting. In accordance with the accepted transitional provisions under this standard, the Group recognized the amount of the cumulative effect of the accounting change on "Retained earnings," and "Unrealized gain (loss) on available-for-sale securities” at the beginning of the fiscal year ended March 31, 2019.

As a result, “Retained Earnings” as of April 1, 2018, decreased by ¥311 million, and “Unrealized gain (loss) on available-for-sale securities” as of April 1, 2018, increased by ¥4,307 million, respectively.

Notes

(Consolidated Balance Sheet)

1. Investments in unconsolidated subsidiaries and affiliates were as follows.

(Millions of yen)

	Carrying amount
Equity securities	¥60,730
Other	10,133

(Note) Investment in a jointly controlled entity of ¥3,034 million was included in equity securities.

2. For securities held in connection with securities borrowing transactions with or without cash collateral, securities purchased under resale agreements and securities accepted as collateral for derivative transactions, where the Group has the right to sell or pledge such securities without restrictions, ¥5,643 million of those securities was held by the Group at the consolidated balance sheet date.

3. Loans and bills discounted include loans to bankrupt obligors and nonaccrual delinquent loans of ¥4,836 million and ¥28,383 million, respectively.

Loans to bankrupt obligors are loans, after write-off, to legally bankrupt obligors as defined in Article 96, Paragraph 1, Items 3 and 4 of the Order for Enforcement of the Corporation Tax Act (Cabinet Order No. 97 of 1965) and on which accrued interest income is not recognized as the principal or interest is expected to be uncollected because they are past due for a considerable period of time or for other reasons.

Nonaccrual delinquent loans are loans on which accrued interest income is not recognized, excluding loans to bankrupt obligors and loans for which interest payments are deferred in order to facilitate the rehabilitation of obligors or to assist in the financial recovery of obligors.

Installment receivables in “Other assets” included claims to bankrupt obligors and nonaccrual delinquent claims, totaling ¥0 million and ¥5,957 million, respectively, at the consolidated balance sheet date.

4. Loans and bills discounted include loans past due for three months or more of ¥880 million.

Loans past due for three months or more are loans other than loans to bankrupt obligors and nonaccrual delinquent loans for which the principal and/or interest payments are past due for three months or more.

Installment receivables in “Other assets” included claims past due for three months or more totaling ¥823 million at the consolidated balance sheet date.

5. Loans and bills discounted include restructured loans of ¥43,458 million.

Restructured loans are loans other than loans to bankrupt obligors, nonaccrual delinquent loans or loans past due for three months or more, on which concessions such as reduction of the stated interest rate, a deferral of interest payment, an extension of the maturity date, debt forgiveness, or other agreements which give advantages to obligors in financial difficulties have been granted to obligors to facilitate their rehabilitation.

Restructured installment receivables of ¥212 million were included in “Other assets.”

6. The total amount of loans to bankrupt obligors, nonaccrual delinquent loans, loans past due for three months or more, and restructured loans was ¥77,558 million.

The total installment receivables in “Other assets” of claims to bankrupt obligors, nonaccrual delinquent claims, claims past due for three months or more, and restructured claims were ¥6,993 million.

The amounts of claims mentioned in Notes 3 through 6 above represent the amounts before deduction of the reserve for credit losses.

7. 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 February 13, 2002 by the JICPA, although the Group has the right to sell or pledge them without restrictions. The face value of such bills discounted held was ¥2,337 million.

8. The total principal amount of loans accounted for as a sale through loan participations was ¥7,477 million as of March 31, 2019. This "off-balance sheet" treatment is in accordance with Report No. 3 issued by the Framework Committee of the JICPA on November 28 2014. And the total principal amount of such loans in which the Bank participated was ¥12,400 million as of March 31, 2019.

9. Assets pledged as collateral were as follows:

Cash and due from banks	¥ 10 million
Trading assets	192
Monetary assets held in trust	426
Securities	654,692
Loans and bills discounted	102,872
Lease receivables and leased investment assets	4,767
Other assets	67,287
Tangible leased assets as lessor	5,109

Liabilities collateralized were as follows:

Deposits	¥ 689 million
Payables under repurchase agreements	59,098
Payables under securities lending transactions	510,229
Borrowed money	187,714
Other liabilities	29
Acceptances and guarantees	428

In addition, ¥4,852 million of margin deposits for futures transactions outstanding, ¥14,121 million of security deposits, ¥41,914 million of cash collateral paid for financial instruments, ¥244 million of margin on foreign exchange and ¥50,000 million of cash collateral for Zengin-net were included in "Other assets."

10. The Bank and certain of its consolidated subsidiaries set credit lines of overdrafts and issue commitments to extend credit to meet the financing needs of their customers.

The unfulfilled amounts of these commitments were ¥3,041,385 million, out of which the amounts with the commitments of the agreement expiring within one year or being able to be cancelled at any time with no condition were ¥2,676,954 million.

Since a large majority of these commitments expires without being drawn upon, the unfulfilled 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.

11. Installment receivables of ¥562,236 million were included in "Other assets."

12. Accumulated depreciation on "Premises and equipment" was ¥69,089 million.

13. Deferred gains on "Premises and equipment" deducted for tax purposes were ¥30 million.

14. "Tangible leased assets as lessor" and "Intangible leased assets as lessor" are leased assets for the operating leases transactions as lessor.

15. Software in progress of ¥3,033 million were included in "Software."

16. Goodwill and Negative goodwill are offset and presented as "Goodwill" in intangible assets by the net amount. The gross amounts were as follows:

Goodwill	¥14,072 million
Negative goodwill	3,082
Net	¥10,989 million

17. The amount of guarantee obligations for privately placed bonds (Paragraph 3 of Article 2 of the Financial Instruments and Exchange Act), out of corporate bonds included in the “Securities” stands at ¥3,580 million.

18. Total obligations to the Directors and Audit & Supervisory Board Members of the Bank stand at ¥39 million.

19. Contingent liability arising from the agreement on the purchase of the property of a certain consolidated subsidiary is ¥821 million.

(Consolidated Statement of Income)

1. “Other business income” included leasing revenue of ¥70,003 million and Income from installment sales of 34,561 million.

2. “Other” presented in “Other ordinary income” included equity in net income of affiliates of ¥5,697million, gain on monetary assets held in trust of ¥2,535 million, gain on reversal of reserve for losses on interest repayments of ¥2,333 million, gain on sale of equity securities and others of ¥1,252 million and gains on debentures derecognized from liabilities of ¥321 million.

3. “Other business expenses” included leasing cost of ¥64,158 million.

4. “Other general and administrative expenses” included personnel expenses of ¥56,509 million.

5. “Other extraordinary gains” were gains on reversal of stock acquisition rights of ¥218 million.

6. “Impairment losses” includes the impairment losses related to the following asset groups.

Location	Usage	Asset type	Amount (Millions of yen)
Tokyo, Kanagawa, etc.	Branch and ATMs	Buildings, Other premises and equipment	¥445
Tokyo, Fukuoka etc.	IT-related property	Other premises and equipment, Software	231
Total			¥676

The Group determines the asset group based on management segmentation.

As a result of consideration of the business environment, the Bank made a decision to close down some of the branches and ATMs for the Individual Business and to cease use and development of some software assets, and segregated them as idle assets. Impairment losses for these assets were recognized assuming their recoverable amount to be zero.

In the above impairment loss amount, ¥416 million was for “Buildings,” ¥77 million was for “Other premises and equipment” and ¥182 million was for “Software.”

(Consolidated Statement of Changes in Equity)

1. Type and number of issued shares and treasury stock were as follows;

(Unit: thousand shares)

	Number of shares as of April 1, 2018	Number of shares increased	Number of shares decreased	Number of shares as of March 31, 2019	Note
Issued shares					
Common stock	275,034	-	16,000	259,034	(Note 1)
Total	275,034	-	16,000	259,034	
Treasury stock					
Common stock	22,166	7,652	16,058	13,760	(Note 2,3)
Total	22,166	7,652	16,058	13,760	

Note 1: The decrease of 16,000 thousand shares in issued shares is associated with the cancellation of treasury stock.

2: The increase of 7,652 thousand shares is associated with the repurchase of 0 thousand of shares less than one unit and the repurchase of 7,652 thousand shares from market.

3: The decrease of 16,058 thousand shares in treasury stock is associated with the cancellation of 16,000 thousand shares, the transfer of 14 thousand shares upon exercise of the stock option (stock acquisition rights), and the disposal of 44 thousand shares as a restricted stock compensation.

2. Information on stock acquisition rights

All stock acquisition rights are the stock option of the Bank and a certain consolidated subsidiary. The amount at the consolidated balance sheet date were ¥49 million for the Bank and ¥49 million for a consolidated subsidiary.

3. Information on dividends

(a) Dividend paid in the current fiscal year

Resolution	Type of shares	Total amount of dividend	Dividend per share	Record date	Effective date
The board of directors' meeting on May 11, 2018	Common stock	¥2,528 million	¥10.00	March 31, 2018	May 31, 2018

(b) Dividend to be paid in the next fiscal year attributable to the current fiscal year

Resolution	Type of shares	Total amount of dividend	Source of dividend	Dividend per share	Record date	Effective date
The board of directors' meeting on May 15, 2019 (planned)	Common stock	¥2,452 million	Retained earnings	¥10.00	March 31, 2019	May 30, 2019

(Financial instruments)

1. Status of financial instruments

(1) Group policy for financial instruments

The Group 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 diversifies sources of funding by securitization of loans or other assets. Subsidiaries and affiliates also use borrowings from other financial institutions as a source of funding.

