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[TRANSLATION]

# The items provided through the Internet pursuant to the laws and the Company’s Articles of Incorporation for the Notice of the Annual General Meeting of Shareholders for the 22nd Term

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

(from April 1, 2021 to March 31, 2022)

The above items are provided through the Bank’s website (https://www.shinseibank.com) pursuant to the laws and Article 13 of the Company’s Articles of Incorporation for the Notice of the Annual General Meeting of Shareholders for the 22nd Term.

**Shinsei Bank, Limited**

## Stock Acquisition Rights of the Bank

**(1) Stock acquisition rights of the Bank owned by the Directors, Outside Directors, and Audit & Supervisory Board Members of the Bank as of the end of the fiscal year ended March 31, 2022.**
Not applicable.

**(2) Stock Acquisition Rights of the Bank issued to employees, etc. during the fiscal year ended March 31, 2022.**
Not applicable.

(Translation)

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

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

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

(*) Former position of Chief Officers and Senior Officers in the Group Headquarter has been consolidated to Executive Officers since April 1, 2022. The following statements regarding resolutions reflect such organizational changes

**(1) Framework of the organization**

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

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

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

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

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

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

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

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

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

The Group Risk Governance Policy sets forth the basic rationale for risk governance and the basic policy for its systems by capturing risk culture, appropriate business execution based on risk appetite, and risk management as basic components of risk governance.

The Group Risk Management Policy focuses mainly on the components of risk management and sets forth the basic policy for managing risks in a proactive manner by understanding the total quantity of risks assumed by the Bank and the Shinsei Bank Group. This system is put into operation by combining a “macro approach” (allocation and assessment of capital/resources by the management body) and a “standardized business management framework” (gradually diversified approval process for risk-taking). As the specific “business management framework”, the Policy provides for:

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

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

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

We have adopted the Executive Officer system in order to ensure timely and efficient execution of daily business. Specifically, "Divisions" are designated as the most basic business unit in the bank, and under the direction of the President and Executive Officers who are delegated authorities by the Board of Directors undertake operations for which they are responsible, centering on Heads of Executive Officers and other Executive Officers , in accordance with the "Regulations of Business Execution."

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**(13) Others**

We declare in the “Charter of Shinsei Bank Group Corporate Behavior” resolved by the Board of Directors that we will take a firm and resolute stand against antisocial forces which threaten the order and security of our society, and that we will consistently prevent illegal interference by such antisocial forces and completely exclude and eliminate any relationships with antisocial forces. We will also make efforts for preventing money laundering and terrorism financing taking note of the possibility of the use of the funds transacted through financial institutions for crimes and terrorist activities.

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

## Notes to the consolidated financial statements

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

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

### 1. Basis for presentation of consolidated financial statements

**(1) Scope of consolidation**

(a) Consolidated subsidiaries: 81 companies

Major companies:

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

In the current fiscal year, Shinsei Venture Partners II LLP and 5 other companies were newly consolidated due to their formation.

FreakOut Shinsei Fund I Limited Partnership and 3 other companies were excluded from the scope of consolidation and transferred to affiliates to which the equity method is applied due to their decreased investment proportion, etc, FMC 2 Co., Ltd. and 2 other companies were excluded from the scope of consolidation due to liquidation, OJBC Co. Ltd and 1 other company were excluded from the scope of consolidation due to the sale of their shares, APLUS FINANCIAL Co., Ltd. and 1 other company were excluded from the scope of consolidation due to the merger with APLUS Co., Ltd., APLUS PERSONAL LOAN Co., Ltd. was excluded from the scope of consolidation due to the merger with Aplus Investment Co., Ltd., and SL ALPS LTD. was excluded from the scope of consolidation due to its decreased materiality.

(b) Unconsolidated subsidiaries: 54 companies

Major Company:

SL PACIFIC LTD.

SL PACIFIC LTD. and 27 other unconsolidated subsidiaries are operating companies that undertake leasing businesses based on the Tokumei Kumiai system (anonymous partnerships). Tokumei Kumiai's assets, profits and losses virtually belong to each anonymous partner but not to the operating companies, and Shinsei Bank, Limited (the "Bank") and its consolidated subsidiaries (collectively, the "Group") do not have any material transactions with these subsidiaries. Therefore, these subsidiaries were excluded from the scope of consolidation pursuant to Article 63, Paragraph 1, Item 2 of the Regulation on Corporate Accounting.

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

(c) Companies not accounted for as subsidiaries even though the Group owns over 50% of their voting rights: 4 companies

Name of the companies:

Techno craft corporation
SAKAE.DEVELOPMENT Co., Ltd.
COMODO SOLUTIONS CO., LTD.
Gardens. Inc

The objective for the Group to own the voting rights is merely to seek capital gain opportunities. Companies which meet the conditions of Paragraph 16 of “Guidance on Determining a Subsidiary and an Affiliate” (ASBJ guidance No.22) were not accounted for as consolidated subsidiaries.

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

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

(b) Affiliates accounted for by the equity method: 43 companies

Major Companies:

Nissen Credit Service Co., Ltd.

MB Shinsei Finance Limited Liability Company

In the current fiscal year, Shinsei Shikigaku Partners Co., Ltd and 4 other companies were newly included in the scope of application of the equity method due to their formation and FreakOut Shinsei Fund I Limited Partnership and 3 other companies were newly included in the scope of application because they were changed from consolidated subsidiaries to affiliates due to their decreased investment proportion, etc.

SR Corporate Support 1st Investment Limited Partnership and 4 other companies were excluded from the scope of application of the equity method due to liquidation.

(c) Unconsolidated subsidiaries accounted for not applying the equity method: 54 companies

Major Company:

SL PACIFIC LTD.

SL PACIFIC LTD. and 27 other unconsolidated subsidiaries are operating companies that undertake leasing businesses based on the Tokumei Kumiai system (anonymous partnership). Tokumei Kumiai’s assets, profits and losses virtually belong to each anonymous partner but not to the operating companies, and the Group does not have any material transactions with these subsidiaries. Therefore, these subsidiaries were excluded from the scope of application of the equity method pursuant to Article 69, Paragraph 1, Item 2 of the Ordinance of Company Accounting.

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

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

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

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

| | |
|---|---|
| March 31: | 52 companies |
| June 24: | 1 company |
| September 30: | 2 companies |
| December 16: | 1 company |
| December 31: | 24 companies |
| January 31: | 1 company |

(b) Except for 4 subsidiaries which are consolidated using their provisional financial statements as of March 31 and 3 subsidiaries which are consolidated using their provisional financial statements as of February 28, those consolidated subsidiaries whose fiscal years end at dates other than March 31 are consolidated using their fiscal year-ends financial statements with appropriate adjustments made for material transactions that occurred during the period from the ending dates of their fiscal years to March 31.

All yen amounts are rounded down to millions of yen.

**2. Accounting policies**

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

Trading account positions including derivatives embedded in compound financial instruments, which are managed and accounted for separately from the financial assets and liabilities that are their host, entered into to generate gains arising from short-term changes in interest rates, currency exchange rates or market prices of financial instruments and other market-related indices, or from price differences among markets, are included in "Trading assets" and "Trading liabilities" on a trade-date basis. The income and losses resulting from trading activities are included in "Trading income" and "Trading losses".

Trading securities and monetary claims purchased for trading purposes are stated at market value at the consolidated balance sheet date and derivative financial instruments related to trading positions are stated at fair value based on estimated amounts that would be settled in cash if such positions were terminated at the consolidated balance sheet date.

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

For derivatives, the fair value is based on net assets or liabilities after offsetting financial assets and financial liabilities with respect to specific market risk or specific credit risk. The fair value is calculated for each group of financial assets and financial liabilities.

(2) Measurement of securities

(a) Securities for trading purposes (except for those included in trading accounts) are carried at fair value (cost of securities sold is determined by the moving-average method). Securities being held to maturity are carried at amortized cost (using the straight-line method) determined by the moving-average method. Investments in unconsolidated subsidiaries and affiliates are carried at cost determined by the moving-average method. Available-for-sale securities are carried at fair value (cost of securities sold is determined by the moving-average method) except for nonmarketable equity securities and others, which are carried at cost determined by the moving-average method. Investments in partnerships and others are carried at the amount of the Group's share of net asset value based on their most recent financial statements.

Unrealized gain (loss) on available-for-sale securities is directly recorded in a separate component of equity, after deducting the amount charged to profit or loss by applying fair value hedge accounting. Foreign currency-denominated available-for-sale securities (bonds) are translated into Japanese yen at the exchange rates as of the consolidated balance sheet date, and of the translation amount, the translation difference arising from changes in fair values in foreign currencies is treated as unrealized gain or loss on available-for-sale securities and the other translation difference is treated as profit or loss.

