[TRANSLATION]

TSE Stock code: 8303

# Attachment

## Consolidated Financial Statements

## Financial Statements

## Audit Reports

(Translation)

# Consolidated Balance Sheet

Shinsei Bank, Limited, and Consolidated Subsidiaries

As of March 31, 2012

| | Millions of yen |
|---|---|
| ASSETS | |
| Cash and due from banks | ¥413,721 |
| Call loans and bills bought | 15,745 |
| Receivables under resale agreements | 18,362 |
| Receivables under securities borrowing transactions | 114,080 |
| Other monetary claims purchased | 130,943 |
| Trading assets | 202,675 |
| Monetary assets held in trust | 267,628 |
| Securities | 1,873,493 |
| Loans and bills discounted | 4,136,827 |
| Foreign exchanges | 18,896 |
| Lease receivables and leased investment assets | 197,432 |
| Other assets | 686,716 |
| Premises and equipment | 54,131 |
| Buildings | 22,399 |
| Land | 7,634 |
| Tangible leased assets as lessor | 17,292 |
| Construction in progress | 230 |
| Other premises and equipment | 6,574 |
| Intangible assets | 81,053 |
| Software | 22,766 |
| Goodwill | 41,951 |
| Intangible leased assets as lessor | 7 |
| Intangible assets acquired in business combinations | 16,262 |
| Other intangible assets | 65 |
| Deferred issuance expenses for debentures | 135 |
| Deferred tax assets | 15,834 |
| Customers' liabilities for acceptances and guarantees | 562,624 |
| Reserve for credit losses | (180,633) |
| Total assets | ¥8,609,672 |
| LIABILITIES AND EQUITY | |
| Liabilities: | |
| Deposits | ¥5,184,326 |
| Negotiable certificates of deposit | 178,084 |
| Debentures | 294,139 |
| Call money and bills sold | 210,163 |
| Payables under securities lending transactions | 148,590 |
| Trading liabilities | 176,044 |
| Borrowed money | 476,731 |
| Foreign exchanges | 11 |
| Short-term corporate bonds | 50,700 |
| Corporate bonds | 168,797 |
| Other liabilities | 465,698 |
| Accrued employees' bonuses | 7,262 |
| Accrued directors' bonuses | 40 |
| Reserve for employees' retirement benefits | 7,027 |
| Reserve for directors' retirement benefits | 231 |
| Reserve for losses on interest repayments | 50,913 |
| Reserve under special law | 1 |
| Deferred tax liabilities | 626 |
| Acceptances and guarantees | 562,624 |
| Total liabilities | 7,982,014 |
| Equity: | |
| Shareholders' equity: | |
| Common stock | 512,204 |
| Capital surplus | 79,461 |
| Retained earnings | 58,863 |
| Treasury stock, at cost | (72,558) |
| Total shareholders' equity | 577,970 |
| Accumulated other comprehensive income: | |
| Unrealized gain (loss) on available-for-sale securities | (674) |
| Deferred gain (loss) on derivatives under hedge accounting | (11,754) |
| Foreign currency translation adjustments | (1,117) |
| Total accumulated other comprehensive income | (13,545) |
| Stock acquisition rights | 1,354 |
| Minority interests | 61,877 |
| Total equity | 627,657 |
| Total liabilities and equity | ¥8,609,672 |

(Translation)

# Consolidated Statement of Income

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

| | Millions of yen |
|---|---:|
| ORDINARY INCOME | ¥413,232 |
| Interest income | 159,722 |
| Interest on loans and bills discounted | 140,336 |
| Interest and dividends on securities | 17,811 |
| Interest on call loans and bills bought | 86 |
| Interest on receivables under resale agreements | 24 |
| Interest on receivables under securities borrowing transactions | 36 |
| Interest on deposits with banks | 370 |
| Other interest income | 1,055 |
| Fees and commissions income | 46,915 |
| Trading income | 16,730 |
| Other business income | 150,212 |
| Other ordinary income | 39,652 |
| Recoveries of written-off claims | 10,832 |
| Other | 28,819 |
| ORDINARY EXPENSES | 396,481 |
| Interest expenses | 42,821 |
| Interest on deposits | 28,664 |
| Interest on negotiable certificates of deposit | 374 |
| Interest on debentures | 1,478 |
| Interest on call money and bills sold | 167 |
| Interest on payables under securities lending transactions | 414 |
| Interest on borrowings | 5,582 |
| Interest on short-term corporate bonds | 377 |
| Interest on corporate bonds | 5,749 |
| Other interest expenses | 12 |
| Fees and commissions expenses | 21,723 |
| Trading losses | 3,094 |
| Other business expenses | 112,336 |
| General and administrative expenses | 142,354 |
| Amortization of goodwill | 7,697 |
| Amortization of intangible assets acquired in business combinations | 4,258 |
| Other general and administrative expenses | 130,399 |
| Other ordinary expenses | 74,150 |
| Provision of reserve for credit losses | 19,020 |
| Other | 55,130 |
| ORDINARY PROFIT | 16,750 |
| Extraordinary gains | 3,014 |
| Gain on disposal of premises and equipment | 455 |
| Other extraordinary gains | 2,558 |
| Extraordinary losses | 4,419 |
| Loss on disposal of premises and equipment | 974 |
| Impairment losses | 1,092 |
| Other extraordinary losses | 2,352 |
| Income before income taxes and minority interests | 15,345 |
| Income taxes (benefit) - current | 2,925 |
| Income taxes (benefit) - deferred | 2,433 |
| Total income taxes (benefit) | 5,359 |
| Income before minority interests | 9,986 |
| Minority interests in net income of subsidiaries | 3,555 |
| NET INCOME | ¥6,430 |

(Translation)

**Consolidated Statement of Changes in Equity**

Shinsei Bank, Limited, and Consolidated Subsidiaries

For the fiscal year ended March 31, 2012

| | (Millions of yen) |
|---|---|
| **Shareholders' equity** | |
| Common stock : | |
| Balance at beginning of the year | **¥512,204** |
| Changes during the year | |
| Total changes during the year | **—** |
| Balance at end of the year | **512,204** |
| Capital surplus : | |
| Balance at beginning of the year | **79,461** |
| Changes during the year | |
| Total changes during the year | **—** |
| Balance at end of the year | **79,461** |
| Retained earnings : | |
| Balance at beginning of the year | **55,087** |
| Changes during the year | |
| Dividends from surplus | **(2,653)** |
| Net income | **6,430** |
| Decrease by inclusion of consolidated subsidiaries | **(0)** |
| Decrease by exclusion of consolidated subsidiaries | **(0)** |
| Total changes during the year | **3,775** |
| Balance at end of the year | **58,863** |
| Treasury stock at cost : | |
| Balance at beginning of the year | **(72,558)** |
| Changes during the year | |
| Total changes during the year | **—** |
| Balance at end of the year | **(72,558)** |
| Total shareholders' equity : | |
| Balance at beginning of the year | **574,195** |
| Changes during the year | |
| Dividends from surplus | **(2,653)** |
| Net income | **6,430** |
| Decrease by inclusion of consolidated subsidiaries | **(0)** |
| Decrease by exclusion of consolidated subsidiaries | **(0)** |
| Total changes during the year | **3,775** |
| Balance at end of the year | **577,970** |

(Translation)

| | |
|---|---|
| **Accumulated other comprehensive income** | |
| Unrealized gain (loss) on available-for-sale securities : | |
| Balance at beginning of the year | **(15,225)** |
| Changes during the year | |
| Net changes during the year excluding shareholders' equity | **14,551** |
| Total changes during the year | **14,551** |
| Balance at end of the year | **(674)** |
| Deferred gain (loss) on derivatives under hedge accounting : | |
| Balance at beginning of the year | **(10,197)** |
| Changes during the year | |
| Net changes during the year excluding shareholders' equity | **(1,556)** |
| Total changes during the year | **(1,556)** |
| Balance at end of the year | **(11,754)** |
| Foreign currency translation adjustments : | |
| Balance at beginning of the year | **(2,511)** |
| Changes during the year | |
| Net changes during the year excluding shareholders' equity | **1,394** |
| Total changes during the year | **1,394** |
| Balance at end of the year | **(1,117)** |
| Total accumulated other comprehensive income : | |
| Balance at beginning of the year | **(27,935)** |
| Changes during the year | |
| Net changes during the year excluding shareholders' equity | **14,389** |
| Total changes during the year | **14,389** |
| Balance at end of the year | **(13,545)** |
| **Stock acquisition rights** | |
| Balance at beginning of the year | **1,413** |
| Changes during the year | |
| Net changes during the year excluding shareholders' equity | **(58)** |
| Total changes during the year | **(58)** |
| Balance at end of the year | **1,354** |
| **Minority interests** | |
| Balance at beginning of the year | **63,481** |
| Changes during the year | |
| Net changes during the year excluding shareholders' equity | **(1,603)** |
| Total changes during the year | **(1,603)** |
| Balance at end of the year | **61,877** |
| **Total equity** | |
| Balance at beginning of the year | **611,154** |
| Changes during the year | |
| Dividends from surplus | **(2,653)** |
| Net income | **6,430** |
| Decrease by inclusion of consolidated subsidiaries | **(0)** |
| Decrease by exclusion of consolidated subsidiaries | **(0)** |
| Net changes during the year excluding shareholders' equity | **12,727** |
| Total changes during the year | **16,502** |
| Balance at end of the year | **¥627,657** |

**<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: 133 companies

Major companies:

APLUS FINANCIAL Co., Ltd.
Showa Leasing Co., Ltd.
Shinki Co., Ltd.
Shinsei Financial Co., Ltd.
Shinsei Trust & Banking Co., Ltd.
Shinsei Securities Co., Ltd.

In the current fiscal year, NS FIRST ASSET SECURITIZATION SPECIALTY CO., LTD. and 23 other companies were newly consolidated due to their formation, SIA Wind Second Co., Ltd. was newly consolidated due to the acquisition of its controlling interest, and Perl White Two GK and 2 other companies were newly consolidated due to its increased materiality.

CRT6 Yugen Kaisha and 5 other companies were excluded from the scope of consolidation due to liquidation, Specialized Loan Servicing, LLC and 6 other companies were excluded from the scope of consolidation due to the disposal of shares, KNE2 Loan GmbH was excluded from the scope of consolidation due to the loss of its controlling interest, and SL ASTRO Ltd. and New City Real Estate Trading X Y.K. were excluded from the scope of consolidation due to their decreased materiality.

(b) Unconsolidated subsidiaries: 80 companies

Major Company:

SL PACIFIC LIMITED

SL PACIFIC LIMITED and 64 other unconsolidated subsidiaries were primarily operating companies that undertake leasing business based on the Tokumei Kumiai system (silent partnerships). Tokumei Kumiai’s assets, profits and losses virtually belong to each silent 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 or results of operations, such as assets, ordinary income, net income (the Group’s interest portion), retained earnings (the Group’s interest portion) and net deferred gain (loss) on derivatives under hedge accounting (the Group’s interest portion), of the Group.

**(2) Application of the equity method**

(a) Unconsolidated subsidiaries accounted for by the equity method: none

(b) Affiliates accounted for by the equity method: 15 companies

Major Companies:

Comox Holdings Ltd.

Jih Sun Financial Holding Company, Limited

In the current fiscal year, Terwin Holdings LLC was excluded from the scope of application of the equity method due to its decreased materiality, and Lamitta Capital Limited was excluded from the scope of application of the equity method due to the loss of the Bank’s influential power.

(c) Unconsolidated subsidiaries accounted for not applying the equity method: 80 companies

Major Company:

SL PACIFIC LIMITED

(d) Affiliates accounted for not applying the equity method: 1 company

Major Company:

Terwin Holdings LLC

SL PACIFIC LIMITED and 64 other unconsolidated subsidiaries were primarily operating companies that undertake leasing business based on the Tokumei Kumiai system (silent partnership). Tokumei Kumiai’s assets, profits and losses virtually belong to each silent 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 on Company Accounting.

Other unconsolidated subsidiaries and affiliates are excluded from the scope of application of the equity method because they are immaterial to the financial condition or results of operations, such as net income (the Group’s interest portion), retained earnings (the Group’s interest portion) and net deferred gain (loss) on derivatives under hedge accounting (the Group’s interest portion), of the Group.

**(3) Fiscal year of consolidated subsidiaries**

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

| | |
|---|---|
| March 31: | 90 companies |
| July 31: | 3 companies |
| August 31: | 1 company |
| September 30: | 1 company |
| December 31: | 34 companies |
| January 31: | 1 company |
| February 28: | 3 companies |

(b) Except for 8 subsidiaries which are consolidated using their provisional financial statements as of March 31, those consolidated subsidiaries whose fiscal years end at dates other than March 31 are consolidated using their fiscal year end financial statements with appropriate adjustments made for significant transactions during the period from the ending dates of their fiscal years to March 31.

All yen amounts are rounded down to millions of yen.

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

In estimating fair values of derivative financial instruments related to trading positions, liquidity risks and credit risks are reflected.

(2) Recognition and measurement of securities

(a) Securities for trading purposes (except 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 whose fair value can be reliably determined are carried at fair value at the consolidated balance sheet date (cost of securities sold is determined by the moving average method) and available-for-sale securities whose fair value cannot be reliably determined are carried at cost determined by the moving average method. Unrealized gain (loss) on available-for-sale securities is directly recorded in a separate component of equity.

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

(3) Recognition and measurement of derivative transactions

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

(4) Recognition and 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 the 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 |
|---|---|---|
| Trade name and trademark | Straight-line | 10 years |
| Customer relationship | Sum-of-the-years digits | 20 years |
| Sublease contracts | Straight-line | Subject to the remaining contract years |

(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 was 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 significant.

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 years).

(c) Leased assets (as lessee)

Depreciation of leased assets (both tangible and intangible) from finance lease transactions that do not deem to transfer ownership of the leased property to the lessee, which are included in “Premises and equipment” and “Intangible assets”, 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 charges are accounted for as follows:

(a) Deferred issuance expenses for corporate bonds

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.

(b) Deferred issuance expenses for debentures

Deferred issuance expenses for debentures are amortized using the straight-line method over the term of the debentures.