(2) Nature and extent of risks arising from financial instruments

(a) Financial assets

The financial assets held by the Group are exposed to the following risks:

[Loans and bills discounted]

Loans and bills discounted, which are primarily provided to domestic institutional and individual customers, are exposed to customer's credit risk and risk of fluctuation in interest rates.

As of March 31, 2019, loans to the financial and insurance industry were approximately 11% of the total loans and bills discounted, and those to the real estate industry were approximately 12%, approximately 30% of which are nonrecourse loans for real estate.

[Securities]

Securities primarily consist of bonds and stocks and other investments such as foreign securities and investment in partnerships. They are exposed to the risk of fluctuation in interest rates, foreign exchange rates, and prices in the bond/stock markets and in addition, credit risk arising from downgrading of issuer's credit rating, default, etc.

[Other monetary claims purchased, Monetary assets held in trust]

Other monetary claims purchased and Monetary assets held in trust consist of investments in various assets such as housing loans, nonperforming loans, and receivables in credit trading and securitization businesses, with a purpose of collection, sale, or securitization. There is a possibility that the Group's profits and losses and financial condition will be badly affected if earnings from these assets are less than expected. These investments are exposed to the 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 the customer's credit risk and the risk of fluctuation in interest rates.

(b) Financial liabilities

Financial liabilities of the Group are mainly deposits. In addition to risk of fluctuation in interest rates, the Group has funding liquidity risk that sufficient funding would become difficult or more expensive in case of deterioration in Group's financial position.

By utilizing time deposits as an important Asset Liability Management (ALM) measure, the Bank is striving to diversify funding maturities and to disperse refunding dates. Without solely relying on interbank funding, the Bank is aiming to cover its funding needs through core retail deposits and corporate deposits as well as capital.

(c) Derivative transactions

The Group enters into the following derivative transactions to provide products for customer needs, to maximize the profit of the Bank's own trading account and for asset and liability management, hedging transactions and other purposes.

(i) Interest rate related	Interest rate swap, Future contract, Interest rate option, and Interest rate swaption
(ii) Currency related	Currency swap, Forward foreign exchange contract, and Currency option
(iii) Equity related	Equity index future, Equity index option, Equity option, and other
(iv) Bond related	Bond futures, and Bond future option
(v) Credit derivative	Credit default option, and other

Among the risks associated with derivative transactions, market risk, credit risk and liquidity risk are to be specially noted for risk management.

(i) 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
(ii) Credit Risk	Risk that losses are incurred associated with the counterparty defaulting on contractual terms
(iii) 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 of Financial Instruments."

(3) Risk management for financial instruments

(a) Credit risk management

The Group's model for credit risk management focuses on securing adequate return on risk, avoiding excessive concentration in particular sectors or to particular customer groups, and managing the credit portfolio with an analysis of potential losses under a worst-case scenario.

Concrete policies and guidelines related to credit risk management of corporate business are clarified in the Group's detailed procedures, and credit risk management processes are roughly classified into credit risk management for individual transactions and portfolio-based credit risk management.

As for credit risk management for individual transactions, approval authority level is determined in accordance with transaction amount, aggregate credit exposure to obligor's group companies, credit rating, and so on. The Group has an approval system in which decisions are made jointly by the business promotion section and the credit assessment section, and the final authority and decision rests with the credit assessment section.

On portfolio-based credit risk management, to diversify risks in terms of industries, ratings and customer groups, the risk management divisions monitor 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 Group Risk Policy Committee on a quarterly basis.

Credit risks in credit transactions are quantified based on the probability of default by obligor rating, loss given default, and unexpected loss ratio. In order to decrease credit risk of obligors, the Group secures collateral and guarantees for the protection of its claims, the values of which are checked more than once a year. Quasi credit risks involved in market transactions, such as derivative transactions, are controlled based on fair values and estimations of future value fluctuations and are reflected in the valuation of derivative transactions.

As for credit risk management of the consumer finance business, risk management divisions of each Group Company monitor leading indicators for quality of screening, quality of portfolio and performance of collection of claims monthly to recognize and tackle the aggravation of credit cost promptly. In case of any aggravation, the Group takes action to tackle it.

To take the risk strategy above, the Group Individual Banking Risk Management Division in the Bank holds monthly performance review, analyzes and monitors these leading indicators, confers with the persons in charge of risk management of each Group Company on their policies and strategies, and carries out the necessary measures. 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 Group Risk Policy Committee quarterly.

(b) Market risk management

Market risks which are associated with changes in the value of financial assets and liabilities, including off-balance-sheet transactions, from fluctuations in interest rates, foreign exchange rates, stock prices and other market-related indices, have an effect on our financial performance.

The Group manages market risk by segregating the overall balance sheet, including off-balance-sheet transactions, into a trading business and a banking business. At the Market Business Management Committee, the senior review and decision-making for the management of the trading business are performed. At the Group ALM Committee, the senior review and decision-making for the management mainly related to asset/liability management of the banking business are performed.

To control total market risk amounts properly, the trading business include the banking account transactions in “Securities” and “Derivative instruments,” which are desirable to manage the total risk amount in combination with the trading business in light of the purpose and format of the transaction, in addition to in the trading account transactions.

The actual risk limits for asset/liability management of the trading business, such as the value-at-risk (VaR) method, are approved by the Group Executive Committee based on “Trading Business Risk Management Policy.” The Market Business Management Committee meets monthly to review reports from the Group Integrated Risk Management Division and front office.

The interest rate risk of the net asset and/or liability in the banking business, which has interest rate sensitivity, is managed by the Group ALM Committee based on “Group ALM Policy”

The Group Integrated Risk Management Division is responsible for appropriate monitoring and reporting of market risk in both the Group’s trading business and banking business. In addition to reporting risk information to management, administrative divisions and front office units, the Group Integrated Risk Management Division carries out regular risk analyses and makes recommendations. Market risk involved in the trading business is managed by the Trading Division and Investment Business Division, and market risk of the balance sheet involved in the banking business is managed by the Group Treasury Division.

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) Amount of market risk associated with trading business

The Group uses VaR for quantitative analysis on market risk associated with trading business. For calculating VaR, the historical simulation method (in principle, holding period of 10 days, confidence interval of 99%, and observation period of 250 business days) has been adopted.

The VaR in the Group's trading business as of March 31, 2019 was ¥1,859 million in the aggregate.

The Group conducts back testing to compare VaR calculated using the model with actual loss amounts. According to the results of back testing conducted, it is believed that the measurement model the Group uses is adequate enough to accurately capture market risk. It should be noted that VaR measures and calculates the amount of market risk at certain probability levels statistically based on historical market fluctuation, and therefore there may be cases where risk cannot be captured in such situations when market conditions are changing dramatically beyond what was experienced historically.

(ii) Amount of market risk associated with banking business

The Group's main financial instruments which are affected by interest rate risk, one of the major risk variables, includes “Call loans and bills bought,” “Receivables under resale agreements,” “Receivables under securities borrowing transactions,” “Other monetary claims purchased,” “Monetary assets held in trust,” bonds other than trading business in “Securities,” “Loans and bills discounted,” “Lease receivables and leased investment assets,” “Installment receivables,” “Deposits,” “Negotiable certificates of deposit,” “Call money and bills sold,” “Payables under repurchase agreements,” “Payables under securities lending transactions,” “Borrowed money,” “Short-term corporate bonds,” “Corporate bonds” and interest rate swaps other than trading business in “Derivative instruments.” As for these financial assets and liabilities, the Group uses the amount of impact on economic values, which is calculated using fluctuation range of interest rates by 100 basis points (1%) for quantitative analysis to manage fluctuation risk of interest rates. The amount of such impact on economic values is calculated by categorizing the exposure amount of these financial assets and liabilities according to the term of interest payments and using the above fluctuation range of interest rates. The Bank calculates the amount of impact on economic values with reflecting the non-linear risk due to prepayment to appropriately estimate the fluctuation risk of interest rates. Assuming all risk variables except for interest rate are constant, the Group estimated that the economic value as of March 31, 2019 would decrease by ¥48,588 million in case of an increase of the index interest rates by 100 basis points (1%), and would decrease by ¥5,848 million in case of a decrease by 100 basis points (1%). Such amount of impact on economic 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.

(c) Liquidity risk management

The Group ALM Committee, which is the senior review and decision-making body for the management of funding liquidity risk, manages funding liquidity risk by establishing funding 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.

To manage the market liquidity risk for marketable instruments, the Group has trading limits and monitors the amounts of marketable instruments in view of the attributes of marketable instruments.

Moreover, liquidity reserves for trading account are calculated monthly and are reflected valuation of derivative transactions.

(4) Supplement to the fair value information for financial instruments

Fair value of financial instruments includes the value calculated rationally in cases where no market price is available, besides the value based on market price. Certain assumptions have been adopted for the calculation, so that the value calculated may not be the same when assumptions that differ from the Group’s calculation are adopted.