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

(3) Measurement of derivatives

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

Based on net assets or liabilities after offsetting financial assets and financial liabilities with respect to specific market risk or specific credit risk, the fair value of each group of the financial assets or financial liabilities is calculated.

(4) Measurement of other monetary claims purchased

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

(5) Depreciation

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

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

| | |
|---|---|
| Buildings: | 3 – 50 years |
| Others: | 4 – 20 years |

In addition, depreciation of tangible leased assets as lessor for operating lease transactions is computed using the straight-line method over the leasing period assuming that residual values are the estimated disposal value at the end of the estimated leasing period.

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

Intangible assets acquired in business combinations have been recognized by applying the full market value method when the Group obtained control over the subsidiaries. The trade names and trademarks are amortized by the straight-line method, the customer relationship is amortized by either sum-of-the-years digits method or the straight-line method, and the sublease contracts are amortized by the straight-line method. Their amortization periods are as follows:

| | |
|---|---|
| Trade names and trademarks: | 20 years |
| Customer relationship: | 8 – 20 years |

Sublease contracts: Subject to the remaining contract years

In addition, goodwill and negative goodwill, which were recorded prior to March 31, 2010, are amortized using the straight-line method over 10 to 20 years. The total amount is written off in the fiscal year during which they occurred when the amount is not material.

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

(c) Leased assets (as lessee)

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

(6) Deferred charges

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

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

(7) Reserve for credit losses

The reserve for credit losses of the Bank has been established according to the obligor categorization described below based on the predetermined internal rules for establishing the reserve.

Legally bankrupt obligors: Obligors who have legally or formally declared bankruptcy, special liquidation

Virtually bankrupt obligors: Obligors who are in a situation substantially equivalent to that of the "Legally bankrupt obligors"

Possibly bankrupt obligors: Obligors who are not currently in a state of bankruptcy but are deemed likely to go bankrupt in the future

Substandard obligors: Obligors whose debts, all or in part, are Substandard Claims (Restructured Loans and Loans in Arrears for three months or longer)

Need caution obligors: Obligors requiring attention for credit control due to problems with loan terms and repayment performance, poor business conditions, instability, or financial problems

Normal obligors: Obligors whose business conditions are favorable and whose financial conditions are deemed to have no particular problems

For claims to legally bankrupt obligors and 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 possibly bankrupt obligors, except claims to obligors with large claims described below, a specific reserve is provided by forecasting a loss amount expected from the net amount for the next three years, which is the amount deducting amounts expected to be collectible through the disposal of collateral and execution of guarantees from the claim amount.

With regard to claims to possibly bankrupt obligors, substandard obligors and certain obligors 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 (Hereinafter referred to as "future cash flows") for debt service are reasonably estimable and the balance of claims to such obligors are at or larger than the predetermined amount, the reserve for credit losses is determined as the difference between (i) relevant estimated future cash flows discounted by the original contractual interest rate and (ii) the book value of the claim (discounted cash flow method). In cases where it is difficult to reasonably estimate future cash flows, the reserve is provided based on the expected loss amount for the remaining term of respective claims.

For other claims (claims to normal, need caution and substandard obligors), the reserve for credit losses is recorded by estimating an expected loss amount of loans and claims. The expected loss amount is calculated based on the characteristics of the portfolio. The portfolio is divided into loans for general non-financial corporations, real estate non-recourse loans, project finance and loans for individual customers. For loans to general non-financial corporations, real estate non-recourse loans and loans for individual customers, loss rate is calculated based mainly on the actual credit loss for the average remaining term to maturity of each obligor category or the actual credit loss for the average remaining term to maturity. For project finance, loss rate is calculated based on the actual credit loss on the basis of actual default for the average remaining term to maturity of each obligor category or the average rate of the probability of default over a certain period in the past. The reserve is provided by making necessary adjustments to the expected loss amount.

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

All claims are assessed by sales promotion divisions and credit analysis divisions based on the predetermined internal rules for the self-assessment of asset quality. The risk management divisions, which are independent of sales promotion divisions and credit analysis divisions, conduct verifications of these assessments, and additional reserves may be provided based on the verification results.

The consolidated subsidiaries calculate the general reserve for general claims based on historical actual rate of credit losses, and the specific reserve for claims to possibly bankrupt obligors, virtually bankrupt obligors and legally bankrupt obligors based on estimated losses, considering the recoverable value.

For collateralized or guaranteed claims of the Bank and certain consolidated subsidiaries to legally bankrupt obligors or virtually bankrupt obligors, the amount of claims exceeding the estimated value of collateral or guarantees, which is deemed uncollectible, has been charged off in principle and totaled ¥53,356 million.

(8) Accrued employees' bonuses

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

(9) Accrued directors' bonuses

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

(10) Reserve for directors' retirement benefits

The reserve for directors' retirement benefits is provided for the payment of directors' retirement benefits for a certain consolidated subsidiary based on the amount that would be required if all directors retired on its balance sheet date.

(11) Reserve for reimbursement of deposits

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

(12) Reserve for reimbursement of debentures

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

(13) Reserve for losses on interest repayments

The reserve for losses on interest repayments is provided by a moneylender who had operated at a loan rate exceeding the upper limit of the Interest Rate Restriction Act and below the upper limit of the so-called Contributions Act (Hereinafter referred to as "gray-zone rate") for estimated losses on refund of excess interest receipts arising from a claim for repayment of interest paid by a debtor ("customer") in excess of the maximum interest rate prescribed by the Interest Rate Restriction Act. A claim for refund interest is approved based on a decision of the Supreme Court in 2006 that unless there are special circumstances, the excess interest cannot be deemed to have been voluntarily paid if the contract concerning the loan includes a special provision to the effect that the obligor loses the benefit of time if he/she delays the payment of the agreed interest including excess interest. In general, if the customer claims for refund, the lender shall refund the excess portion (Hereinafter referred to as "excess interest") if the amount exceeds the amount calculated based on the maximum interest rate provided in the Interest Rate Restriction Act.

In the Group, since the fiscal year 2007, consolidated subsidiaries Shinsei Financial, Shinsei Personal Loan, APLUS, and Aplus Investment have applied the reduced maximum interest rate to new loans to new customers and certain existing customers. Also, with the full enforcement of the amended Money Lending Business Act in June 2010 all new loans are made at interest rate within the maximum interest rate regulated by the Interest Rate Restriction Act. However, since the Group had made loans at gray-zone interest in the past, the amount of overpaid interest that would arise in the future as a result of the customer's claims for repayment is estimated and recorded as reserve for losses on interest repayments.

In calculating the reserve for losses on interest repayments, Shinsei Financial and Shinsei Personal Loan estimate the amount that is expected to be repaid in the future by multiplying the amount per account expected to be reclaimed by the population (number of accounts) subject to repayment of overpaid interest on loans by the intervention of a lawyer's office or judicial scrivener's office (intervention rate), or subject to settlement with the obligor (settlement rate) until the population (number of accounts) falls below a certain number. In addition, APLUS and Aplus Investment estimates the number of refund requests during a certain period in the future from changes in the number of refund requests in the past and estimates the amount expected to be refunded in the future by multiplying it by the estimated amount of refund requests per account.

The Group calculates reserve for losses on interest repayments based on a reasonable estimate of the amount of interest repayment in the future. The assumptions in these calculations include the analysis of the occurrence of past interest repayment amounts, an estimate of the extent to which the number of accounts will decrease due to the expiration of the statute of limitations, and an estimate of how the past intervention rate, settlement rate, number of claims for repayment, amount of claims for repayment per account or customer will change in the future.

(14) Accounting for employees' retirement benefits

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

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

Actuarial gain (loss): Amortized using the straight-line method over the average remaining service period (9.68-12.00 years) primarily from the fiscal year of occurrence.

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

(15) 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 (installments 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. Merchant fees and annual membership fees which are revenues from installment credit of the card business, are recognized in accordance with the standards described in “(d) Revenue recognition from contracts with customers.”
2. 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 months installment payments.
3. In “Credit-balance method,” the commission amount regarded as revenue at the time of each installment payment is calculated by multiplying the respective outstanding principal by a contracted commission ratio.

(b) Revenue and expense recognition for leasing business

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

With regard to finance lease transactions entered into prior to April 1, 2008, that are not deemed to transfer ownership of the leased property to the lessee, leased investment assets are recognized at the amount of book values of those leased properties as of March 31, 2008 in accordance with the transitional treatment in the “Accounting Standard for Lease Transactions” (Accounting Standards Board of Japan (“ASBJ”) Statement No.13) that was effective from April 1, 2008. As a result, income before income taxes for this interim period the current fiscal year has increased by ¥34 million, as compared to what would have been reported if the revised accounting standard was applied retroactively to all finance lease transactions as lessor.

(c) Revenue recognition for interest on consumer lending business

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

(d) Revenue recognition from contracts with customers

The Group recognizes revenue from contracts with customers based on the following five steps.