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

With regard to claims to possibly bankrupt obligors, restructured loans and certain claims for which the reserve has been provided based on the discounted cash flow method (as mentioned below) in previous fiscal years, provided that obligors' cash flows for debt service are reasonably estimable and the balance of claims to such obligors are at or larger than a predetermined amount, the reserve for credit losses is determined as the difference between (i) relevant estimated cash flows discounted by the original contractual interest rate and (ii) the book value of the claim (discounted cash flow method). In case where it is difficult to reasonably estimate future cash flows, the reserve is provided based on expected loss amount for the remaining term of respective claims.

For other claims, a general reserve is provided based on historical loan loss experience.

For specific foreign claims, there is a reserve for loans to restructuring countries which has been provided based on losses estimated by considering the political and economic conditions in those countries.

All claims are assessed by business divisions based on the predetermined internal rules for self-assessment of asset quality. The Credit Assessment Division, which is independent from business divisions, conducts verifications of these assessments, and additional reserves may be provided based on the verification results.

The consolidated subsidiaries other than the domestic trust and banking subsidiary calculate the general reserve for general claims based on the actual historical loss ratio, and the specific reserve for claims to possibly bankrupt obligors, virtually bankrupt obligors and legally bankrupt obligors based on estimated losses, considering the recoverable value.

For collateralized or guaranteed claims of the Bank and certain consolidated subsidiaries to legally bankrupt obligors or virtually bankrupt obligors, the amount of claims exceeding the estimated value of collateral or guarantees, which is deemed uncollectible, has been charged off and totaled ¥165,992 million.

(8) Accrued employees’ bonuses

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

(9) Accrued directors’ bonuses

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

(10) 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 consolidated balance sheet date. The unrecognized prior service cost and the unrecognized actuarial gain (loss) are amortized as follows:

| | |
|---|---|
| Unrecognized prior service cost: | Amortized using the straight-line method over the average remaining service period from the fiscal year of occurrence. |
| Unrecognized actuarial gain (loss): | Amortized using the straight-line method over the average remaining service period primarily from the fiscal year of occurrence. |

The transitional unrecognized net retirement benefit obligation for the Bank of ¥9,081 million is being amortized using the straight-line method over 15 years.

(11) Reserve for directors’ retirement benefits

The reserve for directors’ retirement benefits is provided for the payment of directors’ retirement benefits for certain consolidated subsidiaries based on the amount that would be required if all directors retired at each balance sheet date.

(12) Reserve for losses on interest repayments

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

The reserve for losses on interest repayments of Shinsei Financial Co., Ltd. is calculated considering the terms stipulated in the share transfer agreement entered into by and between the Bank and the GE Japan Holdings Co., Ltd. (“GE”) for the acquisition of Shinsei Financial Co., Ltd., under which the sharing of interest repayment costs between the Bank and GE is determined.

(13) Reserve under special law

The reserve under special law is a reserve for financial instruments transaction responsibilities and provided for contingent liabilities from brokering of securities transactions by a consolidated domestic subsidiary, in accordance with Paragraph 1 of Article 46-5 of the Financial Instruments and Exchange Act of Japan.

(14) 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 recognition for leasing business

For the finance lease transactions that do not deem to transfer ownership of the leased property to the lessee, 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 the lease income.

With regard to finance lease transactions entered into prior to April 1, 2008, that do not deem to transfer ownership of the property to the lessee, leased investment assets are recognized at the amount of book values of those leased property 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) which was effective from April 1, 2008. As a result, income before income taxes and minority interests for the current fiscal year has increased by ¥1,974 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 specialized in consumer lending business accrued interest income at the balance sheet date at the lower of the amount determined using a rate permissible under the Interest Rate Restriction Act of Japan or the amount determined using rates on contracts with customers.

(15) 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 that 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.

(16) Hedge accounting

(a) Hedge of interest rate risks

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

The Bank adopted portfolio hedging to determine the effectiveness of hedging instruments in accordance with Industry Audit Committee Report No. 24 issued 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.

(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 the Bank’s financial assets and liabilities denominated in a foreign currency.

Under deferral hedge accounting, which is in accordance with Industry Audit Committee Report No. 25 issued by JICPA, hedged items are identified by grouping the foreign currency-denominated financial assets and liabilities by currencies and designating derivative transactions such as currency swap transactions, fund swap transactions and forward exchange contracts as hedging instruments. Hedge effectiveness is reviewed by comparing the total foreign currency position of the hedged items and hedging instruments by currency.

The Bank also applies deferral hedge accounting and fair value hedge accounting to translation gains (losses) from foreign currency assets of net investments in foreign unconsolidated subsidiaries, affiliates and securities available for sale (other than bonds denominated in foreign currencies) when such foreign currency exposures recorded as assets are hedged with offsetting foreign currency liabilities and the liabilities equal or exceed the acquisition cost of such foreign currency assets.

(c) Inter-company and intra-company derivative transactions

Gains (losses) on inter-company and intra-company derivative hedging transactions between the trading book and the banking book are not eliminated since offsetting transactions with third parties are appropriately entered into in conformity with the non-arbitrary and strict hedging policy in accordance with Industry Audit Committee Reports No. 24 and No. 25 of the JICPA. As a result, in the banking book, realized gains (losses) on such inter-company and intra-company transactions are reported in current earnings and valuation gains (losses) which meet the hedge accounting criteria are deferred. On the other hand, in the trading book, realized gains (losses) and valuation gains (losses) on such inter-company and intra-company transactions are substantially offset with covering contracts entered into with third parties.

(17) Consumption tax

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

(18) Consolidated corporate tax system

The consolidated corporate tax system is adopted by the Bank and its wholly-owned domestic subsidiaries.

**Supplementary Information**

The Group has applied “Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Statement No.24, December 4, 2009) and “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No.24, December 4, 2009) for accounting changes and corrections of prior period errors which are made after April 1, 2011.

In accordance with “Practical Guidelines on Accounting Standards for Financial Instruments” (Accounting Practice Committee Report No.14 of the JICPA), “Recoveries of written-off claims” for the current fiscal year were included in “Other ordinary income”.

**Notes to consolidated financial statements**

(Consolidated Balance Sheet)

**1.** The total book value of investments in unconsolidated subsidiaries and affiliates was ¥41,720 million.

**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, ¥11,066 million of those securities was further pledged, and ¥87,441 million of those securities was held by the Group at the consolidated balance sheet date.

**3.** Loans and bills discounted included loans to bankrupt obligors and non-accrual delinquent loans, totaling ¥8,145 million and ¥316,727 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 there is substantial doubt about the ultimate collectability of either principal or interest because they are past due for a considerable period of time or for other reasons.

Non-accrual 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.

Installment receivables in “Other assets” included claims to bankrupt obligors and non-accrual delinquent claims, totaling ¥368 million and ¥10,259 million, respectively, at the consolidated balance sheet date.

**4.** Loans past due for three months or more of ¥1,754 million were included in loans and bills discounted.

Loans past due for three months or more are loans other than loans to bankrupt obligors and non-accrual 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 ¥320 million at the consolidated balance sheet date.

**5.** Restructured loans of ¥45,321 million were included in loans and bills discounted.

Restructured loans are loans other than loans to bankrupt obligors, non-accrual 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 grated to obligors to facilitate their rehabilitation.

Restructured installment receivables of ¥1,564 million were included in “Other assets”.

**6.** The total amount of loans to bankrupt obligors, non-accrual delinquent loans, loans past due for three months or more, and restructured loans were ¥371,949 million.

The total installment receivables in “Other assets” of claims to bankrupt obligors, non-accrual delinquent claims, claims past due for three months or more, and restructured claims were ¥12,513 million.

The amounts of claims mentioned in the 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 by the JICPA, although the Group has the right to sell or pledge them without restrictions. The face amount of such bills discounted held was ¥11,169 million.

**8.** The total principal amount of loans accounted for as a sale through loan participations was ¥18,441 million. This “off-balance sheet” treatment is in accordance with Report No. 3 issued by the Framework Committee of the JICPA on June 1, 1995.

The total principal amount of such loans in which the Bank participated was ¥7,891 million.

**9.** Assets pledged as collateral were as follows:

| | | | |
|---|---|---|---|
| Cash and due from banks | ¥ | 203 | million |
| Trading assets | | 33,915 | |
| Monetary assets held in trust | | 1,767 | |
| Securities | | 625,163 | |
| Loans and bills discounted | | 191,990 | |
| Lease receivables and leased investment assets | | 85,050 | |
| Other assets | | 32,278 | |

Liabilities collateralized were as follows:

| | | | |
|---|---|---|---|
| Deposits | ¥ | 568 | million |
| Call money and bills sold | | 210,000 | |
| Payables under securities lending transactions | | 136,006 | |
| Borrowed money | | 172,673 | |
| Corporate bonds | | 14,069 | |
| Other liabilities | | 33 | |
| Acceptances and guarantees | | 920 | |

In addition, ¥364,798 million of securities were pledged as collateral for transactions, including exchange settlements, swap transactions and replacement of margin for futures transactions.

Also, ¥5,383 million of margin deposits for futures transactions outstanding, ¥13,269 million of security deposits and ¥23,935 million of cash collateral pledged for derivative transactions were included in “Other assets”.

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

The unfunded amount of these commitments was ¥4,026,211 million, out of which the amount with original agreement terms of less than one year or which were cancelable was ¥3,806,561 million.

Since a large majority of these commitments expire without being drawn upon, the unfunded amounts do not necessarily represent future cash requirements. Many such agreements include conditions granting the Bank and consolidated subsidiaries the right to reject the drawdown or to reduce the amount on the basis of changes in the financial circumstances of the borrower or other reasonable grounds.

In addition, the Bank obtains collateral when necessary to reduce credit risk related to these commitments.

**11.** Installment receivables of ¥347,935 million were included in other assets.

**12.** Accumulated depreciation on premises and equipment was ¥52,096 million.

**13.** Deferred gains on premises and equipment deducted for tax purposes were ¥32 million.

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

**15.** Goodwill and Negative goodwill are set off and presented as "Goodwill" in intangible assets by the net amount. The gross amounts were as follows:

| | |
|---|---|
| Goodwill | ¥47,574 million |
| Negative goodwill | 5,623 |
| Goodwill, net | ¥41,951 million |

**16.** Subordinated debt of ¥93,000 million was included in borrowed money.

**17.** Subordinated bonds of ¥145,676 million were included in corporate bonds.

**18.** 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 ¥45,008 million.

**19.** Retirement benefit obligations, etc, at the end of the current fiscal year were as follows:

| | | | |
|---|---|---|---|
| Projected benefit obligation | ¥ | (70,239) | million |
| Fair value of plan assets (including benefit trust) | | 59,483 | |
| Unfunded retirement benefit obligations | | (10,756) | |
| Unrecognized obligation at transition | | 1,816 | |
| Unrecognized net actuarial losses | | 9,742 | |
| Unrecognized prior service cost | | (3,015) | |
| Net amount accrued on the balance sheet | | (2,213) | |
| Prepaid pension cost | | 4,813 | |
| Reserve for retirement benefits | | (7,027) | |

（Consolidated Statement of Income）

**1.** "Other business income" included leasing revenue of ¥91,455 million.

**2.** "Other" presented in "Other ordinary income" included gain on sale of equity securities of ¥8,639 million and income on monetary assets held in trust of ¥8,271 million.

**3.** "Other business expenses" included leasing cost of ¥78,343 million.

**4.** "Other" presented in "Other ordinary expenses" included provision on reserve for losses on interest repayments of ¥32,885 million and write-off of equity securities of ¥9,034 million.

**5.** "Other extraordinary gains" included gain on sale of subsidiary's stocks of ¥2,488 million.

**6.** “Impairment losses” included the impairment losses in the Bank as for the following asset groups.

| Location | Usage | Asset group | Amount (Millions of yen) |
| --- | --- | --- | --- |
| Kanagawa and Osaka | Annex of Branches | Buildings and Other premises and equipment | ¥51 |
| Tokyo and Chiba | Assets for IT-related property | Buildings, Other premises and equipment and Software | 847 |
| Total | | | ¥898 |

The Group determines the asset group based on the management segmentation.

As a result of a careful consideration of the business environment, the Bank made a decision to close down some of the annex of branches for the Individual Group (Retail Banking Sub-Group) and Global Markets Group (Treasury Sub-Group), and segregated them as idle assets. In addition, the unused IT-related properties have also been segregated as idle assets. Impairment losses for these assets were recognized assuming their recoverable amount to be zero.

In the above impairment loss amount, ¥266 million was for “Buildings”, ¥16 million was for “Other premises and equipment” and ¥615 million was for “Software”.

**7.** “Other extraordinary losses” included ¥1,901 million of loss on retirement of software at APLUS FINANCIAL Co., Ltd..

(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 March 31, 2011 | Number of shares increased | Number of shares decreased | Number of shares as of March 31, 2012 | Note |
|---|---|---|---|---|---|
| Issued shares | | | | | |
| Common stock | 2,750,346 | — | — | 2,750,346 | |
| Total | 2,750,346 | — | — | 2,750,346 | |
| Treasury stock | | | | | |
| Common stock | 96,427 | — | — | 96,427 | |
| Total | 96,427 | — | — | 96,427 | |

**2.** Information on stock acquisition rights

All of stock acquisition rights are the Bank’s stock option.

**3.** Information on dividends

The Bank’s dividends were as follows:

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 12, 2011 | Common stock | ¥2,653 million | ¥1.00 | March 31, 2011 | June 2, 2011 |

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 8, 2012 (planned) | Common stock | ¥2,653 million | Other retained earnings | ¥1.00 | March 31, 2012 | May 31, 2012 |

(Financial instruments)

1. Status of financial instruments

(1) Group policy for financial instruments

The Group is composed of the Bank, subsidiaries and affiliates and conducts total financial service, primarily basic banking business and other financial services such as securities business, trust business, consumer finance business, and commercial finance business.

For conducting these businesses, the Bank obtains retail customer deposits as a long-term and stable source of funding. In addition, the Bank maintains debentures and bonds issuance as a cost effective source of funding and diversifies sources of funding by securitization of loans or other assets. Subsidiaries and affiliates also use borrowings from other financial institutions as one source of funding.

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

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, 2012, loans to the financial and insurance industry were approximately 17% of the total loans and bills discounted, and those to the real estate industry were approximately 15%, more than 60% of which are non recourse loans for 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 risk of fluctuation in interest rates, foreign exchange rates, and prices in the bond/stock markets and in addition, credit risk arising from downgrading of issuer’s credit rating, default, etc.