2. Fair value information for financial instruments

The following are the carrying amounts on the consolidated balance sheet, fair values and the differences between them for respective financial instruments as of March 31, 2019. Securities for which fair values cannot be reliably determined, such as equity securities without readily available market prices are not included in the following table (refer (Note 2)). Items that are immaterial are not included in the following table.

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and due from banks	¥1,355,966	¥1,355,966	¥-
(2) Receivables under securities borrowing transactions	2,119	2,119	-
(3) Other monetary claims purchased			
Trading purposes	2,853	2,853	-
Other (*1)	27,987	28,287	300
(4) Trading assets			
Securities held for trading purposes	3,445	3,445	-
(5) Monetary assets held in trust (*1)	304,039	309,452	5,412
(6) Securities			
Trading securities	0	0	-
Securities being held to maturity	399,201	402,406	3,204
Securities available for sale	624,563	624,563	-
Equity securities of affiliates	57,345	43,837	(13,508)
(7) Loans and bills discounted (*2)	4,986,839		
Reserve for credit losses	(63,890)		
Net	4,922,948	5,114,537	191,588
(8) Lease receivables and leased investment assets	176,553		
Estimated residual value(*3)	(4,952)		
Reserve for credit losses	(1,487)		
Net	170,114	176,338	6,224
(9) Other assets			
Installment receivables	562,236		
Deferred gains on installment receivables	(11,246)		
Reserve for credit losses	(9,962)		
Net	541,027	594,686	53,659
Total assets	¥8,411,611	¥8,658,493	¥246,881
(1) Deposits	¥5,351,564	¥5,349,058	¥2,505
(2) Negotiable certificates of deposit	570,580	570,633	(52)
(3) Call money and bills sold	145,000	145,000	—
(4) Payables under repurchase agreements	59,098	59,098	—
(5) Payables under securities lending transactions	510,229	510,229	—
(6) Trading liabilities			
Trading securities sold for short sales	2,124	2,124	—
(7) Borrowed money	684,077	684,028	49
(8) Short-term corporate bonds	191,000	191,000	—
(9) Corporate bonds	92,335	92,373	(38)
Total liabilities	¥7,606,011	¥7,603,547	¥2,464
Derivative instruments (*4)			
Hedge accounting is not applied	¥22,481	¥22,481	¥—
Hedge accounting is applied	(9,356)	(9,356)	—
Total	¥13,125	¥13,125	¥—

(Millions of yen)

	Contract amount	Fair value
Other Guarantee contracts (*5)	¥456,759	¥ 8,792

(*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 held by consolidated subsidiaries included in Loans and bills discounted, reserve for losses on interest repayments of ¥63,025 million was recognized for estimated losses on reimbursements of excess interest payments, which included the reserve for losses on interest repayments that has a possibility of being appropriated for loan principal in the future.
(*3) Estimated residual value of leased investment assets arising from finance lease transactions, where the ownership of the property is not deemed to transfer to the lessee, is deducted from leased investment assets.
(*4) 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 a net basis.
(*5) Contract amount for guarantee contracts presents the amount of "Acceptance and guarantees" on the consolidated balance sheet.

(Note 1) Valuation methodologies for financial instruments

Assets

(1) Cash and due from banks

The fair values are measured at carrying amounts because the fair values of due from banks with no maturity approximate carrying amounts. Likewise, for due from banks with maturity, the fair values are measured at carrying amounts because most of them are with short maturity of six months or less, therefore the fair values approximate carrying amounts.

(2) Receivables under securities borrowing transactions

The fair values are measured at carrying amounts because most of them have a short maturity of three months or less, therefore the fair values approximate carrying amounts.

(3) Other monetary claims purchased

The fair values are measured at quoted prices from third parties or determined using the discounted cash flow method.

(4) Trading assets

The fair values of securities held for trading purposes are measured at market prices or quoted prices from third parties.

(5) Monetary assets held in trust

The fair values are determined using the discounted cash flow method based on the characteristics of the components of the entrusted assets.

Notes on monetary assets held in trust by holding purposes are included in notes for “Monetary assets held in trust.”

(6) Securities

The fair values of marketable equity securities are measured at closing prices on exchanges. The fair values of bonds and mutual funds are measured at market prices or quoted prices from third parties or determined using the discounted cash flow method.

Notes on securities by holding purposes are included in notes for “Securities.”

(7) Loans and bills discounted

The fair values of loans and bills discounted with a fixed interest rate are determined by discounting contractual cash flows, and the fair values of loans and bills discounted with a floating interest rate are determined by discounting expected cash flows based on the forward rates (for loans and bills discounted hedged by interest rate swaps which meet specific matching criteria, summing up the cash flows from the interest rate swaps), using the risk-free rate adjusted to account for credit risk (after consideration of collateral) with CDS spread 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 consist of the risk free rate and spreads that would be applied for the new housing loans with the same terms at the consolidated balance sheet date. The fair values of consumer loans are determined by discounting expected cash flows that reflect expected loss at the rates that consist of the risk-free rate and certain costs, by a group of similar product types and customer segments.

Regarding 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.

(8) Lease receivables and leased investment assets

The fair values are primarily determined by discounting contractual cash flows at the rates that would be applied for the new contracts by a group of major product categories.

(9) Installment receivables

The fair values are primarily determined by discounting expected cash flows that reflect the probability of prepayment at the rates that consist of the risk-free rate, credit risk and certain costs, by a group of major product categories.

Liabilities

(1) Deposits and (2) 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 are approximate to carrying amounts because of their short-term maturity.

The fair values of time deposits and negotiable certificates of deposit are determined by discounting expected cash flows at the rates that consist of the risk free rate and spread that would be applied for the new contracts with the same terms at the consolidated balance sheet date.

(3)Call money and bills sold, (4) Payables under repurchase agreements and (5) Payables under securities lending transactions

The fair values are approximate to carrying amounts for call money and bills sold, payables under repurchase agreements, and payables under securities lending transactions with short maturities of three months or less.

(6) Trading liabilities

The fair values are measured at market prices.

(7) 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 meet specific matching criteria, the contractual cash flows include the cash flows of the interest rate swaps), and the fair values of borrowed money with floating interest rates are determined by discounting expected cash flows on forward rates, at the funding rates that reflect the credit risk of the borrower.

The fair values of step-up callable subordinated borrowings are determined by discounting expected cash flows that reflect the probability of early redemption at the rates that consist of the risk-free rate and the CDS spread of Shinsei Bank, Limited.

(8) Short-term corporate bonds

The fair values are approximate to carrying amounts because most of them are with short maturities of one year or less.

(9) Corporate bonds

The fair values of marketable corporate bonds are measured at market prices. The fair values of nonmarketable 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 etc. funded within the past three months of the consolidated balance sheet date.

The fair values of step-up callable subordinated bonds are determined by discounting expected cash flows which reflect the probability of early redemption at the rates that consist of the risk-free rate and the CDS spread of Shinsei Bank, Limited.

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 contract with the same terms at the risk-free rate.

(Note 2)

Financial instruments whose fair values cannot be reliably determined were as follows, and these are not included in the above (6) Securities.

(Millions of yen)

Category	Carrying amount
Equity securities without readily available market price (*1) (*2)	¥14,342
Investment in partnerships and others (*1) (*2)	34,833
Total	¥49,176

(*1) Equity securities without readily available market prices are out of the scope of fair values 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 prices, are out of the scope of fair value disclosure because fair values of those investments cannot be reliably determined.
(*2) For the fiscal year ended March 31, 2019, impairment losses on equity securities without readily available market price of ¥1,439 million, and on investment in partnerships and others of ¥1,441 million were recognized.

(Note 3) Redemption schedule of monetary claims and securities with contractual maturities

(Millions of yen)

	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years
Due from banks	¥1,351,049	¥-	¥-	¥-
Receivables under securities borrowing transactions	2,119	-	-	-
Other monetary claims purchased	14,562	3,000	826	9,746
Other than trading purposes				
Securities				
Held-to-maturity	120,000	230,000	5,000	40,000
Japanese national government bonds	120,000	230,000	5,000	40,000
Available-for-sale	26,317	119,977	121,259	322,524
Japanese national government bonds	-	51,000	1,000	48,000
Japanese local government bonds	-	-	-	-
Japanese corporate bonds	3,096	39,171	76,394	54,016
Other	23,221	29,806	43,865	220,508
Loans and bills discounted	1,222,409	1,342,949	873,513	1,520,287
Lease receivables and leased investment assets	53,318	72,745	31,794	18,668
Installment receivables	144,394	180,553	77,907	153,635
Total	¥2,934,170	¥1,949,225	¥1,110,300	¥2,064,861

(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 table above.

(Note 4) Redemption schedule of corporate bonds, borrowed money and other interest-bearing debts

(Millions of yen)

	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years
Deposits (*)	¥4,834,357	¥207,990	¥152,792	¥156,423
Negotiable certificates of deposit	570,580	-	-	-
Call money and bills sold	145,000	-	-	-
Payables under repurchase agreements	59,098	-	-	-
Payables under securities lending transactions	510,229	-	-	-
Borrowed money	247,979	224,776	74,719	136,602
Short-term corporate bonds	191,000	-	-	-
Corporate bonds	25,000	25,735	40,000	1,600
Total	¥6,583,246	¥458,502	¥267,511	¥294,625

(*) The cash flow of demand deposits is included in "1 year or less."