Step 1: Identify the contracts with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Revenues from contracts with customers are mainly from (ⅰ) sales of mutual funds and insurances in Retail Banking segment, (ⅱ) the collection agent service fees in the payment business and merchant fees in the credit card business in APLUS segment, and (ⅲ) sales of used construction machines, etc. in Showa Leasing segment.

The Group recognizes these revenues when the performance obligation is satisfied at the time of transfer of these goods or services.

Also, regarding annual membership fees from the credit card business, revenues are recognized over the contract period of services as each entity in the Group satisfies the performance obligation over time.

In addition, these revenues do not contain elements of material variable estimates or significant financing components.

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

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

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

(17) Hedge accounting

(a) Hedge of interest rate risks

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

The Bank adopted portfolio hedging to determine the effectiveness of hedging instruments in accordance with "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in the Banking Industry" (Industry Committee Practical Guidelines No. 24 March 17, 2022, 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.

Certain foreign subsidiaries which adopt International Financial Reporting Standards("IFRS"), apply cash flow hedges. Of changes in fair value of hedging instruments, the effective portion of the hedge is recognized as "Deferred gain(loss) on derivatives under hedge accounting" of other comprehensive income and the ineffective portion of the hedge is recognized as net profit or loss.

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

(b) Hedge of foreign exchange fluctuation risks

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

Under deferral hedge accounting, which is in accordance with "Accounting and Auditing Treatment of Accounting Standards for Foreign Exchange Transactions in the Banking Industry" (Industry Committee Practical Guidelines No. 25 October 8, 2020 by JICPA,), hedged items are identified by grouping the foreign currency-denominated financial assets and liabilities by currency and designating derivative transactions such as currency swap transactions, funding swap transactions and forward exchange contracts as hedging instruments. Hedge effectiveness is reviewed by comparing the total foreign currency position of the hedged items and hedging instruments by currency.

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

(c) Intercompany and intracompany derivative transactions

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

(d) Hedging relationships which apply “Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR”

The Group applies the exceptional treatment stipulated in the “Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR” (ASBJ Practical Solutions No 40, March 17, 2022) to all eligible hedging relationships. The details of the hedging relationships which apply the Practical Solutions are as follows.

Hedging methods: the deferral hedge, the exceptional method for interest rate swaps which meet specific matching criteria

Hedging instruments: interest rate swaps, currency swaps

Hedged items: financial assets and liabilities, financial assets and liabilities denominated in foreign currencies, etc

Types of hedge transactions: those that offset market fluctuation risks, those that fix the cash flows

(18) Consolidated corporate tax system

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

(19) Application of tax effect accounting for the transition from the consolidated tax system to the group tax sharing system

The Group will shift from the consolidated taxation system to the group tax sharing system from the next fiscal year. However, the Bank and certain consolidated domestic subsidiaries record the amounts of deferred tax assets and deferred tax liabilities on items relating to the transition from the consolidated tax system to the group tax sharing system introduced by “Act on Partial Revision of the Income Tax Act" (Act No.8 of 2020), and deferred tax assets and deferred tax liabilities on items revised in nonconsolidated tax system, in accordance with the provisions of the tax law before amendments relating to this transition. This accounting treatment is in accordance with the paragraph 44 of "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28, February 16, 2018) in accordance with the paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ Practical Issues Task Force (PITF) No. 39, March 31, 2020).

The Group plans to apply "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (ASBJ Practical Issues Task Force (PITF) No. 42, August 12, 2021) that stipulates the handling of corporate tax, local corporate tax, and tax effect accounting treatment and disclosure, from the beginning of the next fiscal year.

**(Change in accounting policy)**

(Application of Accounting Standard for Revenue Recognition and Its Implementation Guidance)

The Group has applied the "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan ("ASBJ") Statement No. 29, March 31, 2020) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 26, 2021) since the beginning of the current fiscal year, and the Group recognized revenue at the amount expected to be received in exchange for the promised goods or services at the time the control of those goods or services was transferred to the customer. As a result, annual membership fees income, which some consolidated subsidiaries record from credit cards for the intermediation of comprehensive credit purchases, were changed to recognize on a pro rata basis over a certain period because the subsidiaries satisfy their performance obligations over the period. Also, in the case where the consolidated subsidiaries were involved in the transactions as agents, the revenues were recognized in net amounts less commission expenses paid by the consolidated subsidiaries to third parties other than customers. In addition, the timing of recognition of revenues from agency commissions for the intermediation of comprehensive credit purchases changed to the recognition at a point in time since the provision of services is completed and the performance obligation is satisfied when a credit card is used.

In applying the Accounting Standard for Revenue Recognition and its Implementation Guidance, the Group followed the transitional treatment described in the proviso of paragraph 84 of the Accounting Standard for Revenue Recognition, and the cumulative effect of applying of the new accounting policy retroactively prior to the beginning of the current fiscal year was added to or deducted from the balance of "Retained Earnings" at the beginning of the current fiscal year. However, in accordance with the treatment prescribed in paragraph 86(1) of the Accounting Standard for Revenue Recognition, the Group did not apply the new accounting policy to the contracts where nearly all of the revenue amounts had been recognized prior to the beginning of the current fiscal year in accordance with the previous accounting standards. In addition, by applying the method stipulated in paragraph 86(1) of the Accounting Standard for Revenue Recognition, if there had been changes in contracts before the beginning of the current fiscal year, the Group accounted based on the contract terms after reflecting all the changes in contracts, and the cumulative effect was added to or deducted from in "Retained Earnings" at the beginning of the current fiscal year.

As a result, "Other business income" decreased by ¥1,348 million, "Fees and commissions expenses" decreased by ¥1,336 million, and both "Ordinary profit" and "Income before income taxes" decreased by ¥11 million for the current fiscal year. In addition, "Retained earnings" decreased by ¥430 million, "Deferred tax assets" increased by ¥77 million, and "Other liabilities" increased by ¥508 million at the beginning of the current fiscal year.

(Application of the Accounting Standard for Fair Value Measurement and Its Implementation Guidance)

The Group has applied "Accounting Standard for Fair Value Measurement" (ASBJ Statement No.30, July 4, 2019), etc. since the beginning of the current fiscal year. Accordingly, in accordance with paragraph 8 of "Accounting Standard for Fair Value Measurement," the Group has revised the fair value method to reflect the own credit risks and the counterparty's credit risks in the fair value of derivative transactions by making maximum use of relevant observable inputs estimated from derivatives and others traded in the market. As for the impact of this revise, in accordance with the transitional treatment set forth in paragraph 20 of "Accounting Standards for Fair Value Measurement," the cumulative effect of applying of the new accounting policy retroactively prior to the current fiscal year is added to or deducted from "Retained earnings" at the beginning of the current fiscal year.

As a result, "Trading income" decreased by ¥313 million, "Other business income" increased by ¥25 million, and both "Ordinary profit" and "Income before income taxes" decreased by ¥287 million for the current fiscal year. In addition, "Retained earnings" increased by ¥560 million, "Trading assets" decreased by ¥1,220 million, "Other assets" decreased by ¥253 million, "Deferred tax assets" increased by ¥196 million, "Trading liabilities" decreased by ¥1,333 million, and "Other liabilities" decreased by ¥504 million at the beginning of the current fiscal year.

Among available-for-sale securities, the Group had previously adopted the method of measurement applied to monetary claims or the method of measuring at cost for securities whose fair value cannot be reliably determined. According to the application of this accounting standard and its implementation guidance, the Group changed the method of measurement to the one measuring at fair value, except for nonmarketable equity securities and others. Also, in accordance with the transitional treatment set forth in paragraph 19 of "Accounting Standard for Fair Value Measurement" and paragraph 44-2 of "Accounting Standard for Financial Instruments " (ASBJ Statement No. 10, July 4, 2019), the Group has applied the new accounting policy prospectively since the beginning of the current fiscal year.

**(Unapplied Accounting Standards)**

The Group has not applied the following revised and newly established accounting standards published by March 31, 2022.

Accounting Standard for Fair Value Measurement

"Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No.31, revised on June 17, 2021)

(1) Outline

This implementation guidance is published based on the consideration of "fair value calculation of investment trusts" and fair value footnote of the "Investments in partnerships for which the equity interest is recorded on a net basis on the balance sheet," which was to be examined over a period of approximately one year after the publication of the " Accounting Standard for Fair Value Measurement" (ASBJ Statement No.30, July 4, 2019).

(2) Effective date

The Group plans to apply this accounting standard from the beginning of the fiscal year ending on March 31, 2023.

(3) The impact of the application

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

**(Significant Accounting Estimates)**

Items whose amounts are recorded in the financial statements for this consolidated fiscal year based on accounting estimates and which may have a material impact on the financial statements for the following consolidated fiscal year are as follows.