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

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

[Lease receivables and leased investment assets, Installment receivables]

Lease receivables, leased investment assets, and installment receivables held by consolidated subsidiaries are exposed to customer’s credit risk and risk of fluctuation in interest rates.

Financial liabilities of the Group are mainly deposits. In case of deterioration in the Group’s financial position, sufficient funding would become difficult, or more expensive (” liquidity risk”).

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

[Derivative transactions]

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

| | |
|---|---|
| (1) Interest rate related | Interest rate swap, Future contract, Interest rate option, and Interest rate swaption |
| (2) Currency related | Currency swap, Forward foreign exchange contract, Currency option |
| (3) Equity related | Equity index future, Equity index option, Equity option, and other |
| (4) Bond related | Bond futures |
| (5) Credit derivative | Credit default option |

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

| | |
|---|---|
| (1) Market Risk | Risk that losses are incurred associated with changes in the value of financial instruments from fluctuation in market price, as well as volatilities inherent in derivative instruments |
| (2) Credit Risk | Risk that losses are incurred associated with the counterparty defaulting on contractual terms |
| (3) Liquidity Risk | Risk that additional costs are incurred associated with closing out the position of the financial instrument held |

To appropriately reflect the risk mitigation effect of derivative transactions to the consolidated financial statements, the Group adopts hedge accounting where risks in assets and liabilities of the Group are hedged by interest rate swap, currency swap, etc.

In hedge accounting, effectiveness of hedging is assessed based on the conditions determined in the accounting standards such as "Accounting Standard 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 individual transactions, approval authority level is determined by transaction amount, aggregate credit exposure to obligor's group companies, credit rating and so on. The Group has an approval system in which the decisions are made jointly by the risk delegation holders of the business promotion division and the risk management divisions, and the final authority and decision rests with the risk management division.

On a portfolio basis, to diversify risks in terms of industries, ratings and customer groups, the Portfolio and Risk Management Division monitors the segment-specific risk diversification status and also rating fluctuations related to customers within the portfolios. The division uses this information to provide comprehensive reports to the Risk Policy Committee on a quarterly basis.

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

As for model for risk management of consumer finance business, risk management divisions of subsidiaries classify by quality of screening, quality of portfolio and performance of collection of claim and monitor these leading indicators monthly to recognize and tackle the aggravation of credit cost promptly. In case of the aggravation, the Group takes action to tackle it.

To take the risk strategy above, Individual Pillar Risk Management Division in the Bank holds monthly performance review, analyzes and monitors these leading indicators and advises persons in charge of risk management of subsidiaries on their policies and strategies. The division not merely avoids losses but also produces balanced strategy with appropriate risk and return attributes and reports this business performance to the Risk Policy Committee quarterly.

(b) Market risk management

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

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

The interest rate risk of the net asset and/or liability in the banking account which has interest rate sensitivity is managed by the ALM Committee based on “Asset Liability Management Policy for Banking Account”.

The actual risk limits for asset/liability management of the trading account, such as the value-at-risk (VaR) method, are approved by the Executive Committee based on “Trading Business Risk Management Policy and Procedure”. The Market Business Management Committee meets biweekly to review reports from the Market Risk Management Division and front office. The Market Risk Management Division is responsible for timely recognition, monitoring and reporting of market risk in both the Group’s trading and banking accounts. In addition to reporting risk information to management, administrative divisions and front office units, the Market Risk Management Division carries out regular risk analyses and makes recommendations. Market risk of the balance sheet involved in the ordinary banking business operation is managed by the Treasury Sub-Group, and market risk involved in the trading transactions is managed by the Markets Sub-Group.

Market risk is managed by quantifying on a daily basis and making risk adjustment in response to market conditions.

Quantitative information on market risk is as follows:

(i) Financial instruments for trading purposes

The Group uses VaR for quantitative analysis on market risk of the "Trading assets," "Trading liabilities," trading securities in "Securities," and the trading purpose instruments in "Derivative instruments." For calculating VaR, the historical simulation method (holding period of 10 days, confidence interval of 99 %, and observation period of 250 business days) has been adopted.

The VaR in the Group's trading business as of March 31, 2012 is ¥1,229 million in the aggregate.

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

(ii) Financial instruments for other than trading purposes

The Group's main financial instruments which are impacted by interest rate risk, one of the major risk variables, includes "Call loans and bills bought," "Receivables under resale agreements," "Receivables under securities borrowing transactions," "Other monetary claims purchased," "Monetary assets held in trust," bonds classified as securities being held to maturity or securities available for sale in "Securities," "Loans and bills discounted," "Lease receivables and leased investment assets," "Installment receivables," "Deposits," "Negotiable certificates of deposit," "Debentures," "Call money and bills sold," "Payables under repurchase agreements," "Borrowed money," "Short-term corporate bonds," "Corporate bonds" and interest rate swaps other than trading purposes in "Derivative instruments." As for these financial assets and liabilities, the Group uses the amount of impact on fair values which is calculated using a rationally expected fluctuation range of interest rates for one year from the fiscal year end for quantitative analysis to manage fluctuation risk of interest rates. The amount of such impact on fair values is calculated by categorizing the balance of these financial assets and liabilities according to the term of interest payments and using a certain fluctuation range of interest rates. Assuming all risk variables except for interest rate are constant, the Group estimates that, as of March 31, 2012, fair value will decrease by ¥247 million in the case of an increase of the index interest rates by 10 basis points (0.10%) and will increase by ¥478 million in the case of a decrease by 10 basis points (0.10%). Such amount of impact on fair value is calculated based on the assumption that all risk variables except for interest rate are constant, and correlation between interest rate and other risk variables is not taken into consideration. There is a possibility that interest rate changes beyond the rationally expected fluctuation range may cause an impact greater than the calculated amount.

(c) Liquidity risk management

The ALM Committee, which is the senior review and decision-making body for the management of liquidity risk, manages liquidity risk by establishing short-term liquidity gap limits and minimum liquidity reserve levels.

In accordance with the “Cash Liquidity Risk Management Policy,” the Bank has a structure to conduct two or more liquidity measurements and to secure available reserves over the net cumulative outflow forecasted in an emergency situation.

(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, 2012. 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 | ¥413,721 | ¥413,721 | ¥— |
| (2) Call loans and bills bought | 15,745 | 15,745 | — |
| (3) Receivables under resale agreements | 18,362 | 18,510 | 147 |
| (4) Receivables under securities borrowing transactions | 114,080 | 114,080 | — |
| (5) Other monetary claims purchased | | | |
| Trading purposes | 67,226 | 67,226 | — |
| Other (*1) | 62,521 | 62,600 | 79 |
| (6) Trading assets | | | |
| Securities held for trading purposes | 58,444 | 58,444 | — |
| (7) Monetary assets held in trust(*1) | 267,040 | 268,932 | 1,892 |
| (8) Securities | | | |
| Trading securities | 613 | 613 | — |
| Securities being held to maturity | 658,558 | 667,553 | 8,994 |
| Securities available for sale | 1,092,393 | 1,092,393 | — |
| Equity securities of affiliates | 21,745 | 19,785 | (1,960) |
| (9) Loans and bills discounted (*2) | 4,136,827 | | |
| Reserve for credit losses | (140,609) | | |
| Net | 3,996,218 | 4,106,373 | 110,155 |
| (10) Lease receivables and leased investment assets (*1) | 192,093 | 193,838 | 1,744 |
| (11) Other assets | | | |
| Installment receivables | 347,935 | | |
| Deferred gains on installment receivables | (11,840) | | |
| Reserve for credit losses | (11,408) | | |
| Net | 324,686 | 340,682 | 15,996 |
| Total assets | ¥7,303,453 | ¥7,440,502 | ¥137,049 |
| (1) Deposits | ¥5,184,326 | ¥5,213,642 | ¥ (29,316) |
| (2) Negotiable certificates of deposit | 178,084 | 178,048 | 36 |
| (3) Debentures | 294,139 | 295,192 | (1,053) |
| (4) Call money and bills sold | 210,163 | 210,163 | — |
| (5) Payables under securities lending transactions | 148,590 | 148,590 | — |
| (6) Trading liabilities | | | |
| Trading securities sold for short sales | 48,058 | 48,058 | — |
| (7) Borrowed money | 476,731 | 475,280 | 1,450 |
| (8) Short-term corporate bonds | 50,700 | 50,700 | — |
| (9) Corporate bonds | 168,797 | 154,623 | 14,173 |
| Total liabilities | ¥6,759,592 | ¥6,774,301 | ¥ (14,708) |

| | | | |
|---|---|---|---|
| Derivative instruments (*3) | | | |
| Hedge accounting is not applied | ¥ (25,567) | ¥ (25,567) | — |
| Hedge accounting is applied | (18,494) | (18,494) | — |
| Total | ¥ (44,062) | ¥ (44,062) | — |

(Millions of yen)

| | Contract amount | Fair value |
|---|---|---|
| Other<br>Guarantee contracts (*4) | ¥562,624 | ¥ (4,101) |

(*1) Carrying amount of Other monetary claims purchased, Monetary assets held in trust, and Leased receivables and leased investment assets are presented as the amount net of reserve for credit losses because they are immaterial.

(*2) For consumer loans of ¥463,248 million held by consolidated subsidiaries included in Loans and bills discounted, reserve for losses on interest repayments of ¥50,913 million is recognized for estimated losses on reimbursements of excess interest payments.

(*3) Derivative instruments include derivative transactions both in trading assets and liabilities, and in other assets and liabilities. Derivative instruments are presented as net of assets and liabilities and presented with ( ) when a liability stands on net basis.

(*4) Contract amount for guarantee contracts presents the amount of “Acceptances and guarantees” on the consolidated balance sheet.

（Note 1） Valuation methodologies for financial instruments

Assets

(1) Cash and due from banks

The fair values of due from banks with no maturities approximate carrying amounts. For due from banks with maturities, the fair values approximate carrying amounts because most of them are with short maturities of 6 months or less.

(2) Call loans and bills bought and (4) Receivables under securities borrowing transactions

The fair values approximate carrying amounts because most of them are with short maturities of 3 months or less.

(3) Receivables under resale agreements

The fair values of the receivables under resale agreements with maturity of 3 months or less approximate carrying amounts because of their short term maturity. The fair values of the receivables under resale agreements with maturity of more than 3 months are determined by discounting contractual cash flows in case of the transactions with fixed interest rate, or expected cash flows based on the forward rate in case of the transactions with floating interest rate, using the risk free rate adjusted to account for credit risk (after consideration of collateral) with credit default swap (CDS) spreads etc. corresponding to internal credit rating of each borrower.

(5) Other monetary claims purchased

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

(6) Trading assets

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

(7) Monetary assets held in trust

The fair values are determined using 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."

(8) Securities

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

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

(9) Loans and bills discounted

The fair values of loans and bills discounted with fixed interest rate are determined by discounting contractual cash flows, and the fair values of loans and bills discounted with floating interest rate are determined by discounting expected cash flows based on the forward rates, using the risk free rate adjusted to account for credit risk (after consideration of collateral) with CDS spreads etc. corresponding to internal credit rating of each borrower. The fair values of housing loans are determined by discounting expected cash flows at the rates that would be applied for the new housing loans to same borrowers with the same terms at the consolidated balance sheet date. The fair values of consumer loans are determined by discounting expected cash flows that reflect expected loss at the rates that consist of the risk free rate and certain costs, by group of similar product types and customer segments.

For loans to obligors "legally bankrupt," "virtually bankrupt" and "possibly bankrupt," a reserve is provided based on the discounted cash flow method, or based on amounts expected to be collected through the disposal of collateral or execution of guarantees, so that the carrying amount net of the reserve is a reasonable estimate of the fair values of those loans.

(10) Lease receivables and leased investment assets

The fair values of lease receivables and leased investment assets are primarily determined by discounting contractual cash flows at the rates that consist of the risk free rate, credit risk and certain costs, by group of major product categories.

(11) Installment receivables

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

<u>Liabilities</u>

(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 6 months or less approximate carrying amounts because of their short term maturity. The fair values of time deposits are determined by discounting the contractual cash flows at the rates that would be applied for new contracts with the same terms at the consolidated balance sheet date.

(3) Debentures and (9) Corporate bonds

The fair values of marketable debentures and corporate bonds are measured at market prices. The fair values of non-marketable corporate debentures and corporate bonds under the Medium Term Note program are determined by discounting expected cash flows at the actual average funding rates of corporate time deposits and debentures funded in the past 3 months of the consolidated balance sheet date.

The fair values of retail debentures are determined by discounting contractual cash flows at the actual funding rate of the latest issuance.

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

(4) Call money and bills sold and (5) Payables under securities lending transactions

The fair values approximate carrying amounts for Call money and bills sold, and Payables under securities lending transactions because most of them are with short maturities of 3 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 meets specific matching criteria, the contractual cash flows include the cash flows of the interest rate swaps), and the fair values of borrowed money with floating interest rates are determined by discounting expected cash flows on forward rates, at the funding rates that reflect the credit risk of the borrower.

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

(8) Short-tem corporate bonds

The fair values of short-tem corporate bonds approximate carrying amounts because most of them are with short maturities of 6 months or less.

Derivative instruments

The fair values of derivative instruments are primarily measured at closing prices on exchanges or determined by using discounted cash flow method or option pricing models.

Other

Guarantee contracts

The fair values of guarantee contracts are determined by discounting the amount of difference between the contractual cash flows and the expected cash flows that would be applied for the new same contract at the risk free rate.

(Note 2)

Financial instruments whose fair values cannot be reliably determined are as follows, and these are not included in the above (8) Securities.

（Millions of yen）

| Category | Carrying amount |
|---|---|
| Equity securities without readily available market price（*1）(*2） | ¥27,762 |
| Investment in partnerships and others（*1）(*2） | 72,420 |
| Total | ¥100,182 |

（*1）Equity securities without readily available market price 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 price, 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, 2012, impairment losses on equity securities without readily available market price of ¥3,172 million, and on investment in partnerships and others of ¥1,524 million were recognized, respectively.