(Securities)

In addition to "Securities" on the consolidated balance sheet, the figures in the following tables include trading securities recorded in "Trading assets" and beneficiary interests included in "Other monetary claims purchased" that are accounted for in the same way as securities.

1. Trading securities (as of March 31, 2019)

(Millions of yen)

	Unrealized gain (loss)
Trading securities	¥ 33
Other monetary claims purchased for trading purposes	(256)

2. Securities being held to maturity (as of March 31, 2019)

(Millions of yen)

	Type	Carrying amount	Fair value	Unrealized gain (loss)
Fair value exceeds carrying amount	Japanese national government bonds	¥399,201	¥402,406	¥3,204
	Subtotal	399,201	402,406	3,204
Fair value does not exceed carrying amount	Japanese national government bonds	-	-	-
	Subtotal	-	-	-
Total		¥399,201	¥402,406	¥3,204

3. Securities available for sale (as of March 31, 2019)

(Millions of yen)

	Type	Carrying amount (Fair value)	Amortized/ Acquisition cost	Unrealized gain (loss)
Carrying amount exceeds amortized/acquisition cost	Equity securities	¥16,664	¥8,182	¥8,481
	Domestic bonds:	154,174	152,928	1,245
	Japanese national government bonds	102,386	101,496	889
	Japanese local government bonds	-	-	-
	Japanese corporate bonds	51,787	51,431	355
	Other:	137,959	134,612	3,347
	Foreign securities	137,959	134,612	3,347
	Other	-	―	-
	Subtotal	308,797	295,723	13,074
Carrying amount does not exceed amortized/acquisition cost	Equity securities	703	1,012	(308)
	Domestic bonds:	119,360	120,801	(1,440)
	Japanese national government bonds	-	-	-
	Japanese local government bonds	-	-	-
	Japanese corporate bonds	119,360	120,801	(1,440)
	Other:	195,701	197,689	(1,988)
	Foreign securities	194,718	196,621	(1,903)
	Other	982	1,068	(85)
	Subtotal	315,765	319,503	(3,737)
Total		¥624,563	¥615,226	¥9,336

Note: "Unrealized gain (loss) on available-for-sale securities" on the consolidated balance sheet consists of the following:

(Millions of yen)

Unrealized gain (loss) before deferred tax on:	
Available-for-sale securities	¥ 9,336
The Group's interests in available-for-sale securities held by partnerships recorded as securities whose fair value cannot be reliably determined and other adjustments	(1,468)
Other monetary assets held in trust	(1,106)
Less: Deferred tax liabilities	1,477
Unrealized gain (loss) on available-for-sale securities before interest adjustments	5,284
Less: Noncontrolling interests	-
The Group's interests in unrealized gain (loss) on available-for-sale securities held by affiliates to which the equity method is applied	4,756
Unrealized gain (loss) on available-for-sale securities	¥ 10,041

4. Available-for-sale securities sold during the current fiscal year (from April 1, 2018 to March 31, 2019)

(Millions of yen)

	Proceeds from sales	Gains on sales	Losses on sales
Equity securities	¥1,516	¥530	¥242
Domestic bonds:	658,017	1,228	173
Japanese national government bonds	571,927	1,074	143
Japanese local government bonds	27,572	40	25
Japanese corporate bonds	58,517	113	4
Other:	735,525	3,789	1,018
Foreign securities	730,211	3,069	990
Other	5,314	719	28
Total	¥1,395,060	¥5,548	¥1,433

5. Securities for which impairment losses are recognized

In the event individual securities (except for those whose fair value cannot be reliably determined), other than trading securities, experience a decline in fair value which is significant as compared to the acquisition cost of such securities, the securities are written down as the decline in fair value is deemed to be other than temporary, and the difference is recorded as an impairment loss.

Impairment loss on such securities for the fiscal year ended March 31, 2019, was ¥636 million, which consisted of ¥186 million for equity securities, ¥449 million for Japanese corporate bonds and ¥0 million for foreign securities.

The Group's rules for the determination of whether an other-than-temporary impairment has occurred differ by the obligor classification of the security issuer based upon the Group's self-assessment guidelines. The details of these rules are as follows:

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

"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 legally or formally gone bankrupt but who are substantially in bankruptcy 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 in bankruptcy but are in financial difficulties and are very likely to go bankrupt in the future.

"Need caution" obligors are those who are in need of 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 their financial position.

(Monetary assets held in trust)

1. Monetary assets held in trust for trading purposes (as of March 31, 2019)

(Millions of yen)

	Carrying amount (Fair value)	Unrealized gain (loss)
Monetary assets held in trust for trading purposes	¥12,553	¥ (170)

2. There are no monetary assets held in trust held to maturity (as of March 31, 2019)

3. Monetary assets held in trust other than for trading purposes and held to maturity (as of March 31, 2019)

(Millions of yen)

	Carrying amount	Acquisition cost	Unrealized gain (loss)	Gross unrealized gain	Gross unrealized loss
Other monetary assets held in trust	¥293,325	¥294,432	¥ (1,106)	¥247	¥ (1,353)

Note: “Gross unrealized gain” and “Gross unrealized loss” are components of “Unrealized gain (loss).”

(Business Combinations)

(Succession of business by absorption-type company split)

Shinsei Financial Co., Ltd., a wholly-owned subsidiary of the Bank, succeeded a partial financial business relating to consumer mortgage loans from CFJ Godo Kaisha (the former DIC FINANCE CO., LTD., a group company of Citigroup Inc.) on January 15, 2019 as the effective date, pursuant to the “SALE AND PURCHASE AGREEMENT” dated on October 5, 2018 and the absorption-type company split contract dated on November 14, 2018.

1. Outline of the business combination

(1) Name and business description of the splitting entity

Name: CFJ Godo Kaisha

Divested business: A partial financial business relating to consumer mortgage loans

(2) Purpose of the succession

For a revenue growth of the Group.

(3) Date on which the business combination was effected

January 15, 2019

(4) Legal form of the business combination

Absorption-type company split;

Succeeding entity: Shinsei Financial Co., Ltd.

Splitting entity: CFJ Godo Kaisha

(5) Name of the company after the business combination

Shinsei Financial Co., Ltd.

(6) Basis for determination of the acquiring company

Shinsei Financial Co., Ltd. succeeded the partial financial business relating to consumer mortgage loans of CFJ Godo Kaisha by cash.

2. Period of the acquired business’s financial result included in the consolidated statement of income of the Group

From January 15, 2019 to March 31, 2019

3. Acquisition costs of the succeeded business and their breakdown

Shinsei Financial Co., Ltd. paid cash ¥9,154 million to CFJ Godo Kaisha for this split.

4. Major acquisition-related costs and their breakdown

Advisory fees etc., ¥12 million

5. Amount, reason of the occurrence, and amortization method and period, of goodwill

(1) Amount of goodwill incurred

¥1,111 million

(2) Reason for recognizing goodwill

The goodwill results mainly from excess earnings expected by business development.

(3) Amortization method and the period

Straight-line method over 5 years

6. Amounts and breakdown of succeeded assets and liabilities on the date of the business combination

(1) Assets

	Millions of yen
Total assets..	14,400
Loans..	10,609

(2) Liabilities

	Millions of yen
Total liabilities...	6,357
Reserve for losses on interest repayments	4,865

(Per share information)

Common shareholders' equity per share was ¥3,636.92.

Profit attributable to owners of parent per common share was ¥211.24.

Diluted profit attributable to owners of parent per common share was ¥211.22.

(Stock option)

1. Expenses related to stock options and others in the current fiscal year

Other general and administrative expenses ¥ 99million

2. Gains on unexercised and forfeited stock acquisition rights during the current fiscal year

218 million

3. Outline, number and movement of stock options

(1) The Bank

(a) Outline of stock options

	The 20th stock acquisition rights		The 21st stock acquisition rights	
Number of grantees	Directors: 12 Statutory executive officers: 8 Employees: 104		Statutory executive officers: 1 Employees: 29	
Number of stock options granted (Note 1)	Common stock: 144,500 shares	Common stock: 138,500 shares	Common stock: 104,900 shares	Common stock: 103,200 shares
Grant date	May 30, 2008		May 30, 2008	
Condition for vesting	(Note: 2)		(Note: 2)	
Required service period	From May 30, 2008 to June 1, 2010	From May 30, 2008 to June 1, 2012	From May 30, 2008 to June 1, 2010	From May 30, 2008 to June 1, 2012
Exercise period	From June 1, 2010 to May 13, 2018	From June 1, 2012 to May 13, 2018	From June 1, 2010 to May 13, 2018	From June 1, 2012 to May 13, 2018

	The 22nd stock acquisition rights		The 23rd stock acquisition rights	
Number of grantees	Directors and employees in subsidiaries: 43		Directors and employees in subsidiaries: 17	
Number of stock options granted (Note 1)	Common stock: 12,100 shares	Common stock: 8,200 shares	Common stock: 5,400 shares	Common stock: 4,300 shares
Grant date	July 10, 2008		December 1, 2008	
Condition for vesting	(Note: 2)		(Note: 2)	
Required service period	From July 10, 2008 to July 1, 2010	From July 10, 2008 to July 1, 2012	From December 1, 2008 to December 1, 2010	From December 1, 2008 to December 1, 2012
Exercise period	From July 1, 2010 to June 24, 2018	From July 1, 2012 to June 24, 2018	From December 1, 2010 to November 11, 2018	From December 1, 2012 to November 11, 2018