1. Reserve for credit losses

(1) Amount recorded in the consolidated financial statements for the current fiscal year

Reserve for credit losses ¥119,466 million

(2) Information that contributes to the understanding of the significant accounting estimates

The Bank determines obligor categories (normal, need caution, substandard, possibly bankrupt, virtually bankrupt and legally bankrupt) for each obligor based on the obligor's financial information and available external information and records reserve for loan losses based on the calculation method described in "2. Accounting policies (7) Reserve for credit losses" of "Basis of Preparation of Consolidated Financial Statements".

The impacts of the Novel Coronavirus outbreak and the resulting stagnant economic activities (hereinafter referred to as the "impact of the spread of the novel coronavirus infection, etc.") has weaken by the end of March 2021, but the impacts on the credit risk for loans to some obligors will remain for several more years. Even after April 2021, the spread of the new coronavirus infection has caused some impact. However, no material changes were made from this assumption at the end of March 2022. Based on this assumption, we have assumed that there will be material impacts on the credit risk for loans to specific obligors with the varying degrees of such impacts by obligor.

In order to provide for losses expected from such impacts, we have determined obligor categories for obligors whose performance is deteriorating due to the impact of the spread of the novel coronavirus infection, etc. by assessing the possibility of future deterioration or recovery in their business conditions and the possibility of their business continuity and have provisioned reserves for credit losses according to their obligor categories.

Obligor categories for real estate non-recourse loans included in the Bank's loans and claims are determined based on the valuation of the underlying real estate, which is calculated with the assumptions including rental income, vacancy rate and discount rate. Among the properties subject to non-recourse loans, hotels and commercial facilities that have been strongly affected by the impact of the spread of the novel coronavirus infection, etc. are assumed to continue to be affected for a few years in the future, and the projected trend in future rent income are reflected in the assumptions in the evaluation of the properties subject to non-recourse loans.

Reserve for credit losses is calculated based on necessary adjustments taking obligor's business plan into consideration (reduction of future cash flow to reflect future uncertainties and establishment of multiple scenarios, etc.) in estimating future cash flow for obligors such as possibly bankrupt obligors and substandard obligors for whom the Bank made provisions based on the discounted cash flow method among those whose business performance has deteriorated due to the recent changes in the economic environment in addition to the impact of the spread of the novel coronavirus infection, etc.

The possibility of such deterioration or recovery of the obligor's financial condition, the possibility of business continuity, and the prospect of future cash flows are affected by the impact of the spread of the novel coronavirus infection, etc. and changes in the economic environments inside and outside. Therefore, the uncertainty of the estimation is high.

Accordingly, the amount of reserve for credit losses provisioned as of March 31, 2022 is based on our best estimate at present. However, the amount of reserve for credit losses may change during the next fiscal year if there are changes in the economic environment surrounding the obligors or in their financial conditions.

2. Reserves for losses on interest repayments

(1) Amount recorded in the consolidated financial statements for the current fiscal year

As of March 31, 2022, as a result of estimate of the required amount of reserve for losses on interest repayments in order to provide for losses on future claims for interest repayments, the Group recorded reserves for losses on interest repayments of ¥31,635 million in the consolidated balance sheet. It consisted of ¥22,508 million for Shinsei Financial and ¥2,726 million for Shinsei Personal Loan and ¥4,322 million for APLUS and ¥2,078 million for Aplus Investment. Also, the Group recorded provision of reserve for losses on interest repayments of ¥1,148 million in the consolidated income statement consisting of ¥691 million for Shinsei Financial and ¥440 million for Shinsei Personal Loan and ¥1,400 million for APLUS.

(2) Information that contributes to the understanding of significant accounting estimates

The Group has recorded reserves for losses on interest repayments at consolidated subsidiaries Shinsei Financial, Shinsei Personal Loan, APLUS, and Aplus Investment. The calculation method is stated in "2. Accounting policies (13) Reserve for losses on interest repayments" of "Basis for Presentation of Consolidated Financial Statements and Significant Accounting Policies."

Recently, due to a decrease in the population (number of accounts) and a decrease in public relations activities of the attorney's offices and judicial scrivener offices as agents for obligors, the number of transaction history disclosure requests regarding matters on the gray zone interest and the amounts of interest refunds for grey zone claim have remained stable and far below the past peak. The Group recognizes that the occurrence of additional losses associated with excess interest refunds will be limited.

In contrast, since the reserve for losses on interest repayments is calculated by estimating the extent to which the number of accounts will decrease due to the expiration of the statute of limitations, the past intervention rate, settlement rate, the number of claims for repayment, and the amount of claims for repayment per account or per customer in the future on the basis of the past performance, the amount of reserves for losses on interest repayments could affect the financial statements for the next fiscal year of the Group in the event of future changes in the business environment that differ from the current forecast.

**(Additional information)**

(Acquisition of treasury shares)

On May 13, 2021, the Bank decided to acquire its own treasury shares in accordance with the provision of its Articles of Incorporation, pursuant to Article 459, paragraph 1 of the Companies Act of Japan.

1. Reason for acquisition

As a part of the Bank's efforts to achieve the repayment of public funds, a resolution to undertake the acquisition of treasury shares has been approved in light of factors such as the Bank's current capital position, earnings capability and per share values. Through this acquisition of treasury shares, assuming the maintenance of capital at sufficient levels, the Bank aims to increase the per share values through the implementation of an appropriate capital policy. However, subsequent to the launch of a takeover bid by SBI Regional Bank Holdings Co., Ltd. on September 10, 2021, comprehensively considering the fact that the pricing process of the Bank's shares had become different from that under the ordinary circumstances, etc., the Bank had taken the decision to temporarily suspend the acquisition of its treasury shares since September 27, 2021, but the Bank restarted the acquisition of its treasury shares from December 28, 2021.

In addition, on the same date, the Bank decided to change the acquisition period from "From May 14, 2021 to March 31, 2022" to "From May 14, 2021 to May 12, 2022".

2. Details of acquisition

(1) Type of shares to be repurchased
Common stock

(2) Number of shares to be repurchased
(Up to) 20 million shares (9.29% of total number of common shares issued excluding treasury shares)

(3) Total repurchase amount
(Up to) ¥20.0 billion

(4) Acquisition period
From May 14, 2021 to May 12, 2022

In accordance with the aforementioned resolution by the Board of Directors, the Bank has undertaken the acquisition of treasury shares as follows:

(1) Type of shares repurchased
Common stock

(2) Total Number of shares repurchased
11,063,300 shares

(3) Total amount of repurchase
¥19,406,058,480

(4) Acquisition period
From May 14, 2021 to April 30, 2022

(5) Acquisition method
Open market purchase on the Tokyo Stock Exchange

**Notes**

(Consolidated Balance Sheet)

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

(Millions of yen)

| | Carrying amount |
|---|---|
| Equity securities | ¥5,531 |
| Other | 9,582 |

(Note) Investment in a jointly controlled entity of ¥4,709 million was included in equity securities.

**2.** For securities held in connection with securities borrowing transactions with or without cash collateral, securities purchased under resale agreements and securities accepted as collateral for derivative transactions, where the Group has the right to sell or pledge such securities without restrictions, ¥6,701 million of those securities was held by the Group at the consolidated balance sheet date.

**3.** Claims under the Japanese Banking Act (JBA) and the Financial Revitalization Law are as follows. Claims are corporate bonds in the "Securities" in the consolidated balance sheet (limited to bonds for which redemption of principal and payment of interest are guaranteed in whole or in part, and the issuance of such bonds is due to private placement of securities (Article 2, Paragraph 3 of the Financial Instruments and Exchange Act), loans and bills discounted, foreign exchange claims, accrued income and suspense payments in other assets, customers' liabilities for acceptances and guarantees, and securities lent (limited to those under a loan for use or lease contract).

| | |
|---|---|
| Claims against bankrupt and quasi-bankrupt obligors | ¥24,083 million |
| Doubtful claims | ¥44,545 million |
| Loans past due for three months or more | ¥1,050 million |
| Restructured loans | ¥62,171 million |
| Total amount | ¥131,852 million |

In addition to the above, installment receivables included in "Other Assets" were as follows.

| | |
|---|---|
| Claims against bankrupt and quasi-bankrupt obligors | ¥4,898 million |
| Doubtful claims | ¥1,508 million |
| Loans past due for three months or more | ¥529 million |
| Restructured loans | ¥2,863 million |
| Total amount | ¥9,799 million |

Claims against bankrupt and quasi-bankrupt obligors are claims against obligors under bankruptcy and similar claims, as provided for under the Bankruptcy Law, the Corporate Reorganization Law, the Civil Rehabilitation Law, and similar laws.

Doubtful claims are claims against obligors that are not yet in bankruptcy but have experienced deterioration in their financial condition and operating performance and for which there is a high probability of contractual defaults on principal and interest payments.