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

(Millions of yen)

| | Less than 1 year | More than 1 year Less than 3 years | More than 3 years Less than 5 years | More than 5 years |
|---|---|---|---|---|
| Cash and due from banks | ¥413,721 | ¥— | ¥— | ¥— |
| Call loans and bills bought | 15,745 | — | — | — |
| Receivables under resale agreements | — | — | 18,362 | — |
| Receivables under securities borrowing transactions | 114,080 | — | — | — |
| Other monetary claims purchased | | | | |
| Other than trading purposes | 12,727 | 14,137 | 11,857 | 24,994 |
| Securities | | | | |
| Held-to-maturity | 22,953 | 443,000 | 129,013 | 66,273 |
| Japanese national government bonds | — | 443,000 | 120,000 | 20,000 |
| Japanese corporate bonds | 22,953 | — | — | — |
| Other | — | — | 9,013 | 46,273 |
| Available-for-sale | 538,849 | 169,835 | 189,272 | 177,822 |
| Japanese national government bonds | 362,700 | 65,035 | 121,200 | 145,000 |
| Japanese local government bonds | 1,243 | — | 500 | — |
| Japanese corporate bonds | 115,295 | 82,280 | 37,961 | 3,791 |
| Other | 59,610 | 22,519 | 29,610 | 29,031 |
| Loans and bills discounted | 919,882 | 926,807 | 619,449 | 1,350,834 |
| Lease receivables and leased investment assets | 64,115 | 82,090 | 32,242 | 16,226 |
| Installment receivables | 137,868 | 128,648 | 40,321 | 22,704 |
| Total | ¥2,239,940 | ¥1,764,517 | ¥1,040,516 | ¥1,658,853 |

(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” are not included.

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

(Millions of yen)

| | Less than 1 year | More than 1 year Less than 3 years | More than 3 years Less than 5 years | More than5 years |
|---|---|---|---|---|
| Deposits (*) | ¥3,933,522 | ¥1,074,126 | ¥86,874 | ¥89,803 |
| Negotiable certificates of deposit | 177,084 | 1,000 | — | — |
| Debentures | 60,441 | 103,126 | 130,471 | 100 |
| Call money and bills sold | 210,081 | 81 | — | — |
| Payables under securities lending transactions | 141,590 | 7,000 | — | — |
| Trading liabilities | | | | |
| Trading securities sold for short sales | 48,058 | — | — | — |
| Borrowed money | 217,985 | 90,156 | 72,975 | 95,613 |
| Short-term corporate bonds | 50,700 | — | — | — |
| Corporate bonds | 1,961 | 36,375 | 63,940 | 66,560 |
| Total | ¥4,841,427 | ¥1,311,867 | ¥354,261 | ¥252,077 |

(*) The cash flow of demand deposits is included in “Less than 1 year.”

(Securities)

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

**1.** Trading securities (as of March 31, 2012)

| | Unrealized gain (loss) |
|---|---|
| Trading securities | ¥ (1,017) |
| Other monetary claims purchased for trading purposes | (20,052) |

**2.** Securities being held to maturity (as of March 31, 2012)

(Millions of yen)

| | Type | Carrying amount | Fair value | Unrealized gain (loss) |
|---|---|---|---|---|
| Fair value exceeds carrying amount | Japanese national government bonds | ¥585,601 | ¥590,903 | ¥5,302 |
| | Japanese corporate bonds | 22,834 | 23,094 | 259 |
| | Other | 40,283 | 44,290 | 4,006 |
| | Subtotal | 648,719 | 658,287 | 9,568 |
| Fair value does not exceed carrying amount | Japanese national government bonds | — | — | — |
| | Japanese corporate bonds | — | — | — |
| | Other | 9,839 | 9,265 | (574) |
| | Subtotal | 9,839 | 9,265 | (574) |
| Total | | ¥658,558 | ¥667,553 | ¥8,994 |

**3.** Available-for-sale securities (as of March 31, 2012)

(Millions of yen)

| | Type | Carrying amount (Fair value) | Amortized/ Acquisition cost | Unrealized gain (loss) |
|---|---|---|---|---|
| Carrying amount exceeds amortized/ acquisition cost | Equity securities | ¥17,134 | ¥11,587 | ¥5,547 |
| | Domestic bonds: | 681,836 | 679,437 | 2,398 |
| | Japanese national government bonds | 619,582 | 617,608 | 1,973 |
| | Japanese local government bonds | 1,785 | 1,738 | 46 |
| | Japanese corporate bonds | 60,468 | 60,090 | 378 |

| | | | | |
|---|---|---|---|---|
| | Other | 71,294 | 66,882 | 4,411 |
| | Subtotal | 770,265 | 757,907 | 12,358 |
| Carrying amount does not exceed amortized/ acquisition cost | Equity securities | 2,123 | 2,726 | (602) |
| | Domestic bonds: | 247,738 | 251,719 | (3,981) |
| | Japanese national government bonds | 79,979 | 80,748 | (769) |
| | Japanese local government bonds | — | — | — |
| | Japanese corporate bonds | 167,759 | 170,971 | (3,212) |
| | Other | 88,193 | 91,353 | (3,160) |
| | Subtotal | 338,055 | 345,799 | (7,744) |
| Total | | ¥1,108,321 | ¥1,103,707 | ¥4,614 |

(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 | ¥4,614 |
| The Bank's interests in available-for-sale securities held by partnerships recorded as securities whose fair value cannot be reliably determined and other adjustments | (10) |
| Securities being held to maturity, reclassified from available-for-sale in the past, under extremely illiquid market conditions | (5,186) |
| Less: Deferred tax liabilities | 177 |
| Unrealized gain (loss) on available-for-sale securities before interest adjustments | (761) |
| Less: Minority interests | 6 |
| The Bank's interests in unrealized gain (loss) on available-for-sale securities held by affiliates to which the equity method is applied | 93 |
| Unrealized gain (loss) on available-for-sale securities | ¥ (674) |

**4.** No held-to-maturity securities were sold during the current fiscal year.

**5**. Available-for-sale securities sold during the current fiscal year (from April 1, 2011 to March 31, 2012)

(Millions of yen)

| | Proceeds from sales | Gains on sales | Losses on sales |
|---|---|---|---|
| Equity securities | ¥1,901 | ¥1,256 | ¥22 |
| Domestic bonds: | 1,121,732 | 2,021 | 412 |
| Japanese national government bonds | 1,043,509 | 1,887 | 81 |
| Japanese local government bonds | 27,176 | 20 | 18 |
| Japanese corporate bonds | 51,047 | 114 | 312 |
| Other | 109,273 | 7,662 | 215 |
| Total | ¥1,232,908 | ¥10,940 | ¥650 |

**6**. Securities for which impairment losses are recognized

Individual securities, other than trading securities, are written down when a decline in fair value below the cost of such securities is deemed to be other than temporary. The amount written down is accounted for as an impairment loss. Impairment losses on securities other than trading purposes carried at fair value for the fiscal year ended March 31, 2012 were ¥8,761 million, which consisted of ¥4,094 million for equity securities, ¥3,351 million for Japanese corporate bonds and ¥1,315 million for other securities.

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

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

"Legally bankrupt" obligors are those who have already gone bankrupt from a legal and/or formal perspective.

"Virtually bankrupt" obligors are those who have not yet gone legally or formally bankrupt but who are substantially bankrupt because they are in serious financial difficulties and are not deemed to be capable of restructuring.

"Possibly bankrupt" obligors are those who are not yet bankrupt but are in financial difficulties and are very likely to go bankrupt in the future.

"Need caution" obligors are those who require close attention because there are problems with their borrowings.

"Normal" obligors are those whose business conditions are favorable and who are deemed not to have any particular problems in terms of their financial position.

(Monetary assets held in trust)

**1.** Monetary assets held in trust for trading purposes (as of March 31, 2012)

(Millions of yen)

| | Carrying amount (Fair value) | Unrealized gain (loss) |
|---|---|---|
| Monetary assets held in trust for trading purposes | ¥132,025 | ¥ (6,637) |

**2.** There are no monetary assets held in trust held to maturity (as of March 31, 2012)

**3.** Monetary assets held in trust other than trading purposes and held to maturity (as of March 31, 2012)

(Millions of yen)

| | Carrying amount | Acquisition cost | Unrealized gain (loss) | Gross unrealized gain | Gross unrealized loss |
|---|---|---|---|---|---|
| Other monetary assets held in trust | ¥135,602 | ¥135,602 | — | — | — |

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

（Deferred tax）

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

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

(Per share information)

Common shareholders' equity per share was ¥212.67.

Net income per common share was ¥2.42.

Diluted net income per common share is not applicable because there is no effect from dilutive securities.

(Stock option)

(1) Expenses related to stock options in the current fiscal year

Other general and administrative expenses ¥ 11 million

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

¥ 69 million

(3) Outline, number and movement of stock options

(i) Outline of stock options

| | The 1st stock acquisition rights | | The 4th stock acquisition rights | |
|---|---|---|---|---|
| Number of grantees | Statutory executive officers: 11<br>Employees: 2,185 | | Statutory executive officers: 1 | |
| Number of stock options granted (Note1) | Common stock: 5,343,000 shares | Common stock: 4,112,000 shares | Common stock: 125,000 shares | Common stock: 125,000 shares |
| Grant date | July 1, 2004 | | June 1, 2005 | |
| Condition for vesting | (Note: 2) | | (Note: 2) | |
| Required service period | From July 1, 2004 to July 1, 2006 | From July 1, 2004 to July 1, 2007 | From June 1, 2005 to July 1, 2006 | From June 1, 2005 to July 1, 2007 |
| Exercise period | From July 1, 2006 to June 23, 2014 | From July 1, 2007 to June 23, 2014 | From July 1, 2006 to June 23, 2014 | From July 1, 2007 to June 23, 2014 |

| | The 5th stock acquisition rights | | The 6th stock acquisition rights | |
|---|---|---|---|---|
| Number of grantees | Directors: 15<br>Statutory executive officers: 10<br>Employees: 437 | | Statutory executive officers: 5<br>Employees: 35 | |
| Number of stock options granted (Note1) | Common stock: 2,609,000 shares | Common stock: 2,313,000 shares | Common stock: 1,439,000 shares | Common stock: 1,417,000 shares |
| Grant date | June 27, 2005 | | June 27, 2005 | |
| Condition for vesting | (Note: 2) | | (Note: 2) | |
| Required service period | From June 27, 2005 to July 1, 2007 | From June 27, 2005 to July 1, 2008 | From June 27, 2005 to July 1, 2007 | From June 27, 2005 to July 1, 2008 |
| Exercise period | From July 1, 2007 to June 23, 2015 | From July 1, 2008 to June 23, 2015 | From July 1, 2007 to June 23, 2015 | From July 1, 2008 to June 23, 2015 |

| | The 7th stock acquisition rights | | The 8th stock acquisition rights | |
|---|---|---|---|---|
| Number of grantees | Statutory executive officers: 8<br>Employees: 127 | | Statutory executive officers: 1<br>Employees: 34 | |
| Number of stock options granted (Note1) | Common stock: 678,000 shares | Common stock: 609,000 shares | Common stock: 287,000 shares | Common stock: 274,000 shares |
| Grant date | June 27, 2005 | | June 27, 2005 | |
| Condition for vesting | (Note: 2) | | (Note: 2) | |
| Required service period | From June 27, 2005 to July 1, 2008 | From June 27, 2005 to July 1, 2010 | From June 27, 2005 to July 1, 2008 | From June 27, 2005 to July 1, 2010 |
| Exercise period | From July 1, 2008 to June 23, 2015 | From July 1, 2010 to June 23, 2015 | From July 1, 2008 to June 23, 2015 | From July 1, 2010 to June 23, 2015 |

| | The 9th stock acquisition rights | | The 10th stock acquisition rights | |
|---|---|---|---|---|
| Number of grantees | Employees: 2 | | Employees: 2 | |
| Number of stock options granted (Note1) | Common stock: 79,000 shares | Common stock: 78,000 shares | Common stock: 27,000 shares | Common stock: 26,000 shares |
| Grant date | September 28, 2005 | | September 28, 2005 | |
| Condition for vesting | (Note: 2) | | (Note: 2) | |
| Required service period | From September 28, 2005 to July 1, 2007 | From September 28, 2005 to July 1, 2008 | From September 28, 2005 to July 1, 2008 | From September 28, 2005 to July 1, 2010 |
| Exercise period | From July 1, 2007 to June 23, 2015 | From July 1, 2008 to June 23, 2015 | From July 1, 2008 to June 23, 2015 | From July 1, 2010 to June 23, 2015 |

| | The 13th stock acquisition rights | | The 14th stock acquisition rights | |
|---|---|---|---|---|
| Number of grantees | Directors: 15<br>Statutory executive officers: 14<br>Employees: 559 | | Statutory executive officers: 3<br>Employees: 28 | |
| Number of stock options granted (Note1) | Common stock: 2,854,000 shares | Common stock: 2,488,000 shares | Common stock: 1,522,000 shares | Common stock: 1,505,000 shares |
| Grant date | May 25, 2006 | | May 25, 2006 | |
| Condition for vesting | (Note: 2) | | (Note: 2) | |
| Required service period | From May 25, 2006 to June 1, 2008 | From May 25, 2006 to June 1, 2009 | From May 25, 2006 to June 1, 2008 | From May 25, 2006 to June 1, 2009 |
| Exercise period | From June 1, 2008 to June 23, 2015 | From June 1, 2009 to June 23, 2015 | From June 1, 2008 to June 23, 2015 | From June 1, 2009 to June 23, 2015 |

| | The 15th stock acquisition rights | | The 16th stock acquisition rights | |
|---|---|---|---|---|
| Number of grantees | Statutory executive officers: 12<br>Employees: 159 | | Employees: 19 | |
| Number of stock options granted (Note1) | Common stock: 749,000 shares | Common stock: 690,000 shares | Common stock: 170,000 shares | Common stock: 161,000 shares |
| Grant date | May 25, 2006 | | May 25, 2006 | |
| Condition for vesting | (Note: 2) | | (Note: 2) | |
| Required service period | From May 25, 2006 to June 1, 2009 | From May 25, 2006 to June 1, 2011 | From May 25, 2006 to June 1, 2009 | From May 25, 2006 to June 1, 2011 |
| Exercise period | From June 1, 2009 to June 23, 2015 | From June 1, 2011 to June 23, 2015 | From June 1, 2009 to June 23, 2015 | From June 1, 2011 to June 23, 2015 |