	The 1st stock acquisition rights (Share compensation-type)	The 2nd stock acquisition rights (Share compensation-type)
Number of grantees	Directors: 2	Directors: 2
Number of stock options granted (Note 1)	Common stock: 13,430 shares	Common stock: 16,730 shares
Grant date	May 26, 2016	May 25, 2017
Condition for vesting	Condition for vesting is nil	Condition for vesting is nil
Required service period	Required service period is nil	Required service period is nil
Exercise period	From May 27, 2016 to May 26, 2046	From May 26, 2017 to May 25, 2047

	The 3rd stock acquisition rights (Share compensation-type)
Number of grantees	Directors: 2
Number of stock options granted (Note 1)	Common stock: 13,220 shares
Grant date	May 28, 2018
Condition for vesting	Condition for vesting is nil
Required service period	Required service period is nil
Exercise period	From May 29, 2018 to May 28, 2048

Notes:

1. Stated in terms of the number of shares after considering that the Bank executed a one-for-ten reverse stock split of common shares on October 1, 2017.
2. In principle, grantees must continue to serve through the required service period. However, the right may be vested or forfeited if certain conditions specified in the "Agreement on Granting Stock Acquisition Rights" take place.

(b) Number of stock options and movement therein

Stock options that existed during the current fiscal year are covered. Number of stock options is stated in terms of the number of shares.

(i) Number of stock options

	20th	21st	22nd	23rd
Nonvested (share)				
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Vested during the year	-	-	-	-
Outstanding at the end of the year	-	-	-	-
Vested (Share)				
Outstanding at the beginning of the year	113,900	4,200	17,800	5,000
Vested during the year	-	-	-	-
Exercised during the year	-	-	-	-
Forfeited during the year	113,900	4,200	17,800	5,000
Exercisable at the end of the year	-	-	-	-

	1st (Share compensation-type)	2nd (Share compensation-type)	3rd (Share compensation-type)
Nonvested (share)			
Outstanding at the beginning of the year	-	-	-
Granted during the year	-	-	13,220
Forfeited during the year	-	-	-
Vested during the year	-	-	13,220
Outstanding at the end of the year	-	-	-
Vested (Share)			
Outstanding at the beginning of the year	13,430	16,730	-
Vested during the year	-	-	13,220
Exercised during the year	4,480	5,580	4,410
Forfeited during the year	-	-	-
Exercisable at the end of the year	8,950	11,150	8,810

Notes: Stated in terms of the number of shares after considering that the Bank executed a one-for-ten reverse stock split of common shares on October 1, 2017.

(ii) Price information

	20th		21st	
Exercise period	From June 1, 2010 to May 13, 2018	From June 1, 2012 to May 13, 2018	From June 1, 2010 to May 13, 2018	From June 1, 2012 to May 13, 2018
Exercise price (yen)	4,160		4,160	
Weighted-average stock price at the date of exercise (yen)	-		-	
Fair value at grant date (yen)	1,580	1,690	1,580	1,690

	22nd		23rd	
Exercise period	From July 1, 2010 to June 24, 2018	From July 1, 2012 to June 24, 2018	From December 1, 2010 to November 11, 2018	From December 1, 2012 to November 11, 2018
Exercise price (yen)	4,070		2,210	
Weighted-average stock price at the date of exercise (yen)	-		-	
Fair value at grant date (yen)	1,270	1,370	530	570

	1st (Share compensation-type)	2nd (Share compensation-type)
Exercise period	From May 27, 2016 to May 26, 2046	From May 26, 2017 to May 25, 2047
Exercise price (yen)	1	1
Weighted-average stock price at the date of exercise (yen)	1,697	1,697
Fair value at grant date (yen)	1,620	1,780

	3rd (Share compensation-type)
Exercise period	From May 29, 2018 to May 28, 2048
Exercise price (yen)	1
Weighted-average stock price at the date of exercise (yen)	1,697
Fair value at grant date (yen)	1,724

Notes: Stated in terms of prices after considering that the Bank executed a one-for-ten reverse stock split of common shares on October 1, 2017.

(2) OJBC Co. Ltd

(a) Outline of stock options

	The 1st stock acquisition rights	The 2nd stock acquisition rights
Number of grantees	Nippon Wealth Limited Directors: 3 Employees: 5	Nippon Wealth Limited Employee: 1
Number of stock options granted (Note 1)	Class B Preferred shares: 2,114,680 shares	Class B Preferred shares: 72,920 shares
Grant date	April 28, 2015	May 25, 2016
Condition for vesting	(Note: 2)	(Note: 2)
Required service period	From April 28, 2015 to April 28, 2017	From May 25, 2016 to May 25, 2018
Exercise period	From April 28, 2017 to April 28, 2025	From May 25, 2018 to May 25, 2026

	The 3rd stock acquisition rights
Number of grantees	Nippon Wealth Limited Director: 1 Employee: 1
Number of stock options granted (Note 1)	Class B Preferred shares: 109,380 shares
Grant date	April 30, 2018
Condition for vesting	(Note: 2)
Required service period	From April 30, 2018 to April 30, 2020
Exercise period	From April 30, 2020 to April 30, 2028

Notes:

1. Stated in terms of the number of shares.
2. In principle, grantees must continue to serve through the required service period and until the date of exercising. However, the right may be vested or forfeited if certain conditions specified in the "Shareholders' Agreement" take place.

(b) Number of stock options and movement therein

Stock options that existed during the current fiscal year are covered. Number of stock options is stated in terms of the number of shares.

(i) Number of stock options

	1st	2nd	3rd
Nonvested (share)			
Outstanding at the beginning of the year	-	72,920	-
Granted during the year	-	-	109,380
Forfeited during the year	-	-	-
Vested during the year	-	72,920	-
Outstanding at the end of the year	-	-	109,380
Vested (Share)			
Outstanding at the beginning of the year	1,786,540	-	-
Vested during the year	-	72,920	-
Exercised during the year	-	-	-
Forfeited during the year	72,920	-	-
Exercisable at the end of the year	1,713,620	72,920	-

(ii) Price information

	1st	2nd	3rd
Exercise period	From April 28, 2017 to April 28, 2025	From May 25, 2018 to May 25, 2026	From April 30, 2020 to April 30, 2028
Exercise price (USD)	1.10	1.10	1.10
Weighted-average stock price at the date of exercise (USD)	-	-	-
Fair value at grant date (USD)	0.26	0.15	0.22

4. Measurement of the fair values of stock options

The following is the method to measure a fair value of stock options granted in this consolidated fiscal year

(1) The Bank

(a) Used method: Black-Scholes option pricing model

(b) Major inputs and variables to the model used

	3rd (Share compensation-type)
Exercise period	From May 29, 2018 to May 28, 2048
Expected volatility (Note 1)	36.289%
Expected life (Note 2)	7.0Years
Expected dividends (Note 3)	10.0Yen/Share
Risk-free interest rate (Note 4)	-0.056%

Note:

1. Measured based on the historical stock price corresponding to expected life (from May 29, 2011 to May 28, 2018).
2. Estimated based on the retirement data of the director and statutory executive officers of the Bank for the past 10 years, as the reasonable estimate is difficult without enough data.
3. Based on the actual dividend for the fiscal year ended in March, 2018 (10.0Yen/Share).
4. Used the average compound yield of Long term JGB with the maturity that is approximate to expected life.

(2) OJBC Co. Ltd

(a) Used method: Binominal model

(b) Major inputs and variables to the model used

	3rd
Exercise period	From April 30, 2020 to April 30, 2028
Expected volatility (Note 1)	27.45%
Expected life (Note 2)	10.0Years
Expected dividends (Note 3)	-
Risk-free interest rate (Note 4)	2.95%

Note:

1. Measured based on the historical stock price of comparable similar companies.
2. Assumed based on the term from grant date to the end of exercise period.
3. Based on the recent actual dividend (0%).
4. Used the yield of US Treasury Bond with the maturity that is equivalent to expected life.

5. Method of determining the vested number of stock options

The actual forfeited options are used for calculating the vested number of stock options because the future forfeitures cannot be reliably estimated.