Loans past due for three months or more shall mean loans on which principal and/or interest are past due three months or more, excluding claims against bankrupt and quasi-bankrupt obligors and doubtful claims.

Restructured loans are loans where the Group relaxes lending conditions, such as by reducing the original interest rate, or by forbearing interest payments or principal repayments to support the borrower's reorganization, but excluding claims against bankrupt and quasi-bankrupt obligors, doubtful claims, or loans past due for three months or more.

The above amount of claims is the amount before deduction of reserve for credit losses.

(Changes in presentation)

The Cabinet Office Ordinance to Partially Amend the Ordinance for Enforcement of the Banking Act, etc. (Cabinet Office Ordinance No. 3 of January 24, 2020) came into effect on March 31, 2022. Accordingly, the classification of risk-monitored loans in the JBA is indicated in accordance with the classification of disclosed claims based on the Financial Revitalization Law.

**4.** 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 Committee Practical Guidelines No. 24 revised on October 8, 2020 by the JICPA, although the Group has the right to sell or pledge them without restrictions. The face value of such bills discounted held was ¥935 million.

**5.** The total principal amount of loans accounted for as a sale through loan participations was ¥6,653 million as of March 31, 2022. This "off-balance sheet" treatment is in accordance with Report No. 3 issued by the Framework Committee of the JICPA on November 28, 2014. And the total principal amount of such loans in which the Bank participated was ¥12,761 million as of March 31, 2022.

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

| | |
|---|---|
| Cash and due from banks | ¥ 10 million |
| Monetary assets held in trust | 2,267 |
| Securities | 279,175 |
| Loans and bills discounted | 851,019 |
| Lease receivables and leased investment assets | 8,061 |
| Other assets | 172,081 |
| Tangible leased assets as lessor | ¥ 2,449 |

Liabilities collateralized were as follows:

| | |
|---|---|
| Deposits | ¥ 1,218 million |
| Payables under repurchase agreements | 9,567 |
| Payables under securities lending transactions | 237,530 |
| Borrowed money | 572,587 |
| Corporate bonds | 170,104 |
| Other liabilities | 12 |
| Acceptances and guarantees | ¥ 169 |

In addition, ¥4,039 million of margin deposits for futures transactions outstanding, ¥13,336 million of security deposits, ¥132,255 million of cash collateral paid for financial instruments, ¥1,219 million of guarantee deposits under resale agreements and repurchase agreements and ¥40,000 million of cash collateral for Zengin-net were included in "Other assets."

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

The unfulfilled amounts of these commitments were ¥2,286,425 million, out of which the amounts with the commitments of the agreement expiring within one year or being able to be cancelled at any time with no condition were ¥1,907,728 million.

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

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

**8.** Installment receivables of ¥947,406 million were included in "Other assets."

**9.** Accumulated depreciation on "Premises and equipment" was ¥71,573 million.

**10.** Deferred gains on "Premises and equipment" deducted for tax purposes were ¥29 million.

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

**12.** Software in progress of ¥4,380 million were included in "Software."

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

| | | |
|---|---|---|
| Goodwill | ¥13,001 | million |
| Negative goodwill | 1,993 | |
| Net | ¥11,007 | million |

**14.** The amount of guarantee obligations for privately placed bonds (Paragraph 3 of Article 2 of the Financial Instruments and Exchange Act), out of corporate bonds included in the "Securities" stands at ¥3,080 million.

**15.** Total obligations to the Directors and Audit & Supervisory Board Members of the Bank stand at ¥20 million.

**16.** Contingent liability arising from the agreement on the purchase of the personal property of a certain consolidated subsidiary is ¥179 million.

(Consolidated Statement of Income)

**1.** "Other business income" included leasing revenue of ¥78,080 million and income from installment sales of 44,386 million.

**2.** "Other" presented in "Other ordinary income" included gain on sale of equity securities and others of ¥5,136 million, gain on monetary assets held in trust of ¥3,385 million, and equity in net income of affiliates of ¥1,380 million.

**3.** "Other business expenses" included leasing cost of ¥69,548 million and loss on sale of bonds including Japanese national government bonds of ¥12,182 million.

**4.** "Other general and administrative expenses" included personnel expenses of ¥62,196 million.

**5.** "Other extraordinary gains" was gain on sale of subsidiary's stock of ¥1,048 million.

**6.** "Other extraordinary losses" included loss on liquidation of subsidiary of ¥446 million and loss on sale of subsidiary's stock of ¥150 million.

**7.** "Impairment losses" includes the impairment losses in the Group related to the following asset groups.

| Location | Usage | Asset type | Amount (Millions of yen) |
|---|---|---|---|
| Fukuoka, Osaka etc. (Japan)<br>Hong Kong (Overseas) | Branches | Buildings, Other premises and equipment | ¥186 |
| Tokyo, Osaka (Japan)<br>Hong Kong (Overseas) | IT-related property | Other premises and equipment, Software | 149 |
| Total | | | ¥335 |

The Group determines the asset group based on management segmentation.

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

In the above impairment loss amount, ¥119 million was for "Buildings," ¥77 million was for "Other premises and equipment," and ¥138 million was for "Software."

(Consolidated Statement of Changes in Equity)

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

(Unit: thousand shares)

| | Number of shares as of April 1, 2021 | Number of shares increased | Number of shares decreased | Number of shares as of March 31, 2022 | Note |
|---|---|---|---|---|---|
| Issued shares | | | | | |
| Common stock | 259,034 | - | - | 259,034 | |
| Total | 259,034 | - | - | 259,034 | |
| Treasury stock | | | | | |
| Common stock | 43,743 | 10,201 | 142 | 53,802 | (Note 1,2) |
| Total | 43,743 | 10,201 | 142 | 53,802 | |

Note 1: The increase of number of shares in treasury stock is associated with the repurchase of 0 thousand shares less than one unit, and the repurchase of 4 thousand shares due to the free acquisition of a restricted stock compensation, and the repurchase of 10,197 thousand shares from market.

2: The decrease of number of shares in treasury stock is associated with the transfer of 86 thousand shares upon exercise of the stock option (stock acquisition rights), and the disposal of 55 thousand shares as a restricted stock compensation.

**2.** Information on dividends

(a) Dividend paid in the current fiscal year

| Resolution | Type of shares | Total amount of dividend | Dividend per share | Record date | Effective date |
|---|---|---|---|---|---|
| The board of directors' meeting on May 13, 2021 | Common stock | ¥2,583 million | ¥12.00 | March 31, 2021 | June 30, 2021 |

(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 13, 2022 (planned) | Common stock | ¥2,462 million | Retained earnings | ¥12.00 | March 31, 2022 | June 29, 2022 |

(Financial instruments)

1. Status of financial instruments

(1) Group Policy for financial instruments

The Group conducts total financial services, primarily basic banking business and other financial services such as securities business, trust business, consumer finance business, and commercial finance business.

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

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

(a) Financial assets

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

[Loans and bills discounted]

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

As of March 31, 2022, loans to the financial and insurance industry were approximately 10% of the total loans and bills discounted, and those to the real estate industry were approximately 15%, approximately 30% of which are nonrecourse loans for real estate.

[Securities]

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

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

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

[Lease receivables and leased investment assets, Installment receivables]

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

(b) Financial liabilities

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

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

(c) Derivative transactions

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

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

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

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

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

In hedge accounting, effectiveness of hedging is assessed based on the conditions determined in the accounting standards such as the "Accounting Standard for Financial Instruments."

(3) Risk management for financial instruments

(a) Credit risk management

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

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

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

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

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

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

To take the risk strategy above, the Group Individual Banking Risk Management Division in the Bank holds monthly performance review, analyzes and monitors these leading indicators, confers with the persons in charge of risk management of each Group Company on their policies and strategies, and carries out the necessary measures. The division does not merely avoid losses but also produces a balanced strategy with appropriate risk and return attributes and reports this business performance to the Group Risk Policy Committee quarterly.

(b) Market risk management

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

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

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

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

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

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

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

Quantitative information on market risk is as follows:

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

The VaR in the Group's trading business as of March 31, 2022 was ¥776 million in the aggregate.

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

(ii) Amount of market risk associated with the banking business
The Group's main financial instruments which are affected by interest rate risk, one of the major risk variables, includes “Call loans,” “Receivables under resale agreements,” “Receivables under securities borrowing transactions,” “Other monetary claims purchased,” “Monetary assets held in trust,” bonds other than trading business in “Securities,” “Loans and bills discounted,” “Lease receivables and leased investment assets,” “Installment receivables,” “Deposits,” “Negotiable certificates of deposit,” “Call money,” “Payables under repurchase agreements,” “Payables under securities lending transactions,” “Borrowed money,” “Short-term corporate bonds,” “Corporate bonds” and interest rate swaps other than trading business in “Derivative instruments.”