| | The 17th stock acquisition rights | | The 18th stock acquisition rights | |
|---|---|---|---|---|
| Number of grantees | Directors: 12<br>Statutory executive officers: 13<br>Employees: 110 | | Statutory executive officers: 3<br>Employees: 23 | |
| Number of stock options granted (Note1) | Common stock: 1,691,000 shares | Common stock: 1,615,000 shares | Common stock: 747,000 shares | Common stock: 733,000 shares |
| Grant date | May 25, 2007 | | May 25, 2007 | |
| Condition for vesting | (Note: 2) | | (Note: 2) | |
| Required service period | From May 25, 2007 to June 1, 2009 | From May 25, 2007 to June 1, 2011 | From May 25, 2007 to June 1, 2009 | From May 25, 2007 to June 1, 2011 |
| Exercise period | From June 1, 2009 to May 8, 2017 | From June 1, 2011 to May 8, 2017 | From June 1, 2009 to May 8, 2017 | From June 1, 2011 to May 8, 2017 |

| | The 19th stock acquisition rights | | The 20th stock acquisition rights | |
|---|---|---|---|---|
| Number of grantees | Directors and employees in subsidiaries: 32 | | Directors: 12<br>Statutory executive officers: 8<br>Employees: 104 | |
| Number of stock options granted (Note1) | Common stock: 86,000 shares | Common stock: 54,000 shares | Common stock: 1,445,000 shares | Common stock: 1,385,000 shares |
| Grant date | July 2, 2007 | | May 30, 2008 | |
| Condition for vesting | (Note: 2) | | (Note: 2) | |
| Required service period | From July 2, 2007 to July 1, 2009 | From July 2, 2007 to July 1, 2011 | From May 30, 2008 to June 1, 2010 | From May 30, 2008 to June 1, 2012 |
| Exercise period | From July 1, 2009 to June 19, 2017 | From July 1, 2011 to June 19, 2017 | From June 1, 2010 to May 13, 2018 | From June 1, 2012 to May 13, 2018 |

| | The 21st stock acquisition rights | | The 22nd stock acquisition rights | |
|---|---|---|---|---|
| Number of grantees | Statutory executive officers: 1<br>Employees: 29 | | Directors and employees in subsidiaries: 43 | |
| Number of stock options granted (Note1) | Common stock: 1,049,000 shares | Common stock: 1,032,000 shares | Common stock: 121,000 shares | Common stock: 82,000 shares |
| Grant date | May 30, 2008 | | July 10, 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 July 10, 2008 to July 1, 2010 | From July 10, 2008 to July 1, 2012 |
| Exercise period | From June 1, 2010 to May 13, 2018 | From June 1, 2012 to May 13, 2018 | From July 1, 2010 to June 24, 2018 | From July 1, 2012 to June 24, 2018 |

| | The 23rd stock acquisition rights | |
|---|---|---|
| Number of grantees | Directors and employees in subsidiaries: 17 | |
| Number of stock options granted (Note1) | Common stock: 54,000 shares | Common stock: 43,000 shares |
| Grant date | December 1, 2008 | |
| Condition for vesting | (Note: 2) | |
| Required service period | From December 1, 2008 to December 1, 2010 | From December 1, 2008 to December 1, 2012 |
| Exercise period | From December 1, 2010 to November 11, 2018 | From December 1, 2012 to November 11, 2018 |

Notes:

1. Stated in terms of the number of shares.
2. In principle, grantees must continue to serve through the required service period. However, the right may be granted or forfeited if certain conditions specified in the "Agreement on Granting Stock Acquisition Rights" take place.

(ii) 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.

a. Number of stock options

| | 1st | 4th | 5th | 6th |
|---|---|---|---|---|
| Non-vested (share) | | | | |
| Outstanding at the beginning of the year | — | — | — | — |
| Granted during the year | — | — | — | — |
| Forfeited during the year | — | — | — | — |
| Vested during the year | — | — | — | — |
| Outstanding at the end of the year | — | — | — | — |
| Vested (Share) | | | | |
| Outstanding at the beginning of the year | 5,069,000 | 250,000 | 2,329,000 | 1,544,000 |
| Vested during the year | — | — | — | — |
| Exercised during the year | — | — | — | — |
| Forfeited during the year | 156,000 | — | 110,000 | — |
| Exercisable at the end of the year | 4,913,000 | 250,000 | 2,219,000 | 1,544,000 |

| | 7th | 8th | 9th | 10th |
|---|---|---|---|---|
| Non-vested (share) | | | | |
| Outstanding at the beginning of the year | — | — | — | — |
| Granted during the year | — | — | — | — |
| Forfeited during the year | — | — | — | — |
| Vested during the year | — | — | — | — |
| Outstanding at the end of the year | — | — | — | — |
| Vested (Share) | | | | |
| Outstanding at the beginning of the year | 506,000 | 187,000 | 108,000 | 36,000 |
| Vested during the year | — | — | — | — |
| Exercised during the year | — | — | — | — |
| Forfeited during the year | 32,000 | — | — | — |
| Exercisable at the end of the year | 474,000 | 187,000 | 108,000 | 36,000 |

| | 13th | 14th | 15th | 16th |
|---|---|---|---|---|
| Non-vested (share) | | | | |
| Outstanding at the beginning of the year | — | — | 117,000 | 17,000 |
| Granted during the year | — | — | — | — |
| Forfeited during the year | — | — | 1,000 | — |
| Vested during the year | — | — | 116,000 | 17,000 |
| Outstanding at the end of the year | — | — | — | — |
| Vested (Share) | | | | |
| Outstanding at the beginning of the year | 2,390,000 | 1,797,000 | 415,000 | 20,000 |
| Vested during the year | — | — | 116,000 | 17,000 |
| Exercised during the year | — | — | — | — |
| Forfeited during the year | 154,000 | — | 19,000 | — |
| Exercisable at the end of the year | 2,236,000 | 1,797,000 | 512,000 | 37,000 |

| | 17th | 18th | 19th | 20th |
|---|---|---|---|---|
| Non-vested (share) | | | | |
| Outstanding at the beginning of the year | 188,000 | 56,000 | 48,000 | 326,000 |
| Granted during the year | — | — | — | — |
| Forfeited during the year | — | — | — | 71,000 |
| Vested during the year | 188,000 | 56,000 | 48,000 | 14,000 |
| Outstanding at the end of the year | — | — | — | 241,000 |
| Vested (Share) | | | | |
| Outstanding at the beginning of the year | 1,220,000 | 819,000 | 92,000 | 1,097,000 |
| Vested during the year | 188,000 | 56,000 | 48,000 | 14,000 |
| Exercised during the year | — | — | — | — |
| Forfeited during the year | 69,000 | — | — | 124,000 |
| Exercisable at the end of the year | 1,339,000 | 875,000 | 140,000 | 987,000 |

| | 21st | 22nd | 23rd |
|---|---|---|---|
| Non-vested (share) | | | |
| Outstanding at the beginning of the year | 81,000 | 72,000 | 24,000 |
| Granted during the year | — | — | — |
| Forfeited during the year | — | — | 2,000 |
| Vested during the year | — | — | — |
| Outstanding at the end of the year | 81,000 | 72,000 | 22,000 |
| Vested (Share) | | | |
| Outstanding at the beginning of the year | 194,000 | 116,000 | 35,000 |
| Vested during the year | — | — | — |
| Exercised during the year | — | — | — |
| Forfeited during the year | 73,000 | — | 3,000 |
| Exercisable at the end of the year | 121,000 | 116,000 | 32,000 |

b. Price information

| | 1st | 4th | 5th | 6th |
|---|---|---|---|---|
| Exercise price (yen) | 684 | 551 | 601 | 601 |
| Weighted average stock price at the date of exercise (yen) | — | — | — | — |

| | 7th | 8th | 9th | 10th |
|---|---|---|---|---|
| Exercise price (yen) | 601 | 601 | 697 | 697 |
| Weighted average stock price at the date of exercise (yen) | — | — | — | — |

| | 13th | | 14th | |
|---|---|---|---|---|
| Exercise period | From June 1, 2008 to June 23, 2015 | From June 1, 2009 to June 23, 2015 | From June 1, 2008 to June 23, 2015 | From June 1, 2009 to June 23, 2015 |
| Exercise price (yen) | 825 | | 825 | |
| Weighted average stock price at the date of exercise (yen) | — | | — | |
| Fair value at grant date (yen) | 163 | 173 | 163 | 173 |

| | 15th | | 16th | |
|---|---|---|---|---|
| Exercise period | From June 1, 2009 to June 23, 2015 | From June 1, 2011 to June 23, 2015 | From June 1, 2009 to June 23, 2015 | From June 1, 2011 to June 23, 2015 |
| Exercise price (yen) | 825 | | 825 | |
| Weighted average stock price at the date of exercise (yen) | — | | — | |
| Fair value at grant date (yen) | 173 | 192 | 173 | 192 |

| | 17th | | 18th | |
|---|---|---|---|---|
| Exercise period | From June 1, 2009 to May 8, 2017 | From June 1, 2011 to May 8, 2017 | From June 1, 2009 to May 8, 2017 | From June 1, 2011 to May 8, 2017 |
| Exercise price (yen) | 555 | | 555 | |
| Weighted average stock price at the date of exercise (yen) | — | | — | |
| Fair value at grant date (yen) | 131 | 143 | 131 | 143 |

| | 19th | | 20th | |
|---|---|---|---|---|
| Exercise period | From July 1, 2009 to June 19, 2017 | From July 1, 2011 to June 19, 2017 | From June 1, 2010 to May 13, 2018 | From June 1, 2012 to May 13, 2018 |
| Exercise price (yen) | 527 | | 416 | |
| Weighted average stock price at the date of exercise (yen) | — | | — | |
| Fair value at grant date (yen) | 121 | 132 | 158 | 169 |

| | 21st | | 22nd | |
|---|---|---|---|---|
| Exercise period | From June 1, 2010 to May 13, 2018 | From June 1, 2012 to May 13, 2018 | From July 1, 2010 to June 24, 2018 | From July 1, 2012 to June 24, 2018 |
| Exercise price (yen) | 416 | | 407 | |
| Weighted average stock price at the date of exercise (yen) | — | | — | |
| Fair value at grant date (yen) | 158 | 169 | 127 | 137 |

| | 23rd | |
|---|---|---|
| Exercise period | From December 1, 2010 to November 11, 2018 | From December 1, 2012 to November 11, 2018 |
| Exercise price (yen) | 221 | |
| Weighted average stock price at the date of exercise (yen) | — | |
| Fair value at grant date (yen) | 53 | 57 |

Note: With regard to stock options from 1st to 10th, the Bank does not describe “Fair value at grant date” because they were granted prior to the enforcement of the Companies Act.

(4) Measurement of the fair value of stock options

There was no stock option granted or whose fair value was changed due to the modification to the terms and conditions during the fiscal year.

(5) Method of determining the vested number of stock options

Incorporated only the actual forfeited options, as the reasonable estimate of future forfeiture is not determinable.

(Business combinations)

Business combinations involving entities or operations of entities under common control

As of September 30, 2011, the Bank entered into a business transfer agreement with Shinsei Financial Co., Ltd., a consolidated subsidiary of the Bank, on the basis of the letter of intent dated June 22, 2011, and acquired a portion of the business operated by Shinsei Financial Co., Ltd. as of October 1, 2011.

**1.** Outline of the transactions

(a) Name and content of the business to be transferred

Name of business: Unsecured personal loan business

Content of business: A portion of the unsecured personal loan business operated by

Shinsei Financial Co., Ltd., excluding assets and liabilities (including obligation of excess interest repayments) relating to lending contracts made by Shinsei Financial Co., Ltd. as a money-lender or counterparty status for such contracts.

(b) Date of business combination

October 1, 2011

(c) Legal form of business combination

Transferring business in Shinsei Financial Co., Ltd., transferor company, to the Bank, transferee company

(d) Company name after the business combination

Shinsei Bank, Limited

(e) Overview and purpose of the transaction

Through the business transfer, the Bank acquired the Lake brand, the entire network of unmanned branches, ATMs, ACMs (automated contract machines), and a portion of other infrastructural assets relating to the unsecured personal loan business, excluding assets and liabilities (including obligation of excess interest repayments) relating to lending contracts made by Shinsei Financial Co., Ltd. as a money-lender or counterparty status for such contracts.

The Bank aims to improve its earnings power as well as to contribute to the development of a sound and healthy unsecured personal loan market, as one of the leading companies in the sector, by providing the service at the Bank (“Shinsei Bank Card Loan - Lake” brand), leveraging the Lake brand which has already achieved a certain level of recognition in the market.

**2.** Outline of accounting treatment

In accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No.21, December 26, 2008) and the “Guidance on Accounting Standard for Business Combinations and Business Divestitures” (ASBJ Guidance No.10, December 26, 2008), the Bank accounted for the transaction as business combinations involving entities or operations of entities under common control.

(TRANSLATION)

**INDEPENDENT AUDITOR'S REPORT**

May 2, 2012

To the Board of Directors of
Shinsei Bank, Limited:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:

Seno Tezuka

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:

Masahiro Ishizuka

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:

Shigehiko Matsumoto

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated balance sheet as of March 31, 2012 of Shinsei Bank, Limited (the "Bank") and consolidated subsidiaries, and the related statements of income and changes in equity for the fiscal year from April 1, 2011 to March 31,2012, and the basis for presentation of consolidated financial statements and significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the

appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Audit Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank and consolidated subsidiaries as of March 31, 2012, and the results of their operations for the year then ended in conformity with accounting principles generally accepted in Japan.