6. Outline, number and movement of restricted stock compensation

(1) Outline of restricted stocks

	Granted on July 19, 2018
Categories and numbers of recipients	Full-time directors of the Bank（Directors excluding outside directors): 2 persons
Number of shares granted	11,675 shares of common stock of the Bank
Grant date	July 19, 2018
Required service period	From June 20, 2018 to the date of the ordinary general meeting of shareholders in 2019
Transfer restriction period	From July 19, 2018 to July 18, 2021
Cancellation conditions	On the condition that the recipient has maintained his/her position of executive director, etc. of the Bank or its subsidiary continuously during the transfer restriction period, the transfer restriction shall be cancelled at the expiration of the transfer restriction period. If the recipient loses the position of executive director, etc. of the Bank or its subsidiary prior to the expiration of the transfer restriction period, the transfer restrictions will be immediately removed. The number of shares subject to removal of transfer restrictions are obtained by multiplying the number of allotted stocks held by the recipient at the time of his/her resignation or retirement by the value obtained as a result of dividing the period of service of the recipient or during the transfer restriction period (on a monthly basis) by 12. The Bank shall automatically acquire, without consideration, the allotted stocks for which transfer restrictions have not been removed at the time of expiration of the transfer restriction period or at the time of removal of the transfer restrictions .
Fair value at grant date	1,713Yen

	Granted on October 31, 2018
Categories and numbers of recipients	Executive Officers of the Bank as well as Chief Officers and Senior Officers of the Group Headquarters: 33 persons
Number of shares granted	32,447 shares of common stock of the Bank
Grant date	October 31, 2018
Required service period	From April 1, 2018 to March 31, 2019
Transfer restriction period	From October 31, 2018 to July 18, 2021
Cancellation conditions	On the condition that the recipient has maintained his/her position of executive director, etc. of the Bank or its subsidiary continuously during the transfer restriction period, the transfer restriction shall be cancelled at the expiration of the transfer restriction period. If the recipient loses the position of executive director, etc. of the Bank or its subsidiary prior to the expiration of the transfer restriction period, the transfer restrictions will be immediately removed. The number of shares subject to removal of transfer restrictions are obtained by multiplying the number of allotted stocks held by the recipient at the time of his/her resignation or retirement by the value obtained as a result of dividing the period of service of the recipient or during the transfer restriction period (on a monthly basis) by 12. The Bank shall automatically acquire, without consideration, the allotted stocks for which transfer restrictions have not been removed at the time of expiration of the transfer restriction period or at the time of removal of the transfer restrictions .
Fair value at grant date	1,725Yen

(2) Number of restricted stocks and movement therein

	Granted on July 19, 2018	Granted on October 31, 2018
Number of shares before the cancellation of transfer restrictions		
Outstanding at the end of the last fiscal year	—	—
Granted during the fiscal year	11,675	32,447
Acquisition without consideration by the Bank	—	—
Cancellation of the transfer restrictions	—	—
Outstanding at the end of the fiscal year	11,675	32,447

(Subsequent event)

(Acquisition of shares of SHINKO LEASE CO., LTD.)

On April 23, 2019, Showa Leasing Co., Ltd., a subsidiary of the Bank, concluded the share purchase agreement with Mitsubishi UFJ Lease & Finance Company Limited, the current parent company of SHINKO LEASE CO., LTD. Showa Leasing Co., Ltd. will purchase the shares of SHINKO LEASE CO., LTD. on July 1, 2019 as the settlement date.

1. Outline of the business combination

(1) Name and business description of the acquired company

Name: SHINKO LEASE CO., LTD.

Business description: General leasing business

(2) Purpose of the acquisition

For a revenue growth of the Group.

(3) Date on which the business combination was effected

July 1, 2019 (Planned)

(4) Legal form of the business combination

Acquisition of shares with cash consideration

(5) Company name after the business combination

A change of the company name is not planned.

(6) Percentage of voting rights acquired

80%

(7) Basis for determination of the acquiring company

Showa Leasing Co., Ltd., will acquire the shares by cash.

2. Acquisition costs of the shares and their breakdown

Not disclosed by agreement between the related parties

3. Major acquisition-related costs and their breakdown

Not determined

4. Amount, reason of the occurrence, and amortization method and period, of goodwill

Not determined

5. Amounts and breakdown of assets and liabilities on the date of the business combination

These amounts are in the process of being calculated.

Notes to the nonconsolidated financial statements

All yen amounts are rounded down to millions of yen.

Significant accounting policies

1. Recognition and measurement of trading assets / liabilities and trading income / losses

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. The income and losses resulting from trading activities are included in “Trading income” and “Trading losses”.

Trading securities and monetary claims purchased for trading purposes are stated at market value at the balance sheet date 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 balance sheet date.

Trading income and trading losses include interest received and paid during the fiscal year and unrealized gains and losses resulting from the change in the value of securities and monetary claims purchased, and derivatives between the beginning and the end of the fiscal year.

In estimating fair values of derivative financial instruments included in trading accounts, liquidity risks and credit risks are reflected.

2. Measurement of securities

(a) Securities for trading purposes (except for those included in trading accounts) are carried at fair value (cost of securities sold is determined by the moving-average method). Securities being held to maturity are carried at amortized cost (using the straight-line method) determined by the moving-average method. Investments in subsidiaries and affiliates are carried at cost determined by the moving-average method. Available-for-sale securities are carried at fair value at the balance sheet date (cost of securities sold is determined by the moving-average method) in principle, with the exception of those whose fair value cannot be reliably determined, which are carried at cost determined by the moving-average method. Investments in partnerships and others are carried at the amount of the Bank’s share of net asset value based on their most recent financial statements.

Unrealized gain (loss) on available-for-sale securities is directly recorded in a separate component of equity, after deducting the amount charged to profit or loss by applying fair value hedge accounting.

(b) The values of securities included in monetary assets held in trust are determined by the same methods as stated in (a) above.

3. Measurement of derivatives

Derivatives (except for those included in trading accounts) are carried at fair value.

4. Measurement of other monetary claims purchased

Other monetary claims purchased held for trading purposes (except for those included in trading accounts) are carried at fair value.

5. Depreciation

(a) Premises and equipment (excluding leased assets)

Depreciation of buildings and computer equipment (including ATMs) other than personal computers is computed using the straight-line method, and depreciation of other equipment is computed using the declining-balance method. Principal estimated useful lives are as follows:

Buildings:	8 – 20 years
Others:	2 – 20 years

(b) Intangible assets (excluding leased assets)

Amortization of intangible assets is computed using the straight-line method. The amortization period of respective intangible assets is as follows:

Capitalized software for internal use	5–10 years	(the estimated useful lives)
Goodwill	10 years	
Other intangible assets (Trade name and trade mark)	7 years	

(c) Leased assets

Depreciation of leased assets under finance lease transactions that were deemed to transfer ownership of the leased property to the lessee, which are included in "Premises and equipment" and “Intangible assets,” is computed using the same method which is applied to the own properties.

6. Deferred charges

Deferred issuance expenses for corporate bonds, which are included in other assets, are amortized using the straight-line method over the term of the corporate bonds.

Corporate bonds are stated at amortized cost calculated by the straight-line method.

7. Reserves and allowances

(a) Reserve for credit losses

The reserve for credit losses has been established as described below based on the predetermined 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 cases where it is difficult to reasonably estimate future cash flows, the reserve is provided based on the 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 sales promotion divisions and credit analysis divisions based on the predetermined internal rules for the self-assessment of asset quality. The risk management divisions, that are independent of sales promotion divisions and credit analysis divisions, conducts verifications of these assessments, and additional reserves may be provided based on the verification results.

For collateralized or guaranteed claims to legally bankrupt obligors or virtually bankrupt obligors, the amount of claims exceeding the estimated value of collateral or guarantees, which is deemed uncollectible, has been charged off in principle and totaled ¥ 2,970 million.

(b) Accrued employees’ bonuses

Accrued employees’ bonuses are provided in the amount of the estimated bonuses that are attributable to the current fiscal year.

(c) Reserve for employees' retirement benefits

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 as of the balance sheet date. The projected benefit obligation is estimated using the benefit formula basis for attributing the expected benefits to the current fiscal year.

The unrecognized actuarial gain (loss) are treated in the following manner:

Unrecognized actuarial gain (loss):	Amortized using the straight-line method over the average remaining service period (7.49-12.21 years) from the fiscal year of occurrence.

(d) Reserve for reimbursement of debentures

The reserve for reimbursement of debentures is provided for estimated losses on future reimbursement requests of debentures derecognized from liabilities.

8. Translation of foreign currency-denominated assets and liabilities

Foreign currency-denominated assets and liabilities are translated into Japanese yen at the exchange rates as of the balance sheet date, except for investments in subsidiaries and affiliates which are translated at the relevant historical exchange rates.

9. Hedge accounting

(a) Hedge of interest rate risks

The Bank applies deferral hedge accounting for derivative transactions that meet hedge accounting criteria for mitigating interest risks of its financial assets and liabilities.

The Bank adopted portfolio hedging to determine the effectiveness of hedging instruments in accordance with "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in the Banking Industry" (Industry Audit Committee Report No. 24 issued, in February 13 2002, by the Japanese Institute of Certified Public Accountants (the "JICPA")). Under portfolio hedging 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 rates index of the hedged cash flow and that of the hedging instruments.

(b) Hedge of foreign exchange fluctuation risks

The Bank applies either deferral hedge accounting or fair value hedge accounting for derivative transactions for the purpose of hedging foreign exchange fluctuation risks of the Bank's financial assets and liabilities denominated in a foreign currency.

Under deferral hedge accounting, which is in accordance with "Accounting and Auditing Treatment of Accounting Standards for Foreign Exchange Transactions in the Banking Industry" (Industry Audit Committee Report No. 25 issued by JICPA, in July 29 2002), hedged items are identified by grouping the foreign currency-denominated financial assets and liabilities by currency and designating derivative transactions such as currency swap transactions, funding 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-denominated investments in foreign subsidiaries and affiliates and available-for-sale securities (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) Intracompany derivative transactions

Gains (losses) on intracompany derivative hedging transactions between the trading book and the banking book are not eliminated since offsetting transactions with third parties are appropriately entered into in conformity with the nonarbitrary and strict hedging policy in accordance with Industry Audit Committee Reports No. 24 and No. 25 of the JICPA. As a result, in the banking book, realized gains (losses) on such intracompany transactions are reported in current earnings and valuation gains (losses) which meet the hedge accounting criteria are deferred.