The Group uses a quantitative analysis of interest rate risk of these financial assets and liabilities and analyzes the amount of change in economic values (ΔEVE) based on the interest rate shock scenario defined by the interest rate risk of bank accounts under the Basel regulation (IRRBB). As for ΔEVE for each interest rate shock scenario as of March 31, 2022, the ΔEVE of the upward parallel shift in the interest rate curve decreased by ¥57,937 million , the ΔEVE of the downward parallel shift decreased by ¥2,175 million, and ΔEVE of the steepening scenario decreased by ¥46,043 million.

(c) Liquidity risk management

The Group ALM Committee, which is the senior review and decision-making body for the management of funding liquidity risk, manages funding liquidity risk by establishing funding gap limits and minimum liquidity reserve levels. In accordance with the "Cash Liquidity Risk Management Policy," the Bank has a structure to conduct two or more liquidity measurements and to secure available reserves over the net cumulative outflow forecasted in an emergency situation.

To manage the market liquidity risk for marketable instruments, the Group has trading limits and monitors the amounts of marketable instruments in view of the attributes of marketable instruments. Moreover, liquidity reserves for the trading account are calculated monthly and are reflected valuation of derivative transactions.

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

As certain assumptions have been adopted for the calculation of fair value of financial instruments, the fair value of financial instruments may not be the same when assumptions that differ from the Group's calculation are adopted.

2. Matters concerning fair value of financial instruments and breakdown by input level

Carrying amounts on the consolidated balance sheet as of March 31, 2022, the fair value of financial instruments as well as the difference between them, and fair values by input level are as follows.

The fair values of financial instruments are classified as the following three levels depending on the observability and significance of the input used in the fair value measurement.

Level 1: Fair value determined based on the quoted price (unadjusted) in an active market for identical assets and liabilities

Level 2: Fair value determined based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Fair value determined based on significant unobservable inputs

In some cases, multiple inputs with a significant impact on the fair value measurement are used, the financial instrument is classified as the lowest priority level of fair value measurement in which each input belongs.

(1) Financial instruments measured at fair value on the consolidated balance sheet

(Millions of yen)

| Classification | Carrying amount | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Other monetary claims purchased | ¥ - | ¥ - | ¥ 9,550 | ¥ 9,550 |
| Trading assets | - | 265 | - | 265 |
| Monetary assets held in trust | - | 6,342 | 159,948 | 166,290 |
| Securities | 150,183 | 174,630 | 185,888 | 510,702 |
| Trading securities | - | - | 0 | 0 |
| Other securities | 150,183 | 174,630 | 185,888 | 510,702 |
| Equity securities | 8,840 | 160 | - | 9,000 |
| Japanese national government bonds | 103,463 | - | - | 103,463 |
| Japanese local government bonds | - | 2,197 | - | 2,197 |
| Japanese corporate bonds | - | 32,381 | 112,681 | 145,062 |
| Foreign securities | 37,879 | 139,752 | 73,023 | 250,656 |
| Others[1] | - | 138 | 183 | 322 |
| Total | ¥ 150,183 | ¥ 181,238 | ¥ 355,387 | ¥ 686,808 |
| Derivative instruments[2,3] | ¥ 0 | ¥ (45,767) | ¥ 4,527 | ¥ (41,239) |
| Interest rate-related | - | (5,057) | 10,508 | 5,450 |
| Currency-related | - | (41,305) | (5,980) | (47,286) |
| Bond-related | 0 | - | - | 0 |
| Credit derivatives | - | 595 | - | 595 |

1. The amount of investment trusts for which transitional treatments are applied in accordance with Paragraph 26 of the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No.31, July 4, 2019) is not included in the table above. The amount of such investment trusts on the consolidated balance sheet is ¥1,292 million.
2. The amounts collectively represent the derivative transactions which are recorded in “Trading assets,” “Trading liabilities,” “Other assets,” and “Other liabilities.” Assets and liabilities arising from derivative transactions are presented on a net basis, with a net liability presented in round brackets.
3. As for derivative transactions for which hedge accounting is applied, the balances recorded on the consolidated balance sheet amount to a net liability of ¥42,267 million. Of the hedging relationships, the exceptional treatment prescribed in the Practical Solution No.40 “the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR” (the Practical Solution No.40, March 17, 2022) is applied to all hedging relationships included in the scope of application of the Practical Solution.

(2) Financial instruments other than those measured at fair value on the consolidated balance sheet

Notes are omitted for "Cash and due from banks," "Call money and bills sold," "Payable under repurchase agreements," "Payable under securities lending transactions," "Short-term bonds payable" since they are mostly with short maturity of one year or less and their carrying amounts approximate their fair values.

(Millions of yen)

| Classification | Fair value | | | | Carrying amount | Net unrealized Gains (losses) |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | | |
| Other monetary claims purchased | ¥ - | ¥ - | ¥ 22,050 | ¥ 22,050 | ¥ 21,902 | ¥ 147 |
| Monetary assets held in trust[1] | - | 16,576 | 205,625 | 222,202 | 219,664 | 2,537 |
| Securities | 109,608 | - | - | 109,608 | 109,988 | (380) |
| Securities being held to maturity | 109,608 | - | - | 109,608 | 109,988 | (380) |
| Japanese national government bonds | 109,608 | - | - | 109,608 | 109,988 | (380) |
| Loans and bills discounted[2] | - | 2,229,191 | 3,069,365 | 5,298,557 | 5,165,998 | 132,558 |
| Lease receivables and leased investment assets[3] | - | 3,258 | 191,293 | 194,551 | 184,258 | 10,293 |
| Other assets (Installment receivables)[4] | - | 115,953 | 849,881 | 965,835 | 917,174 | 48,661 |
| Total | ¥ 109,608 | ¥ 2,364,980 | ¥ 4,338,217 | ¥ 6,812,806 | ¥ 6,618,988 | ¥ 193,817 |
| Deposits | - | 5,280,233 | 487,757 | 5,767,991 | 5,771,056 | 3,065 |
| Negotiable certificates of deposit | - | - | 627,093 | 627,093 | 627,010 | (83) |
| Borrowed money | - | 3,934 | 973,933 | 977,867 | 978,424 | 556 |
| Corporate bonds | - | 379,731 | - | 379,731 | 380,104 | 373 |
| Total | ¥ - | ¥ 5,663,898 | ¥ 2,088,784 | ¥ 7,752,683 | ¥ 7,756,595 | ¥ 3,912 |

(Millions of yen)

| Classification | Fair value | | | | Contract Amount |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | |
| Other<br>Guarantee contracts[5] | ¥ - | ¥ (291) | ¥ 44,808 | ¥ 44,517 | ¥ 584,708 |

1. ¥2,221 million of Reserve for credit losses corresponding to "Monetary assets held in trust" are deducted.
2. ¥75,819 million of Reserve for credit losses corresponding to "Loans and bills discounted" are deducted. For consumer loans held by consolidated subsidiaries included in "Loans and bills discounted," reserve for losses on interest repayments of ¥31,635 million is recognized to prepare for estimated losses arising from reimbursement of excess interest payments. A portion of this reserve is for losses on interest repayments that have a possibility of being appropriated for loan principal in the future.
3. ¥1,309 million of Reserves for credit losses corresponding to "Lease receivables and leased investment assets" are deducted. ¥5,291 million of estimated residual value of "Lease receivables and leased investment assets" arising from finance lease transactions, where the ownership of the property is not deemed to transfer to the lessee, is deducted from leased investment assets.
4. ¥15,014 million of deferred gains on installment receivables and ¥15,218 million of reserve for credit losses corresponding to "Other assets (Installment receivables)" are deducted.
5. The "Contract Amount" for "Guarantee contracts" presents the amount of "Acceptances and guarantees" on the consolidated balance sheet.

(Note 1) Description of the valuation techniques and inputs used to measure fair value

Assets

Other monetary claims purchased

The fair values of securitized products are measured at quoted prices from third parties, and they are classified as Level 3 because the impact of unobservable inputs to measure the fair value is significant.

The fair values of other transactions are, in principle, based on methods similar to the methods applied to "Loans and bills discounted," and for short-term transactions, the carrying amounts are used as the fair values as they approximate their fair values. They are classified as Level 3.

Trading assets

The fair values of bonds and other securities held for trading are measured at market prices or quoted prices from third parties or determined using the discounted cash flow method.

The fair values of such bonds and other securities are classified as Level 1 if an unadjusted price in active markets is available. Japanese national government bonds are mainly included in it.

The fair values of such bonds and other securities are classified as Level 2 if a quoted price in inactive markets is used. Corporate bonds are mainly included in it.