**Interest**

Our firm and the engagement partners do not have any interest in the Bank for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

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(Translation)

## Non-Consolidated Balance Sheet

Shinsei Bank, Limited

**As of March 31, 2012**

| | Millions of yen |
|---|---|
| **ASSETS** | |
| Cash and due from banks | ¥330,047 |
| Cash | 3,512 |
| Due from banks | 326,535 |
| Call loans | 15,745 |
| Receivables under resale agreements | 18,362 |
| Receivables under securities borrowing transactions | 57,647 |
| Other monetary claims purchased | 210,693 |
| Trading assets | 156,661 |
| Securities held to hedge trading transactions | 12,901 |
| Derivatives for securities held to hedge trading transactions | 36,397 |
| Trading-related financial derivatives | 107,362 |
| Monetary assets held in trust | 307,526 |
| Securities | 2,286,669 |
| Japanese national government bonds | 1,285,128 |
| Japanese local government bonds | 1,785 |
| Japanese corporate bonds | 253,770 |
| Equity securities | 396,312 |
| Other securities | 349,672 |
| Valuation allowance for investments | (3,370) |
| Loans and bills discounted | 4,102,638 |
| Bills discounted | 566 |
| Loans on bills | 26,225 |
| Loans on deeds | 3,548,202 |
| Overdrafts | 527,643 |
| Foreign exchanges | 18,896 |
| Due from foreign banks | 10,648 |
| Foreign bills bought | 114 |
| Foreign bills receivable | 8,133 |
| Other assets | 450,254 |
| Prepaid expenses | 1,794 |
| Accrued income | 9,612 |
| Margin on futures transactions | 5,323 |
| Suspense payment on futures transactions | 113 |
| Derivatives held in banking account | 81,420 |
| Deferred issuance expenses for corporate bonds | 338 |
| Accounts receivable | 235,814 |
| Other | 115,836 |
| Premises and equipment | 21,471 |
| Buildings | 17,494 |
| Leased asset | 2 |
| Construction in progress | 164 |
| Other premises and equipment | 3,809 |
| Intangible assets | 10,650 |
| Software | 7,791 |
| Goodwill | 972 |
| Other intangible assets | 1,886 |
| Deferred issuance expenses for debentures | 135 |
| Deferred expenses for issuance of debentures | 135 |
| Customers' liabilities for acceptances and guarantees | 11,600 |
| Reserve for credit losses | (121,193) |
| Total assets | ¥7,874,437 |

(Translation)

| | Millions of yen |
|---|---|
| **LIABILITIES AND EQUITY** | |
| **Liabilities**: | |
| Deposits | ¥5,610,134 |
| Current accounts | 306,219 |
| Ordinary deposits | 1,605,128 |
| Notice deposits | 12,711 |
| Time deposits | 3,297,690 |
| Other deposits | 388,385 |
| Negotiable certificates of deposit | 178,084 |
| Debentures | 296,839 |
| Issuance of debentures | 296,839 |
| Call money | 210,163 |
| Payables under securities lending transactions | 91,805 |
| Trading liabilities | 127,697 |
| Derivatives for trading securities | 285 |
| Derivatives for securities held to hedge trading transactions | 41,232 |
| Trading-related financial derivatives | 86,179 |
| Borrowed money | 245,728 |
| Borrowed money | 245,728 |
| Foreign exchanges | 184 |
| Due to foreign banks | 175 |
| Foreign bills payable | 9 |
| Corporate bonds | 212,235 |
| Other liabilities | 240,790 |
| Income taxes payable | 369 |
| Accrued expenses | 61,817 |
| Unearned income | 315 |
| Suspense receipt on futures transactions | 461 |
| Derivatives held in banking account | 143,156 |
| Lease obligations | 2 |
| Asset retirement obligations | 6,751 |
| Other | 27,914 |
| Accrued employees' bonuses | 3,728 |
| Deferred tax liabilities | 1,265 |
| Acceptances and guarantees | 11,600 |
| Total liabilities | 7,230,258 |
| **Equity**: | |
| Shareholders' equity: | |
| Common stock | 512,204 |
| Capital surplus | 79,465 |
| Additional paid-in capital | 79,465 |
| Retained earnings | 129,221 |
| Legal reserve | 11,566 |
| Other retained earnings | 117,654 |
| Unappropriated retained earnings | 117,654 |
| Treasury stock, at cost | (72,558) |
| Total shareholders' equity | 648,332 |
| Unrealized gain (loss) on available-for-sale securities | (1,031) |
| Deferred gain (loss) on derivatives under hedge accounting | (4,476) |
| Total net unrealized gain (loss) and translation adjustments | (5,508) |
| Stock acquisition rights | 1,354 |
| Total equity | 644,178 |
| Total liabilities and equity | ¥7,874,437 |

(Translation)

## Non-Consolidated Statement of Income

Shinsei Bank, Limited

**For the fiscal year ended March 31, 2012**

| | Millions of yen |
|---|---|
| **ORDINARY INCOME** | ¥175,252 |
| Interest income | 109,976 |
| Interest on loans and bills discounted | 63,986 |
| Interest and dividends on securities | 42,800 |
| Interest on call loans | 86 |
| Interest on receivables under resale agreement | 24 |
| Interest on receivables under securities borrowing transactions | 9 |
| Interest on deposits with banks | 259 |
| Interest on swaps | 87 |
| Other interest income | 2,721 |
| Fees and commissions income | 15,447 |
| Domestic and foreign exchange commissions income | 994 |
| Other fees and commissions income | 14,452 |
| Trading income | 16,697 |
| Income from trading-related financial derivatives | 16,697 |
| Other business income | 4,521 |
| Gains on sales of bonds | 2,318 |
| Income on investment bonds redeemed | 719 |
| Other | 1,482 |
| Other ordinary income | 28,610 |
| Recoveries of written-off claims | 5,237 |
| Gains on sales of equity securities and others | 8,602 |
| Gains on monetary assets held in trust | 12,748 |
| Other | 2,021 |
| **ORDINARY EXPENSES** | 157,132 |
| Interest expenses | 42,078 |
| Interest on deposits | 28,682 |
| Interest on negotiable certificates of deposit | 374 |
| Interest on debentures | 1,478 |
| Interest on call money | 167 |
| Interest on payables under securities lending transactions | 381 |
| Interest on borrowings | 2,369 |
| Interest on corporate bonds | 8,613 |
| Other interest expenses | 11 |
| Fees and commissions expenses | 9,673 |
| Domestic and foreign exchange commissions expenses | 1,406 |
| Other fees and commissions expenses | 8,266 |
| Trading losses | 3,209 |
| Losses on trading securities | 43 |
| Losses on securities held to hedge trading transactions | 3,061 |
| Other trading losses | 105 |
| Other business losses | 11,447 |
| Losses on foreign exchange | 1,313 |
| Losses on sales of bonds | 647 |
| Losses on bonds redemption | 403 |
| Losses on devaluation of bonds | 5,738 |
| Amortization of deferred expenses for issuance of debentures | 75 |
| Amortization of deferred expenses for issuance of corporate bonds | 52 |
| Losses on derivatives held in banking account | 1,057 |
| Other | 2,159 |
| General and administrative expenses | 65,101 |
| Other ordinary expenses | 25,621 |
| Provision of reserve for credit losses | 14,062 |
| Losses on write-off of loans | 2,139 |
| Losses on sales of equity securities and others | 0 |
| Losses on write-down of equity securities and others | 7,054 |
| Losses on monetary assets held in trust | 502 |
| Other | 1,861 |
| **ORDINARY PROFIT** | 18,119 |
| Extraordinary gains | 72 |
| Gain on disposal of premises and equipment | 3 |
| Other extraordinary gains | 69 |
| Extraordinary losses | 1,949 |
| Loss on disposal of premises and equipment | 843 |
| Impairment losses | 898 |
| Other extraordinary losses | 206 |
| Income before income taxes | 16,243 |
| Income taxes (benefit) - current | 163 |
| Income taxes (benefit) - deferred | 2,185 |
| Total income taxes | 2,348 |
| **NET INCOME** | ¥13,894 |

(Translation)

**Non-Consolidated Statement of Changes in Equity**

Shinsei Bank, Limited

For the fiscal year ended March 31, 2012

| | (Millions of yen) |
|---|---|
| **Shareholders' equity** | |
| Common stock: | |
| Balance at beginning of the year | **¥512,204** |
| Changes during the year | |
| Total changes during the year | **-** |
| Balance at end of the year | **512,204** |
| Capital surplus: | |
| Additional paid-in capital: | |
| Balance at beginning of the year | **79,465** |
| Changes during the year | |
| Total changes during the year | **-** |
| Balance at end of the year | **79,465** |
| Total capital surplus: | |
| Balance at beginning of the year | **79,465** |
| Changes during the year | |
| Total changes during the year | **-** |
| Balance at end of the year | **79,465** |
| Retained earnings: | |
| Legal reserve: | |
| Balance at beginning of the year | **11,035** |
| Changes during the year | |
| Dividends from surplus | **530** |
| Total changes during the year | **530** |
| Balance at end of the year | **11,566** |
| Other retained earnings: | |
| Unappropriated retained earnings: | |
| Balance at beginning of the year | **106,944** |
| Changes during the year | |
| Dividends from surplus | **(3,184)** |
| Net income | **13,894** |
| Total changes during the year | **10,710** |
| Balance at end of the year | **117,654** |
| Total retained earnings: | |
| Balance at beginning of the year | **117,980** |
| Changes during the year | |
| Dividends from surplus | **(2,653)** |
| Net income | **13,894** |
| Total changes during the year | **11,240** |
| Balance at end of the year | **129,221** |
| Treasury stock, at cost: | |
| Balance at beginning of the year | **(72,558)** |
| Changes during the year | |
| Total changes during the year | **-** |
| Balance at end of the year | **(72,558)** |
| Total shareholders' equity: | |
| Balance at beginning of the year | **637,091** |
| Changes during the year | |
| Dividends from surplus | **(2,653)** |
| Net income | **13,894** |
| Total changes during the year | **11,240** |
| Balance at end of the year | **648,332** |

(Translation)

| | |
|---|---|
| **Net unrealized gain (loss) and translation adjustments** | |
| Unrealized gain (loss) on available-for-sale securities: | |
| Balance at beginning of the year | **(15,346)** |
| Changes during the year | |
| Net changes during the year excluding shareholders' equity | **14,314** |
| Total changes during the year | **14,314** |
| Balance at end of the year | **(1,031)** |
| Deferred gain (loss) on derivatives under hedge accounting: | |
| Balance at beginning of the year | **(4,452)** |
| Changes during the year | |
| Net changes during the year excluding shareholders' equity | **(24)** |
| Total changes during the year | **(24)** |
| Balance at end of the year | **(4,476)** |
| Total net unrealized gain (loss) and translation adjustments: | |
| Balance at beginning of the year | **(19,799)** |
| Changes during the year | |
| Net changes during the year excluding shareholders' equity | **14,290** |
| Total changes during the year | **14,290** |
| Balance at end of the year | **(5,508)** |
| **Stock acquisition rights** | |
| Balance at beginning of the year | **1,413** |
| Changes during the year | |
| Net changes during the year excluding shareholders' equity | **(58)** |
| Total changes during the year | **(58)** |
| Balance at end of the year | **1,354** |
| **Total equity** | |
| Balance at beginning of the year | **618,705** |
| Changes during the year | |
| Dividends from surplus | **(2,653)** |
| Net income | **13,894** |
| Net changes during the year excluding shareholders' equity | **14,232** |
| Total changes during the year | **25,473** |
| Balance at end of the year | **¥644,178** |

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 securities 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” on a trade date basis.

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 position were terminated at the balance sheet date.

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

In estimating fair values of derivative financial instruments related to trading positions, liquidity risks and credit risks are reflected.

**2.** Recognition and measurement of securities

(a) Securities for trading purposes (except 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 whose fair value can be reliably determined are carried at fair value at the balance sheet date (cost of securities sold is determined by the moving average method) and available-for-sale securities whose fair value cannot be reliably determined are carried at cost determined by the moving average method. Unrealized gain (loss) on available-for-sale securities is directly recorded in a separate component of equity.

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

**3.** Recognition and measurement of derivatives

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

**4.** Recognition and 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 lease assets)

Depreciation of buildings and computers 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 – 50 years

Others: 2 – 20 years

(b) Intangible 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 years (the estimated useful lives) |
| Goodwill | 10 years |
| Other intangible assets (Trade name and trade mark) | 7 years |

(c) Lease assets

Depreciation of lease assets (both tangible and intangible) from finance lease transactions that do not deem to transfer ownership of the leased property to the lessee, which are included in "Premises and equipment" and "Intangible assets," is computed using the straight-line method over the leasing period. Residual values of lease assets are the guaranteed value for those assets determined in the lease contract or zero for assets without such guaranteed value.

**6.** Deferred charges

Deferred charges are accounted for as follows:

(a) Deferred issuance expenses for corporate bonds

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 calculated by the straight-line method.

(b) Deferred issuance expenses for debentures

Deferred issuance expenses for debentures are amortized using the straight-line method over the term of the debentures.

**7.** 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.

**8.** 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 expected loss amount for the remaining term of respective claims.

For other claims, a general reserve is provided based on historical loan loss experience.

For specific foreign claims, there is a reserve for loans to restructuring countries which has been provided based on losses estimated by considering the political and economic conditions in those countries.

All claims are assessed by business divisions based on the predetermined internal rules for the self-assessment of asset quality. The Credit Assessment Division, which is independent from business divisions, conducts verifications of these assessments, and additional reserves may be provided based on the verification results.

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 and totaled ¥74,989 million.

(b) Valuation allowance for investment

Valuation allowance for investment is set aside in amounts that are deemed to be necessary for estimated losses on investments in light of the financial status and other elements of the issuers of the securities.

(c) Accrued employees' bonuses

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

(d) 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 unrecognized prior service cost and the unrecognized actuarial gain (loss) are treated in the following manner:

| | |
|---|---|
| Unrecognized prior service cost: | Amortized using the straight-line method over the average remaining service period from the next fiscal year of occurrence. |
| Unrecognized actuarial gain (loss): | Amortized using the straight-line method over the average remaining service period from the fiscal year of occurrence. |

The transitional unrecognized net retirement benefit obligation of ¥9,081 million is being amortized using the straight-line method over 15 years.

**9.** Hedge accounting

(a) Hedge of interest rate risks

The Bank applies the deferral hedge accounting for derivative transactions that meet the 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 Industry Audit Committee Report No. 24 issued 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 Financial Instruments in the Banking Industry” (Industry Audit Committee Report No. 25 of the JICPA), hedged items are identified by grouping the foreign currency-denominated financial assets and liabilities by currencies and designating derivative transactions such as currency swap transactions, fund swap transactions and forward exchange contracts as hedging instruments. Hedge effectiveness is reviewed by comparing the total foreign currency position of the hedged items and hedging instruments by currency.