10. Reserve for employees' retirement benefits

The method of recognition of the unrecognized actuarial gain (loss) is different from the method in the consolidated financial statements.

11. Consumption tax

The national consumption tax and the local consumption tax are excluded from transaction amounts.

12. Consolidated corporate tax system

The consolidated corporate tax system is adopted by the Bank.

Notes

(Balance Sheet)

1. Investments in subsidiaries and affiliates were as follows.

(Millions of yen)

	Carrying amount
Equity securities	¥390,527
Other	12,521

2. For securities held in connection with securities borrowing transactions with or without cash collateral, securities purchased under resale agreements and securities accepted as collateral for derivative transactions, where the Bank has the right to sell or pledge such securities without restrictions ¥5,643 million of those securities was held by the Bank at the balance sheet date.

3. Loans and bills discounted include loans to bankrupt obligors and nonaccrual delinquent loans of ¥546 million and ¥7,657 million, respectively .

Loans to bankrupt obligors are loans, after write-off, to legally bankrupt obligors as defined in Article 96, Paragraph 1, Items 3 and 4 of the Order for Enforcement of the Corporation Tax Act (Cabinet Order No. 97 of 1965) and on which accrued interest income is not recognized as the principal or interest is expected to be uncollected because they are past due for a considerable period of time or for other reasons.

Nonaccrual delinquent loans are loans on which accrued interest income is not recognized, excluding loans to bankrupt obligors and loans for which interest payments are deferred in order to facilitate the rehabilitation of the obligor or to assist in the financial recovery of the obligors.

4. Loans and bills discounted include loans past due for three months or more of ¥241 million .

Loans past due for three months or more are loans other than loans to bankrupt obligors and nonaccrual delinquent loans, for which the principal and/or interest payments are past due for three months or more.

5. Loans and bills discounted include restructured loans of ¥1,745 million.

Restructured loans are loans other than loans to bankrupt obligors, nonaccrual delinquent loans or loans past due for three months or more, on which concessions such as reduction of the stated interest rate, a deferral of interest payment, an extension of the maturity date, debt forgiveness, or other agreements which give advantages to obligors in financial difficulties have been granted to obligors to facilitate their rehabilitation.

6. The total amount of loans to bankrupt obligors, nonaccrual delinquent loans, loans past due for three months or more, and restructured loans was ¥10,191 million.

The amounts of loans mentioned in Notes 3 through 6 above represent the amounts before deduction of the reserve for credit losses.

7. The total principal amount of loans accounted for as a sale through loan participations was ¥7,477 million as of March 31, 2019. This “off-balance sheet” treatment is in accordance with Report No. 3 issued by the Framework Committee of the JICPA on November 28, 2014. The total principal amount of such loans in which the Bank participated was ¥12,400 million as of March 31, 2019.

8. Assets pledged as collateral were as follows:

Cash and due from banks	¥ 10 million
Monetary assets held in trust	14
Securities	652,654
Loans and bills discounted	78,256

Liabilities collateralized were as follows:

Deposits	¥ 689 million
Payables under repurchase agreements	59,098
Payables under securities lending transactions	510,229
Borrowed money	106,328
Other presented in other liabilities	29
Acceptances and guarantees	428

In addition, ¥9,298 million of security deposits and ¥244 million of margin on foreign exchange and ¥50,000 million of cash collateral paid for Zengin-net were included in "Other" presented in "Other assets."

9. The Bank sets credit lines of overdrafts and issues commitments to extend credit to meet the financing needs of its customers. The unfulfilled amounts of these commitments were ¥2,564,188 million, out of which the amounts with the commitments of the agreement expiring within one year or being able to be cancelled at any time with no condition were ¥2,192,960 million.

Since a large majority of these commitments expires without being drawn upon, the unfulfilled amounts do not necessarily represent future cash requirements. Many such agreements include conditions granting the Bank 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. Accumulated depreciation on premises and equipment was ¥25,834 million.

11. Deferred gains on premises and equipment deducted for tax purposes were ¥30 million.

12. Software in progress of ¥1,792 million were included in Software.

13. The amount of guarantee obligations for privately-placed bonds (Paragraph 3 of Article 2 of the Financial Instruments and Exchange Act), out of "Japanese corporate bonds" included in the "Securities" stands at ¥3,580 million.

14. Total obligations to the Directors and Audit & Supervisory Board Members stand at ¥39 million.

15. Total monetary claims to subsidiaries and affiliates stand at ¥319,595 million.

16. Total monetary liabilities against subsidiaries and affiliates stand at ¥292,267 million.

17. According to Article 18 of the Banking Act, there is a limitation on dividends from surplus.

When dividends from surplus are paid out, notwithstanding the provision of Article 445, Item 4 of the Corporation Act (Amounts of Capital and Amount of Reserves), the amount multiplied by 1/5 of surplus to be decreased by such dividends from surplus is accrued as additional paid-in capital or legal reserve.

The amount of legal reserve to be accrued in connection with such dividends from surplus in the current fiscal year was ¥505 million.

18. Projected benefit obligations, etc., at the end of the current fiscal year were as follows:

Projected benefit obligation	¥	(65,575) million
Fair value of plan assets		72,506
Unfunded retirement benefit obligations		6,931
Unrecognized net actuarial losses		(81)
Net amount recognized on the balance sheet		6,849
Prepaid pension cost		6,849

(Statement of Income)

1. Earnings from transactions with subsidiaries and affiliates

Total interest income: ¥13,410 million

Total fees and commissions income: ¥3,743 million

Total earnings from other businesses and other ordinary transactions: ¥170 million

Total earnings from other transactions: ¥51 million

Expenses from transactions with subsidiaries and affiliates

Total interest expenses: ¥6 million

Total fees and commissions expenses: ¥20,925 million

Total expenses from other businesses and other ordinary transactions: ¥350 million

Total expenses from other transactions: ¥2,933 million

2. Gains on debentures derecognized from liabilities of ¥321 million and gains on deposits derecognized from liabilities of ¥540 million were included in “Other” of “Other ordinary income”.

3. Loss on repayment of deposits derecognized from liabilities of ¥121 million was included in “Other” of “Other ordinary expenses”.

4. “Other extraordinary gains” was gain on reversal of stock acquisition rights of ¥218 million.

5. “Impairment losses” are impairment losses as for the following asset groups.

Location	Usage	Asset type	Amount (Millions of yen)
Tokyo, Kanagawa, etc.	Branch and ATMs	Buildings, Other premises and equipment	¥445
Tokyo, Fukuoka, etc.	IT-related property	Other premises and equipment, Software	231
Total			¥676

The Bank determines the asset group based on management segmentation.

As a result of consideration of the business environment, the Bank made a decision to close down some of the branches and ATMs for Individual Business and to cease use and development of some software assets, and segregated them as idle assets. Impairment losses for these assets were recognized assuming their recoverable amount to be zero.

In the above impairment loss amount, ¥416 million was for “Buildings,” ¥77 million was for “Other premises and equipment” and ¥182 million was for “Software.”

6. “Other extraordinary losses” was impairment loss on investments in subsidiaries and affiliates of ¥2,101 million.

7. Significant related-party transactions to be disclosed were as follows:

(1) Parent company and major corporate shareholders

Not applicable.

(2) Subsidiaries and affiliates

(Millions of yen)

Category	Name of corporation or organization	Ratio of voting rights held by the Bank	Relation-ship	Details of transaction	Transaction amount	B/S account	Balance at fiscal year end
Subsidiaries	Shinsei Financial Co., Ltd.	Direct holding 100%	Deposit Lending Guarantee	Guarantee to Bank's loan assets (Note 1)	265,872	-	-
				Payment of guarantee fees (Note 1)	19,915	Accrued expenses	2,291
				Subrogation receipt (Note 1)	25,434	-	-

Note:

1. Shinsei Financial Co., Ltd. guarantees the unsecured loans to individuals. The guarantee fees were determined at a reasonable level according to market conditions.

(3) Fellow subsidiaries

Not applicable.

(4) Directors and major individual shareholders

(Millions of yen)

Category	Name of corporation or organization	Ratio of voting rights held by the counterparty	Relation-ship	Details of transaction	Transaction amount	B/S account	Balance at fiscal year end
Corporations and organizations in which a majority of the voting rights is owned by directors or their family members (including their subsidiaries)	J.C.Flowers II L.P. (Note 1)	-	Concurrent post	Investment (Note 2)	56	-	-
				Dividend	2,798	-	-
	J.C.Flowers III L.P. (Note 1)	-	Concurrent post	Investment (Note 3)	403	-	-
				Dividend	597	-	-
	J.C.Flowers Ⅳ L.P. (Note 1)	-	Concurrent post	Investment (Note 4)	48	-	-
Director	Hideyuki Kudo	Owned directly 0.0%	Representative director, president and chief exective officer	In-kind contributions of monetary compensation claims (Note 5)	12	-	-

Note:

1. The fund is operated by J.C. Flowers & Co. LLC for which J. Christopher Flowers, director of the Bank, serves as the managing director and chief executive officer.
2. The committed investment amounts are U.S.$200 million based on the limited partnership agreement.
3. The committed investment amounts are U.S.$34,975 thousand based on the limited partnership agreement.
4. The committed investment amounts are U.S.$25 million based on the limited partnership agreement.
5. The in-kind contributions of the monetary compensation claims for the restricted stock compensation.