Monetary assets held in trust

The fair values of monetary assets held in trust are determined using the discounted cash flow method based on the characteristics of the components of the trust assets. They are classified as Level 3 if the impact of unobservable inputs to measure the fair values is significant; otherwise, they are classified as Level 2. Refer to Note "(Monetary assets held in trust)" for monetary assets held in trust being held to maturity and others.

Securities

The fair values of securities are classified as Level 1 if an unadjusted quoted price in active markets is available. Equity securities and Japanese national government bonds are mainly included in it.

The fair values of securities are classified as Level 2 if a quoted price in inactive market is used. Foreign securities are mainly included in it.

The fair values of privately placed bonds are determined by discounting total amounts of principal and interest etc. at discount rate that reflects risk factors like credit risk for each category based on the internal credit rating and period. They are classified as Level 3 if the impact of unobservable inputs to measure the fair values is significant; otherwise, they are classified as Level 2.

In principle, the fair values of securitized products are based on valuations obtained from independent third parties. They are classified as Level 3 if the impact of unobservable inputs to measure the fair values is significant; otherwise, they are classified as Level 2.

The fair values of mutual funds are based on the published net asset value per share etc., as transitional measures are applied in accordance with Paragraph 26 of the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No.31, July 4, 2019) they are not classified as any level.

Notes for securities being held to maturity and others are disclosed in Note "(Securities)."

Loans and bills discounted

The fair values of loans and bills discounted with a fixed interest rate are determined by discounting contractual cash flows, and the fair values of loans and bills discounted with a floating interest rate are determined by discounting expected cash flows based on the forward rates as of the consolidated balance sheet date (for loans and bills discounted hedged by interest rate swaps which meet specific matching criteria, summing up the cash flows from the interest rate swaps), using the risk- free rate adjusted to account for credit risk (after consideration of collateral) with Credit Default Swap (CDS) spread etc. corresponding to the internal credit rating of each borrower. They are classified as Level 3 if the impact of unobservable inputs to measure the fair values is significant; otherwise, they are classified as Level 2. The fair values of housing loans are determined by discounting expected cash flows at the rates that consist of the risk-free rate and spread that would be applied for the new housing loans with the same terms at the consolidated balance sheet date. The fair values of consumer loans are determined by discounting expected cash flows that reflect expected loss at the rates that consist of the risk-free rate and certain costs, by a group of similar product types and customer segments. Regarding loans to obligors classified as "legally bankrupt," "virtually bankrupt" or "possibly bankrupt," their fair values are measured at carrying amounts net of reserves for loan losses because the fair values of those loans approximate the carrying amounts net of reserves for loan losses as of the consolidated balance sheet date, which are calculated based on the discounted cash flow method or based on amounts which are expected to be collected through the disposal of collateral or execution of guarantees. They are classified as Level 3.

Lease receivables and leased investment assets

The fair values are primarily determined by discounting contractual cash flows at the rates that would be applied for the new contracts by major product category groups. They are classified as Level 3 if the impact of unobservable inputs to measure the fair values is significant; otherwise, they are classified as Level 2.

Installment receivables

The fair values are primarily determined by discounting expected cash flows that reflect the probability of prepayment at the rates that consist of the risk-free rate, credit-risk and certain costs, by major product category groups. They are classified as Level 3 if the impact of unobservable inputs to measure the fair values is significant; otherwise, they are classified as Level 2.

Liabilities

Deposits, including negotiable certificates of deposit

The fair values of demand deposits, such as current deposits and ordinary deposits are recognized as the payment amounts (the carrying amounts) at the consolidated balance sheet date. The fair values of the deposits with maturities of six months or less approximate carrying amounts because of their short-term maturities. The fair values of time deposits and negotiable certificates of deposit are determined by discounting expected cash flows at the rates that consist of the risk-free rate and spread that would be applied for the new contracts with the same terms at the consolidated balance sheet date. They are classified as Level 3 if the impact of unobservable inputs to measure the fair value is significant; otherwise, they are classified as Level 2.

Borrowed money

The fair values of borrowed money with fixed interest rates are primarily determined by discounting contractual cash flows (for borrowed money hedged by interest rate swaps which meet specific matching criteria, the contractual cash flows include the cash flows of the interest rate swaps), and the fair values of borrowed money with floating interest rates are determined by discounting expected cash flows on forward rates as of the consolidated balance sheet date, at the funding rates that reflect the credit risk of the bank and its consolidated subsidiaries. Nevertheless, the fair values of borrowed money whose remaining maturities are one year or less approximate the carrying amounts. They are classified as Level 3 if the impact of unobservable inputs to measure the fair value is significant; otherwise, they are classified as Level 2.

Corporate bonds

The fair values of marketable corporate bonds are measured at market prices. They are classified as Level 2.

Derivative instruments

The fair values of listed derivatives are based on their closing prices. The fair values of over-the-counter derivative transactions are mainly based on the discounted cash flow method, option pricing models, etc., using inputs such as interest rate, foreign exchange rate, volatility, etc.

The valuation of derivatives transactions reflects the liquidity risk, the credit valuation adjustment (CVA) and the debt valuation adjustment (DVA). In calculation of CVA/DVA, CDS spread which is observed in market or probability of default which is measured at estimated spread is considered. Credit risk mitigation by collateral pledged and risk mitigation by netting exposures are also considered.

Listed derivative transactions are mainly classified as Level 1. Over-the-counter derivative transactions are classified as Level 2 if observable inputs are available or the impact of unobservable inputs to measure the fair value is not significant. If the impact of unobservable inputs to measure the fair values is significant, they are classified as Level 3.

Other

Guarantee contracts

The fair values are determined by discounting the amount of difference between the future cash flows based on the original contracts and the future cash flows expected from guarantee contracts that would have been newly entered into on similar terms as of the end of the period. They are classified as Level 3.

(Note 2) Information about the Level 3 fair value of financial instruments measured at fair values on the consolidated balance sheet

(1) Quantitative information on significant unobservable inputs as of March 31, 2022

| | Valuation technique | Significant unobservable inputs | Range | Weighted average |
|---|---|---|---|---|
| Other monetary claims purchased | Discounted cash flow | Prepayment rate | 13.0% | 13.0% |
| | | Probability of default | 0.7% | 0.7% |
| | | Recovery rate | 30.0% | 30.0% |
| | | Discount rate | 4.0%-16.9% | 11.0% |
| Monetary assets held in trust | Discounted cash flow | Prepayment rate | 0.0%-23.6% | 7.5% |
| | | Probability of default | 0.0%-2.4% | 1.6% |
| | | Recovery rate | 30.0%-100.0% | 84.4% |
| | | Discount rate | 1.3%-19.3% | 1.3% |
| Securities | | | | |
| Other securities | Discounted cash flow | Prepayment rate | 1.1%-24.3% | 18.2% |
| | | Probability of default | 0.0%-2.0% | 1.6% |
| | | Recovery rate | 0.0%-100.0% | 62.1% |
| | | Discount rate | 0.9%-1.9% | 1.3% |
| Derivative instruments | | | | |
| Interest rate-related | Discounted cash flow<br>Option valuation model | Correlation between interest rates | 29.0% － 85.0% | － |
| | | Correlation between interest rate and foreign exchange rate | 8.0%-38.0% | － |
| | | Recovery rate | 35.0%-74.0% | － |
| Currency-related | Discounted cash flow | Recovery rate | 35.0%-74.0% | － |

(2) Reconciliation between the beginning and ending balance, and net unrealized gains (losses) recognized in the earnings of the current period as of March 31, 2022

| Classification | Other monetary claims purchased | Trading assets | Monetary assets held in trust | Securities | Total | Derivative instruments | Interest rate-related | Currency-related |
|---|---|---|---|---|---|---|---|---|
| | Millions of yen | | | | | | | |
| Beginning balance | ¥ 21,214 | ¥ - | ¥ 158,208 | ¥ 173,853 | ¥ 353,277 | ¥ 19,799 | ¥ 22,107 | ¥ (2,308) |
| Earnings of the period[1] | 222 | - | 1,317 | 6,629 | 8,169 | (11,262) | (7,478) | (3,784) |
| Other comprehensive income | (174) | - | 207 | (685) | (653) | - | - | - |
| Net amount of purchase, sale, issuance and settlement | (11,712) | - | 214 | 6,029 | (5,467) | (4,009) | (4,121) | 111 |
| Transfer to Level 3[2] | - | - | - | 40,724 | 40,724 | - | - | - |
| Transfer from Level 3[3] | - | - | - | (40,663) | (40,663) | - | - | - |
| Ending balance | 9,550 | - | 159,948 | 185,888 | 355,387 | 4,527 | 10,508 | (5,980) |
| Net unrealized gains (losses) on financial assets and liabilities held at the consolidated balance sheet date among the amount recognized in the earnings of the current period[1] | 38 | - | 37 | (397) | (320) | (15,193) | (11,145) | (4,047) |

1. The amounts shown in the table above are included in the consolidated statements of income.
2. A transfer from Level 2 to Level 3 is due to shortage of observable market data mainly caused by a decrease in market activities about some foreign securities. The transfer was made at the beginning of the fiscal year ended March 31, 2022.
3. A transfer from Level 3 to Level 2 is due to the availability of observable market data about some foreign securities. The transfer was made at the beginning of the fiscal year ended March 31, 2022.