The Bank also applies deferral hedge accounting and fair value hedge accounting to translation gains or losses from foreign currency-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) Intra-company derivative transactions

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

**10.** Consumption tax

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

**11.** Consolidated corporate tax system

The consolidated corporate tax system is adopted by the Bank and its wholly-owned domestic consolidated subsidiaries.

**Change in presentation**

(Non-Consolidated Balance Sheet)

“Accounts receivable” (¥19,517 million at end of the previous fiscal year), which was included in “Other” presented in “Other assets” in the previous fiscal year, is separately presented in the current fiscal year since its balance exceeds 1/100 of total assets.

**Supplementary information**

The Bank has applied “Accounting Standard for Accounting Changes and Error Corrections” (Accounting Standards Board of Japan (“ASBJ”) Statement No.24, December 4, 2009) and “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No.24, December 4, 2009) for accounting changes and corrections of prior period errors which are made after April 1,2011.

In accordance with "Practical Guidelines on Accounting Standards for Financial Instruments" （Accounting Practice Committee Statement No.14 issued by the JICPA）, “Recoveries of written-off claims” for the current fiscal year were included in “Other ordinary income”.

**Notes to non-consolidated financial statements**

(Balance Sheet)

**1.** The total book value of investments in subsidiaries and affiliates was ¥449,737 million.

**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, ¥86,755 million of those securities was held by the Bank at the balance sheet date.

**3.** Loans to bankrupt obligors and non-accrual delinquent loans of ¥3,584 million and ¥263,304 million, respectively, were included in loans and bills discounted.

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 there is substantial doubt about the ultimate collectively of either principal or interest because they are past due for a considerable period of time or for other reasons.

Non-accrual 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 past due for three months or more of ¥719 million were included in loans and bills discounted.

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

**5.** Restructured loans of ¥865 million were included in loans and bills discounted.

Restructured loans are loans other than loans to bankrupt obligors, non-accrual 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, non-accrual delinquent loans, loans past due for three months or more and restructured loans was ¥268,474 million.

The amounts of loans mentioned in the Notes 3 through 6 above represent the gross receivable amounts prior to reduction 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 of the JICPA, although the Bank has the right to sell or pledge them without restrictions. The face amount of such bills discounted held as of March 31, 2012 was ¥681 million.

**8.** The total principal amount of loans accounted for as a sale through loan participations was ¥18,441 million as of March 31, 2012. This “off-balance sheet” treatment is in accordance with Report No. 3 issued by the Framework Committee of the JICPA on June 1, 1995.

The total principal amount of such loans in which the Bank participated was ¥7,891million as of March 31, 2012.

**9.** Assets pledged as collateral were as follows:

| | | | |
|---|---|---|---|
| Cash and due from banks | ¥ | 10 | million |
| Monetary assets held in trust | | 14 | |
| Securities | | 666,759 | |
| Loans and bills discounted | | 106,087 | |
| Accounts receivable | | 225,592 | |
| Other presented in other assets | | 24,751 | |

Liabilities collateralized were as follows:

| | | | |
|---|---|---|---|
| Deposits | ¥ | 568 | million |
| Call money | | 210,000 | |
| Payables under securities lending transactions | | 91,805 | |
| Borrowed money | | 120,228 | |
| Other presented in other liabilities | | 33 | |
| Acceptances and guarantees | | 920 | |

In addition, ¥364,763 million of securities were pledged as collateral for transactions, including exchange settlements, swap transactions and replacement of margin for futures transactions.

Also, ¥9,772 million of security deposits and ¥12,241 million of cash collateral pledged for derivative transactions were included in “Other assets” and ¥30,990 million of the cash reserve for the securitization of the Bank’s subsidiary was included in “Monetary assets held in trust”.

**10.** The Bank issues commitments to extend credit and establish credit lines for overdrafts to meet the financing needs of its customers. The unfunded amount of these commitments was ¥3,304,022 million, out of which the amount with original agreement terms of less than one year or which were cancelable was ¥3,083,525 million.

Since a large majority of these commitments expire without being drawn upon, the unfunded amounts do not necessarily represent future cash requirements. Many of 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.

**11.** Accumulated depreciation on premises and equipments was ¥12,107 million.

**12.** Deferred gains on premises and equipments deducted for tax purposes were ¥32 million.

**13.** Subordinated debt of ¥93,500 million was included in borrowed money.

**14.** Subordinated bonds of ¥206,684 million were included in corporate bonds.

**15.** 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" stand at ¥45,008 million.

**16.** Total monetary claims to subsidiaries and affiliates stand at ¥747,683 million.

**17.** Total monetary liabilities against subsidiaries and affiliates stand at ¥492,212 million.

**18.** According to the Article 18 of the Banking Act, there is a limitation on dividend payments from retained earnings.

When dividends are paid out from retained earnings , 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 retained earnings to be decreased by such dividend payments is accrued as additional paid-in capital or legal reserve.

The amount of legal reserve to be accrued in connection with such dividend payments from retained earnings in the current fiscal year was ¥530 million.

**19.** Retirement benefit obligations, etc, at the end of the current fiscal year were as follows:

| | | | |
|---|---|---|---|
| Projected benefit obligation | ¥ | (52,589) | million |
| Fair value of plan assets | | 46,341 | |
| Unfunded retirement benefit obligations | | (6,248) | |
| Unrecognized obligation at transition | | 1,816 | |
| Unrecognized net actuarial losses | | 7,815 | |
| Unrecognized prior service cost | | (1,694) | |
| Net amount accrued on the balance sheet | | 1,689 | |
| Prepaid pension cost | | 1,689 | |

(Statement of Income)

**1.** Earnings from transactions with subsidiaries and affiliates

Total interest income: ¥32,612 million

Total fees and commissions income: ¥2,839 million

Total earnings from other businesses and other ordinary transactions: ¥1,162 million

Total earnings from other transactions: ¥674 million

Expenses from transactions with subsidiaries and affiliates

Total interest expenses: ¥3,393 million

Total fees and commissions expenses: ¥2,336 million

Total expenses from other businesses and other ordinary transactions: ¥247 million

Total expenses from other transactions: ¥4,419 million

**2.** "Other extraordinary gains" are gains on unexercised and forfeited stock acquisition rights of ¥69 million.

**3.** "Impairment losses" are impairment losses as for the following asset group.

| Location | Usage | Asset group | Amount (Millions of yen) |
|---|---|---|---|
| Kanagawa and Osaka | Annex of Branch | Buildings and Other premises and equipment | ¥51 |
| Tokyo and Chiba | Assets for IT-related property | Buildings, Other premises and equipment and Software | 847 |
| Total | | | ¥898 |

The Bank determines the asset group based on the management segmentation.

As a result of consideration on the business environment, the Bank made a decision to close down some of the annex of branches for Individual Group (Retail Banking Sub-Group) and Global Markets Group (Treasury Sub-Group), and segregated them as idle assets. In addition, the unused IT-related properties have also been segregated as idle assets. Impairment losses for these assets were recognized assuming their recoverable amount to be zero.

In the above impairment loss amount, ¥266 million was for "Buildings," ¥16 million was for "Other premises and equipment" and ¥615 million was for "Software".

**4.** "Other extraordinary losses" comprises impairment loss on investments in affiliates and partnerships of ¥175 million.

**5.** Significant related party transactions to be disclosed were as follows:

(1) Parent company and major corporate share holders

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 | APLUS Co., Ltd. | Indirect holding 100% | Lending | Purchase of beneficial interests (Note 1) | 120,000 | – | – |
| | APLUS PERSONAL LOAN Co., Ltd. | Indirect holding 100% | Lending | Overdraft loan transaction (Note 2) | 70,366 | Loans and bills discounted | 96,800 |
| | | | | Execution of deed loan (Note 2) | 48,000 | | |
| | | | | Receipt of loan interests (Note 2) | 589 | Accrued income | 24 |
| | Zen-Nichi Shinpan Co., Ltd. | Indirect holding 97.3% | Lending | Overdraft loan transaction (Note 2) | 81,785 | Loans and bills discounted | 83,500 |
| | | | | Receipt of loan interests (Note 2) | 534 | Accrued income | 2 |
| | Shinsei Financial Co., Ltd. | Direct holding 100% | Lending | Overdraft loan transaction (Note 2) | 102,378 | Loans and bills discounted | 60,000 |
| | | | | Receipt of loan interests (Note 2) | 1,394 | Accrued income | 8 |
| | | | | Loan transaction to trust account (Note 3) | 251,156 | – | – |
| | | | | Receipt of dividend | 18,974 | – | – |
| | Showa Leasing Co., Ltd. | Direct holding 97.0% | Lending | Overdraft loan transaction (Note 2) | 4,363 | Loans and bills discounted | 80,000 |
| | | | | Execution of deed loan (Note 2) | 40,000 | | |
| | | | | Receipt of deed loan repayment (Note 2) | 40,000 | | |
| | | | | Receipt of loan interests (Note 2) | 532 | Accrued income | 125 |
| | Pearl White Two GK | Indirect holding [100%] (Note 4) | Lending | Sale of beneficial interests (Note 5) | 232,194 | – | – |
| | | | | Purchase of commercial paper (Note 5) | 232,391 | Loans and bills discounted (Note 6) | 8,907 |
| | | | | | | Accounts Receivable (Note 6) | 225,592 |

Note:

1. The Bank purchased beneficial interests backed by the monetary claims in APLUS Co., Ltd. The transaction price was determined at a reasonable level according to the market conditions.

2. The lending is for the purpose of business operation. Also, the interest rate is determined at a reasonable level considering the market conditions. Transaction amount of overdraft loan is the average balance during this current fiscal year.
3. This is an asset backed loan to the trust account to which Shinsei Financial Co., Ltd. entrusted its monetary claims. The entrusted assets are collateralized for the loan. Transaction amount is the total amount of the loans executed in the current fiscal year. The interest rate is determined at a reasonable level considering the market conditions. The transaction is an asset backed loan backed by the assets in trust account, not a loan to Shinsei Financial Co., Ltd., and therefore balance at fiscal year end and amount of loan interests received are not presented.
4. In "Ratio of voting rights held by the Bank" [100%] is the share owned by a close related party.
5. The Bank sold senior beneficial interests backed by the loans of the Bank to Pearl White Two GK. The Bank then purchased all of the commercial paper of ¥234,500 million (face amount basis) issued by Pearl White Two GK, which is backed by the beneficial interests transferred by the Bank. The transaction price was determined at a reasonable level according to the market conditions.
6. The B/S account is presented by the original assets of the Bank.

### (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 counter party | 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) | – | Providing service Concurrent post | Receipt of management fee (Note 2) | 76 | Unearned income | 12 |
| | | | | Investment (Note 3) | 84 | – | – |
| | | | | Dividend | 407 | – | – |
| | J.C.Flowers III L.P. (Note 1) | – | Concurrent post | Investment (Note 4) | 668 | – | – |
| | | | | Dividend | 66 | – | – |

Note:

1. The fund is operated by J.C. Flowers & Co. LLC of which J. Christopher Flowers, director of the Bank, serves as chairman.
2. The management fee for assisting J.C. Flowers & Co. LLC in its sponsoring and serving as an investment advisor is determined based on proportion of the investment amounts by limited partners.
3. The committed investment amounts are U.S.$200 million based on the limited partnership agreement.
4. The committed investment amounts are U.S.$34,975 thousand based on the limited partnership agreement.

（Statement of Changes in Equity）

**1.** Type and number of treasury stock were as follows:

(Unit: thousand shares)

| | Number of shares as of March 31, 2011 | Number of shares increased | Number of shares decreased | Number of shares as of March 31, 2012 | Note |
|---|---|---|---|---|---|
| Treasury stock: | | | | | |
| Common stock | 96,427 | — | — | 96,427 | |
| Total | 96,427 | — | — | 96,427 | |

**2.** Information on dividends

The Bank’s dividends were as follows:

(1) Dividend paid during the current fiscal year

| Resolution | Type of shares | Total amount of dividend | Dividend per share | Record date | Effective Date |
|---|---|---|---|---|---|
| The Board of Director meeting on May 12, 2011 | Common stock | ¥2,653 million | ¥1.00 | March 31, 2011 | June 2, 2011 |

(2) 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 Director meeting on May 8, 2012 | Common stock | ¥2,653 million | Retained earnings | ¥1.00 | March 31, 2012 | May 31, 2012 |

（Securities）

In addition to “Securities” in the balance sheet, the figures in the following tables include “Securities held to hedge trading transactions” recorded in “Trading assets” and beneficiary interests included in “Other monetary claims purchased” that are accounted for same as securities.