(Statement of Changes in Equity)

Type and number of treasury stock were as follows:

(Unit: thousand shares)

	Number of shares as of April 1, 2018	Number of shares increased	Number of shares decreased	Number of shares as of March 31, 2019	Note
Treasury stock:					
Common stock	22,166	7,652	16,058	13,760	(Note)
Total	22,166	7,652	16,058	13,760	

Note:.The increase of 7,652 thousand shares in treasury stock is associated with the repurchase from market.

The decrease of 16,058 thousand shares in treasury stock is associated with the cancellation of 16,000 thousand shares, the transfer of 14 thousand shares upon exercise of the stock option (stock acquisition rights), and the disposal of 44 thousand shares as a restricted stock compensation.

(Securities)

1. Trading securities (as of March 31, 2019)

(Millions of yen)

	Unrealized gain (loss)
Trading securities	¥-

2. Securities being held to maturity (as of March 31, 2019)

(Millions of yen)

	Type	Carrying amount	Fair value	Unrealized gain (loss)
Fair value exceeds carrying amount	Japanese national government bonds	¥399,201	¥402,406	¥3,204
	Subtotal	399,201	402,406	3,204
Fair value does not exceed carrying amount	Japanese national government bonds	-	-	-
	Subtotal	-	-	-
Total		¥399,201	¥402,406	¥3,204

3. Equity securities of subsidiaries and affiliates (as of March 31, 2019)

There were no marketable equity securities of subsidiaries and affiliates.

Equity securities of subsidiaries and affiliates whose fair value cannot be reliably determined consist of the following:

(Millions of yen)

	Carrying amount
Equity securities of subsidiaries	¥390,330
Equity securities of affiliates	196
Total	¥390,527

4. Securities available for sale (as of March 31, 2019)

(Millions of yen)

	Type	Carrying amount (Fair value)	Amortized/ Acquisition cost	Unrealized gain (loss)
Carrying amount exceeds amortized/acquisition cost	Equity securities	¥13,262	¥6,772	¥6,489
	Domestic bonds:	152,135	150,904	1,231
	Japanese national government bonds	100,348	99,473	875
	Japanese local government bonds	-	-	-
	Japanese corporate bonds	51,787	51,431	355
	Other:	136,759	134,585	2,173
	Foreign securities	136,759	134,585	2,173
	Other	-	-	-
	Subtotal	302,157	292,263	9,894
Carrying amount does not exceed amortized/acquisition cost	Equity securities	615	900	(285)
	Domestic bonds:	119,360	120,801	(1,440)
	Japanese national government bonds	-	-	-
	Japanese local government bonds	-	-	-
	Japanese corporate bonds	119,360	120,801	(1,440)
	Other:	195,701	197,689	(1,988)
	Foreign securities	194,718	196,621	(1,903)
	Other	982	1,068	(85)
	Subtotal	315,677	319,392	(3,714)
Total		¥617,835	¥611,655	¥6,179

(Note 1) Available-for-sale securities whose fair value cannot be reliably determined

(Millions of yen)

	Carrying amount
Equity securities	¥3,877
Other:	34,486
Foreign securities	13,223
Other	21,262
Total	¥38,363

These are not included in the table shown above, since the fair value cannot be reliably determined.

(Note 2) "Unrealized gain (loss) on available-for-sale securities" on the balance sheet consists of the following:

(Millions of yen)

Unrealized gain (loss) before deferred tax on:	
Available-for-sale securities	¥6,179
Interests in available-for-sale securities held by partnerships recorded as securities whose fair value cannot be reliably determined	713
Other monetary assets held in trust	(1,112)
Less: Deferred tax liabilities	1,061
Unrealized gain (loss) on available-for-sale securities	¥4,719

5. Available-for-sale securities sold during the current fiscal year (from April 1, 2018 to March 31, 2019)

(Millions of yen)

	Proceeds from sales	Gains on sales	Losses on sales
Equity securities	¥1,497	¥517	¥242
Domestic bonds:	658,017	1,228	173
Japanese national government bonds	571,927	1,074	143
Japanese local government bonds	27,572	40	25
Japanese corporate bonds	58,517	113	4
Other:	735,525	3,789	1,018
Foreign securities	730,211	3,069	990
Other	5,314	719	28
Total	¥1,395,041	¥5,535	¥1,433

6. Securities for which impairment losses are recognized

In the event individual securities (except for those whose fair value cannot be reliably determined), other than trading securities, experience a decline in fair value which is significant as compared to the acquisition cost of such securities, the securities are written down as the decline in fair value is deemed to be other than temporary, and the difference is recorded as an impairment loss.

Impairment loss on such securities for the fiscal year ended March 31, 2019, was ¥615 million, which consisted of ¥165 million for equity securities, ¥449 million for Japanese corporate bonds and ¥0 million for foreign securities.

The Bank's rules for the determination of whether an other-than-temporary impairment has occurred differ by the obligor classification of the security issuer based upon the Bank's self-assessment guidelines. The details of these rules are as follows:

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

"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 legally or formally gone bankrupt but who are substantially in bankruptcy 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 in bankruptcy but are in financial difficulties and are very likely to go bankrupt in the future.

"Need caution" obligors are those who are in need of 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 their financial position.

(Monetary assets held in trust)

1. Monetary assets held in trust for trading purposes (as of March 31, 2019)

(Millions of yen)

	Carrying amount (Fair value)	Unrealized gain (loss)
Monetary assets held in trust for trading purposes	¥16,715	¥(2,303)

2. There were no monetary assets held in trust held to maturity (as of March 31, 2019)

3. Monetary assets held in trust other than for trading purposes and held to maturity (as of March 31, 2019)

(Millions of yen)

	Carrying amount	Acquisition cost	Unrealized gain (loss)	Gross unrealized gain	Gross unrealized loss
Other monetary assets held in trust	¥182,002	¥183,115	¥ (1,112)	¥240	¥(1,353)

Note: “Gross unrealized gain” and “Gross unrealized loss” are components of “Unrealized gain (loss)”.

(Transalation)

(Deferred Tax)

Breakdowns of deferred tax assets and deferred tax liabilities by reason of their occurrence are as follows.

	(Millions of yen)
Deferred tax assets	
Tax loss carryforwards (note 2)	¥40,656
Securities	17,473
Reserve for credit losses	8,959
Deferred loss on derivatives under hedge accounting	6,406
Retained earnings on trust accounts	2,381
Asset retirement obligations	2,269
Accrued expenses	2,083
Monetary assets held in trust	587
Other	9,098
Subtotal	¥89,915
Valuation allowance for tax loss carryforwards	(36,601)
Valuation allowance for deductible temporary differences	(47,007)
Total valuation allowance (note 1)	¥(83,608)
Total deferred tax assets	¥6,306
Deferred tax liabilities	
Retirement benefit costs	2,097
Deferred gain on derivatives under hedge accounting	1,290
Unrealized profit on available-for-sale securities	1,061
Asset retirement costs included in premises and equipment	730
Total Deferred tax liabilities	¥5,179
Net deferred tax assets	¥1,127

(Note 1) Valuation allowance has decreased by ¥6,748 million from the previous year. This is mainly caused by the decrease in the valuation allowance of deductible temporary differences related to monetary assets held in trust and the decrease in the valuation allowance of tax loss carryforwards due to the use of tax loss carryforwards.

(Note 2) Expiration schedule of tax loss carryforwards

Fiscal period ended March 31, 2019

(Millions of yen)

	Within 1 year	1 year through 2 year	2 year through 3 year	3 year through 4 year	4 year through 5 year	Over 5 year	Total
Tax loss carryforwards (*1)	3,190	4,825	7,272	5,796	10,762	8,809	40,656
Valuation allowance	(123)	(4,140)	(7,181)	(5,733)	(10,682)	(8,740)	(36,601)
Deferred tax assets	3,067	684	91	63	79	68	(*2) 4,055

(*1) The amounts of tax loss carryforwards are obtained as a result of multiplying the statutory effective tax rate.

(*2) The tax loss carryforwards resulted from the disposal of the non-performing loans in the prior fiscal years. Certain tax loss carryforwards are determined to be collectible as it is probable that consolidated taxable income would be generated based on the expected profitability of the entities which are included in determining the consolidated taxable income of the Bank as consolidated taxpayer. The collectability of the deferred tax assets is considered by corporate tax, inhabitant tax and enterprise tax, respectively.

(Changes in presentation)

The Bank applies “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No.28 issued in February 16 2018, thereafter “Partial Amendments”) from the beginning of this fiscal year. According to paragraph 3 to 5 of the “Partial Amendments”, the Bank added the statements as established by the interpretation 8 (expect for the total valuation allowance) and the interpretation 9 of “Accounting Standard for Tax Effect Accounting.”

(Per share information)

Common shareholders’ equity per share was ¥3,459.75.
Net income per common share was ¥143.10.
Diluted net income per common share was ¥143.09.