**1.** Trading securities (as of March 31, 2012）

(Millions of yen)

| | Unrealized gain (loss) |
|---|---|
| Trading securities | ¥(1,871) |
| Other monetary claims purchased for trading purposes | 75 |

**2.** Securities being held to maturity (as of March 31, 2012）

(Millions of yen)

| | Type | Carrying amount | Fair value | Unrealized gain (loss) |
|---|---|---|---|---|
| Fair value exceeds carrying amount | Japanese national government bonds | ¥585,601 | ¥590,903 | ¥5,302 |
| | Japanese corporate bonds | 22,834 | 23,094 | 259 |
| | Other | 40,283 | 44,290 | 4,006 |
| | Subtotal | 648,719 | 658,287 | 9,568 |
| Fair value does not exceed carrying amount | Japanese national government bonds | — | — | — |
| | Japanese corporate bonds | — | — | — |
| | Other | 9,839 | 9,265 | (574) |
| | Subtotal | 9,839 | 9,265 | (574) |
| Total | | ¥658,558 | ¥667,553 | ¥8,994 |

**3.** Equity securities of subsidiaries and affiliates (as of March 31, 2012）

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 | ¥440,987 |
| Equity securities of affiliates | 2,457 |
| Total | ¥443,444 |

**4.** Available-for-sale securities (as of March 31, 2012)

(Millions of yen)

| | Type | Carrying amount (Fair value) | Amortized/ Acquisition cost | Unrealized gain (loss) |
|---|---|---|---|---|
| Carrying amount exceeds amortized/acquisition cost | Equity securities | ¥13,439 | ¥8,748 | ¥4,690 |
| | Domestic bonds: | 681,801 | 679,402 | 2,398 |
| | Japanese national government bonds | 619,547 | 617,573 | 1,973 |
| | Japanese local government bonds | 1,785 | 1,738 | 46 |
| | Japanese corporate bonds | 60,468 | 60,090 | 378 |
| | Other | 66,470 | 62,065 | 4,405 |
| | Subtotal | 761,710 | 750,215 | 11,494 |
| Carrying amount does not exceed amortized/acquisition cost | Equity securities | 1,207 | 1,512 | (305) |
| | Domestic bonds: | 250,446 | 254,449 | (4,003) |
| | Japanese national government bonds | 79,979 | 80,748 | (769) |
| | Japanese local government bonds | — | — | — |
| | Japanese corporate bonds | 170,467 | 173,701 | (3,234) |
| | Other | 92,948 | 95,990 | (3,042) |
| | Subtotal | 344,602 | 351,953 | (7,350) |
| Total | | ¥1,106,313 | ¥1,102,169 | ¥4,143 |

(Note1) Available-for-sale securities whose fair value cannot be reliably determined

(Millions of yen)

| | Carrying amount |
|---|---|
| Equity securities | ¥5,881 |
| Other | 82,856 |
| Total | ¥88,738 |

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

(Note2) “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 | ¥4,143 |
| Interests in available-for-sale securities held by partnerships recorded as securities whose fair value cannot be reliably determined | 11 |
| Securities being held to maturity, reclassified from available-for-sale in the past, under extremely illiquid market conditions | (5,186) |
| Unrealized gain (loss) on available-for-sale securities | ¥(1,031) |

**5.** No held-to-maturity securities were sold during the current fiscal year.

**6.** Available-for-sale securities sold during the current fiscal year (from April 1, 2011 to March 31, 2012)

(Millions of yen)

| | Proceeds from sales | Gains on sales | Losses on sales |
|---|---|---|---|
| Equity securities | ¥1,569 | ¥1,219 | ¥0 |
| Domestic bonds: | 1,121,732 | 2,021 | 412 |
| Japanese national government bonds | 1,043,509 | 1,887 | 81 |
| Japanese local government bonds | 27,176 | 20 | 18 |
| Japanese corporate bonds | 51,047 | 114 | 312 |
| Other | 109,256 | 7,662 | 215 |
| Total | ¥1,232,559 | ¥10,903 | ¥628 |

**7.** Securities for which impairment losses are recognized

Individual securities, other than trading securities, are written down when a decline in fair value below the cost of such securities is deemed to be other than temporary. The amount written down is accounted for as an impairment loss. Impairment losses on securities other than trading purposes carried at fair value for the fiscal year ended March 31, 2012 was ¥11,027 million, which consisted of ¥3,973 million for equity securities, ¥3,351 million for Japanese corporate bonds and ¥3,702 million for other securities.

To determine whether an other-than-temporary impairment has occurred, the Bank applies the following rule, by the obligor classification of the security issuer based on the Bank’s self-assessment guidelines:

| | |
|---|---|
| Securities issued by “legally bankrupt,” “virtually bankrupt,” and “possibly bankrupt” obligors | The fair value of securities is lower than the amortized/acquisition cost |

| | |
|---|---|
| Securities issued by "need caution" obligors | The fair value of securities is 30% or more lower than the amortized/acquisition cost |
| Securities issued by "normal" obligors | The fair value of securities is 50% or more lower than the amortized/acquisition cost |

"Legally bankrupt" obligors are those who have already gone bankrupt from a legal and/or formal perspective.

"Virtually bankrupt" obligors are those who have not yet gone legally or formally bankrupt but who are substantially bankrupt because they are in serious financial difficulties and are not deemed to be capable of restructuring.

"Possibly bankrupt" obligors are those who are not yet bankrupt but are in financial difficulties and are very likely to go bankrupt in the future.

"Need caution" obligors are those who require close attention because there are problems with their borrowings.

"Normal" obligors are those whose business conditions are favorable and who are deemed not to have any particular problems in terms of their financial position.

（Monetary assets held in trust）

**1.** Monetary assets held in trust for trading purposes (as of March 31, 2012)

(Millions of yen)

| | Carrying amount (Fair value) | Unrealized gain (loss) |
|---|---|---|
| Monetary assets held in trust for trading purposes | ¥211,022 | ¥(30,921) |

**2.** There are no monetary assets held in trust held to maturity (as of March 31, 2012)

**3.** Monetary assets held in trust (other than trading purposes and held to maturity) (as of March 31, 2012)

(Millions of yen)

| | Carrying amount | Acquisition cost | Unrealized gain (loss) | Gross unrealized gain | Gross unrealized loss |
|---|---|---|---|---|---|
| Other monetary assets held in trust | ¥96,504 | ¥96,504 | — | — | — |

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

（Deferred tax）

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

| | (Millions of yen) |
|---|---|
| Deferred tax assets | |
| Reserve for credit losses | ¥70,219 |
| Securities | 50,668 |
| Tax loss carryforwards | 47,418 |
| Monetary assets held in trust | 11,008 |
| Unearned dividends on monetary assets held in trust | 5,531 |
| Deferred loss on derivatives under hedge accounting | 5,299 |
| Net unrealized loss on available-for-sale securities | 1,953 |
| Other | 22,935 |
| Sub-total | ¥215,036 |
| Valuation allowance | (¥208,733) |
| Total deferred tax assets | ¥6,302 |
| Deferred tax liabilities | |
| Deferred gain on derivatives under hedge accounting | ¥5,729 |
| Asset retirement costs included in premises and equipment | 1,213 |
| Other | 625 |
| Total deferred tax liabilities | ¥7,568 |
| Net deferred tax liabilities | ¥1,265 |

“Act for Partial Revision to the Income Tax Act, etc. in order to Build a Tax Framework in Response to Changes in the Structure of the Economic Society” (Law No. 114 for 2011) and “Act on Special Measures for Securing Financial Resources Required to Implement Actions for Recovery from the Great East Japan Earthquake” (Law No. 117 for 2011) were promulgated in December 2, 2011. From the fiscal year beginning on or after April 1, 2012, the corporate tax rate will be reduced and the reconstruction special corporate tax will be imposed. In connection with this change, the effective statutory tax rate for calculating deferred tax assets and deferred tax liabilities will be changed from the existing 40.7% to 38.0% for temporary differences and tax loss carryforwards that are expected to be realized between the fiscal year beginning on April 1, 2012 and the fiscal year beginning on April 1, 2014; and to 35.6％ for temporary differences and tax loss carryforwards that are expected to be realized in and after the fiscal year beginning on April 1, 2015. With these tax rate changes, deferred tax liabilities have decreased by ¥489 million and the income taxes-deferred have increased by ¥240 million.

From the fiscal year beginning on or after April 1, 2012, the use of tax loss carryforwards will be limited to the equivalent of 80% of taxable income before deducting tax loss carryforwards. Due to this limitation, deferred tax liabilities have increased by ¥200 million while income taxes-deferred have increased by ¥200 million.

(Per share information)

Common shareholders' equity per share was ¥242.21.

Net income per common share was ¥5.23.

Diluted net income per common share is not applicable because there is no effect from dilutive securities.

(Business combinations)

Business combinations involving entities or operations of entities under common control

As of September 30, 2011, the Bank entered into a business transfer agreement with Shinsei Financial Co., Ltd., a consolidated subsidiary of the Bank, on the basis of the letter of intent dated June 22, 2011, and acquired a portion of the business operated by Shinsei Financial Co., Ltd. as of October 1, 2011.

**1.** Outline of the transactions

(a) Name and content of the business to be transferred

Name of business: Unsecured personal loan business

Content of business: A portion of the unsecured personal loan business operated by Shinsei Financial Co., Ltd., excluding assets and liabilities (including obligation of excess interest repayments) relating to lending contracts made by Shinsei Financial Co., Ltd. as a money-lender or counterparty status for such contracts.

(b) Date of business combination

October 1, 2011

(c) Legal form of business combination

Transferring business in Shinsei Financial Co., Ltd., transferor company, to the Bank, transferee company

(d) Company name after the business combination

Shinsei Bank, Limited

(e) Overview and purpose of the transaction

Through the business transfer, the Bank acquired the Lake brand, the entire network of unmanned branches, ATMs, ACMs (automated contract machines), and a portion of other infrastructural assets relating to the unsecured personal loan business, excluding assets and liabilities (including obligation of excess interest repayments) relating to lending contracts made by Shinsei Financial Co., Ltd. as a money-lender or counterparty status for such contracts.

The Bank aims to improve its earnings power as well as to contribute to the development of a sound and healthy unsecured personal loan market, as one of the leading companies in the sector, by providing the service at the Bank (“Shinsei Bank Card Loan - Lake” brand), leveraging the Lake brand which has already achieved a certain level of recognition in the market.

**2.** Outline of accounting treatment

In accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No.21, December 26, 2008) and the “Guidance on Accounting Standard for Business Combinations and Business Divestitures” (ASBJ Guidance No.10, December 26, 2008), the Bank accounted for the transaction as business combinations involving entities or operations of entities under common control.

(TRANSLATION)

**INDEPENDENT AUDITOR'S REPORT**

May 2, 2012

To the Board of Directors of
Shinsei Bank, Limited:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:

Seno Tezuka

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:

Masahiro Ishizuka

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:

Shigehiko Matsumoto

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the financial statements, namely, the balance sheet as of March 31, 2012 of Shinsei Bank, Limited (the “Bank”), and the related statements of income and changes in equity for the 12th fiscal year from April 1, 2011 to March 31, 2012, and the significant accounting policies and other explanatory information, and the accompanying supplemental schedules.

**Management’s Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements and the accompanying supplemental schedules in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on these financial statements and the accompanying supplemental schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the accompanying supplemental schedules are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the accompanying supplemental schedules. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements and the accompanying supplemental schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements and the accompanying supplemental schedules in order to

design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the accompanying supplemental schedules.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Audit Opinion**

In our opinion, the financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of the Bank as of March 31, 2012, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in Japan.

**Interest**

Our firm and the engagement partners do not have any interest in the Bank for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

***********

*(Translation)*

*This translation is made for convenience only. The original report was issued in Japanese.*

**REPORT OF THE BOARD OF STATUTORY AUDITORS**

The Board of Statutory Auditors of Shinsei Bank, Limited (hereinafter, the "Bank") prepared this report, upon deliberation based on audit reports prepared by each Statutory Auditor, in relation to the execution of duties by the Bank's Directors during the 12th fiscal year (from April 1, 2011 to March 31, 2012).

1. Process and Details of Audits by Statutory Auditors and the Board of Statutory Auditors

   The Board of Statutory Auditors determined the audit policy, audit plan and assignment of audit duties, etc. and received reports from each Statutory Auditor on the status and results of audits. Moreover, we received reports from Directors and the Accounting Auditor, etc. on the execution of their duties and requested explanations, as needed.

   In accordance with the audit policy, audit plan and assignment of audit duties, etc. determined by the Board of Statutory Auditors, each Statutory Auditor made efforts to communicate with the employees of the internal audit section, etc., collect information and improve the audit environment. At the same time, we investigated the status of the Bank's business activities and assets by attending important meetings, including the Board of Directors meetings, receiving reports and requesting explanations, as needed, from Directors and employees, etc. on the execution of their duties, referring to important approval documents, etc. In addition, with regard to the Board of Directors resolutions on the establishment of frameworks to ensure that the execution of duties by Directors mentioned in the business report complies with laws, ordinances and the Bank's Articles of Incorporation as well as other frameworks that are necessary to ensure appropriate business activities by corporations as stipulated in Article 100, Paragraphs 1 and 3 of the Ordinance for Enforcement of the Corporation Act, and frameworks (internal control system) based on such resolutions, we received reports from Directors and employees, etc., on a regular basis, on the status of establishing and administering such frameworks and requested explanations and expressed opinions, as needed.

   In relation to internal controls over financial reporting, we were provided reports on internal control assessments and audit status from Directors, etc. and from the Auditor – Deloitte Touche Tohmatsu LLC – and requested explanations, as needed.

   With respect to the Bank's subsidiaries, we communicated and exchanged information with their Directors, Statutory Auditors and so forth and received reports on their business, as needed. Based on the above process, we examined the Bank's business report and schedules attached thereto for the relevant fiscal year.

   In addition, we monitored and examined whether the Bank's Accounting Auditor was maintaining its independence and conducting appropriate audits; received its reports on the status of the execution of its duties; and requested explanations, as needed. Moreover, we received from the Accounting Auditor a notice stating that the "System for Ensuring the

Appropriate Execution of Duties" (matter listed in each item of Article 131 of the Corporate Calculation Rules) is in operation in line with the "Audit Quality Control Standards" (released on October 28, 2005 by the Business Accounting Council), etc. and requested explanations, as needed. Based on the above process, we examined the Bank's financial statements (balance sheet, income statement, statements of changes in equity, notes), schedules attached thereto, and consolidated financial statements (consolidated balance sheet, consolidated income statement, consolidated statements of changes in equity, consolidated notes) for the relevant fiscal year.

2. Results of the Audit

(1) Results of the audit of the business report, etc.

A. We acknowledge that the business report and its attached schedules fairly present the state of the Bank in accordance with laws, ordinances and its Articles of Incorporation.

B. We acknowledge that nothing came to our attention which falls within the definition of misconduct or a material violation of laws, ordinances or the Bank's Articles of Incorporation with respect to the execution of duties by Directors.

C. We acknowledge that the contents of the Board of Directors resolutions concerning the system of internal controls were reasonable. In addition, we acknowledge that nothing came to our attention which should be pointed out concerning the contents of the business report and the execution of duties by Directors in relation to the said internal control system, including internal controls over financial reporting.

(2) Results of the audit of financial statements and attached schedules

We acknowledge that the process and results of the audit by the Bank's Accounting Auditor, Deloitte Touche Tohmatsu LLC, are appropriate.

(3) Results of the audit of consolidated financial statements

We acknowledge that the process and results of the audit by the Bank's Accounting Auditor, Deloitte Touche Tohmatsu LLC, are appropriate.

May 7, 2012

The Board of Statutory Auditors of Shinsei Bank, Limited
Satoshi Suzuki, Standing Statutory Auditor (Seal)
Kozue Shiga, Statutory Auditor (Seal)
Tatsuya Tamura, Statutory Auditor (Seal)

Note: Statutory Auditors Kozue Shiga and Tatsuya Tamura are outside Statutory Auditors as stipulated in Article 2, Item 16 and Article 335, Paragraph 3 of the Corporation Act.