(3) Description of the fair value valuation process

At the Group, The Integrated Risk Management Division, the middle office unit establishes policies and procedures for the calculation of fair value, and the front division develops valuation models in accordance with such policies and procedures.
The middle division verifies the reasonableness of the fair value valuation models, the inputs used, and the middle division also verifies the classification of fair value level based on the verification results of the model and inputs. If quoted prices obtained from third parties are used, those values are verified by confirming the valuation technique and the inputs used by the third parties or comparison with the fair values of similar financial instruments.

(4) Description of the sensitivity of the fair value to changes in significant unobservable inputs

Prepayment rate

Prepayment rate is proportion of principals estimated to be prepaid and it is an estimate calculated on the past record of prepayment. In general, a significant change in prepayment rate would result in a significant increase or decrease in a fair value according to the contractual terms and conditions.

Probability of default

Probability of default represents the likelihood that the default will occur and contract amounts will be unrecoverable. A significant increase (decrease) in the default rate would result in a significant decrease (increase) in a fair value.

Recovery rate

Recovery rate is proportion of contractual amount estimated to be recovered in the case of default. In general, a significant increase (decrease) in the recovery rate would result in a significant decrease (increase) in a fair value.

Discount rate

Discount rate is an adjustment rate regarding base market interest rate, and it is constituted from risk premium that market participants need against uncertainty of cash flow produced mainly by credit risks.

A significant increase (decrease) in the discount rate would generally result in a significant decrease (increase) in a fair value.

Correlation

Correlation is an indicator of the relation between two variables. A significant change in correlation can cause a significant increase (decrease) in a fair value of derivative according to nature of underlying asset.

(Notes 3) Carrying amount of "Nonmarketable equity securities and others" and "Investment in partnerships and others" were as follows, and these are not included in the above "Securities" which are disclosed at tables in fair value of financial instruments and breakdown by input level.

(Millions of yen)

| Classification | March 31, 2022 |
|---|---|
| Nonmarketable equity securities and others[1,3] | ¥ 21,607 |
| Investments in partnerships and others[2,3] | 31,016 |
| Total | ¥ 52,624 |

1. "Nonmarketable equity securities and others" including non-listed equity securities are out of the scope of fair values disclosure according to Paragraph 5 of the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19, March 31, 2020).
2. "Investment in partnerships and others" including investments in silent partnership and investment partnership are out of the scope of fair values disclosure according to Paragraph 27 of the "Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No.31, July 4, 2019).
3. For the fiscal years ended March 31, 2022 impairment losses on "Nonmarketable equity securities and others" of ¥1,144 million, and on "Investment in partnerships and others" of ¥573 million were recognized, respectively.

(Note 4) Redemption schedule of monetary claims and securities with contractual maturities

(Millions of yen)

| | 1 year or less | Over 1 year to 3 years | Over 3 years to 5 years | Over 5 years |
|---|---|---|---|---|
| Due from banks | ¥ 1,620,751 | ¥ - | ¥ - | ¥ - |
| Monetary claims purchased | 13,100 | - | 11,097 | 6,830 |
| Securities | | | | |
| Held-to-maturity | 5,000 | - | - | 105,000 |
| Japanese national government bonds | 5,000 | - | - | 105,000 |
| Available-for-sale | 63,923 | 93,040 | 107,102 | 224,235 |
| Japanese national government bonds | 1,000 | 26,700 | 56,000 | 20,000 |
| Japanese local government bonds | - | - | 2,200 | - |
| Japanese corporate bonds | 4,891 | 50,595 | 37,079 | 55,567 |
| Other | 58,031 | 15,745 | 11,823 | 148,667 |
| Loan and bills discounted | 1,155,158 | 1,326,763 | 1,088,012 | 1,639,561 |
| Lease receivables and leased investment assets | 51,823 | 73,613 | 39,271 | 26,129 |
| Installment receivables | 209,833 | 281,009 | 185,018 | 250,834 |
| Total | ¥ 3,119,590 | ¥ 1,774,427 | ¥ 1,430,502 | ¥ 2,252,591 |

(Note) The financial instruments whose cash flow cannot be reliably estimated such as loans and bills discounted to obligors of “legally bankrupt," “virtually bankrupt” and “possibly bankrupt," and the financial instruments with no contractual maturity are not included in the tables above.

(Note 5) Redemption schedule of corporate bonds, borrowed money and other interest-bearing debts

(Millions of yen)

| | 1 year or less | Over 1 year to 3 years | Over 3 years to 5 years | Over 5 years |
|---|---|---|---|---|
| Deposits (*) | ¥ 5,163,856 | ¥ 279,060 | ¥ 213,903 | ¥ 114,237 |
| Negotiable certificates of deposit | 573,910 | 53,100 | - | - |
| Call money and bills sold | 3,654 | - | - | - |
| Payables under repurchase agreements | 9,567 | - | - | - |
| Payables under securities lending transactions | 237,530 | - | - | - |
| Borrowed money | 652,502 | 182,540 | 67,269 | 76,112 |
| Short-term corporate bonds | 189,200 | - | - | - |
| Corporate bonds | 30,000 | 295,334 | 30,000 | 24,770 |
| Total | ¥ 6,860,221 | ¥ 810,034 | ¥ 311,172 | ¥ 215,119 |

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

(Securities)

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

**1.** Trading securities (as of March 31, 2022)

(Millions of yen)

| | Unrealized gain (loss) |
|---|---|
| Trading securities | ¥ (2) |
| Other monetary claims purchased for trading purposes | (6) |

**2.** Securities being held to maturity (as of March 31, 2022)

(Millions of yen)

| | Type | Carrying amount | Fair value | Unrealized gain (loss) |
|---|---|---|---|---|
| Fair value exceeds carrying amount | Japanese national government bonds | ¥45,010 | ¥45,100 | ¥90 |
| | Subtotal | 45,010 | 45,100 | 90 |
| Fair value does not exceed carrying amount | Japanese national government bonds | 64,978 | 64,507 | (471) |
| | Subtotal | 64,978 | 64,507 | (471) |
| Total | | ¥109,988 | ¥109,608 | ¥(380) |

**3.** Securities available for sale (as of March 31, 2022)

(Millions of yen)

| | Type | Carrying amount (Fair value) | Amortized/ Acquisition cost | Unrealized gain (loss) |
|---|---|---|---|---|
| Carrying amount exceeds amortized/acquisition cost | Equity securities | ¥8,375 | ¥4,589 | ¥3,785 |
| | Domestic bonds: | 8,879 | 8,858 | 21 |
| | Japanese national government bonds | 1,005 | 1,004 | 1 |
| | Japanese local government bonds | 1,101 | 1,100 | 1 |
| | Japanese corporate bonds | 6,772 | 6,753 | 18 |
| | Other: | 71,599 | 70,605 | 993 |
| | Foreign securities | 62,178 | 61,339 | 838 |
| | Other | 9,420 | 9,265 | 154 |
| | Subtotal | 88,853 | 84,053 | 4,800 |
| Carrying amount does not exceed amortized/acquisition cost | Equity securities | 625 | 718 | (93) |
| | Domestic bonds: | 241,844 | 244,541 | (2,697) |
| | Japanese national government bonds | 102,458 | 102,635 | (177) |
| | Japanese local government bonds | 1,096 | 1,100 | (3) |
| | Japanese corporate bonds | 138,289 | 140,806 | (2,516) |
| | Other: | 189,798 | 201,232 | (11,434) |
| | Foreign securities | 189,522 | 200,953 | (11,430) |
| | Other | 275 | 278 | (3) |
| | Subtotal | 432,267 | 446,492 | (14,224) |
| Total | | ¥521,121 | ¥530,545 | ¥(9,424) |

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

(Millions of yen)

| | |
|---|---|
| Unrealized gain (loss) before deferred tax on: | |
| Available-for-sale securities | ¥ (9,424) |
| The Group's interests in available-for-sale securities held by partnerships and other adjustments | 441 |
| Other monetary assets held in trust | (2,541) |
| Less: Deferred tax liabilities | 397 |
| Unrealized gain (loss) on available-for-sale securities before interest adjustments | (11,921) |
| Less: Noncontrolling interests | 18 |
| The Group's interests in unrealized gain (loss) on available-for-sale securities held by affiliates to which the equity method is applied | 272 |
| Unrealized gain (loss) on available-for-sale securities | ¥ (11,667) |

**4.** Available-for-sale securities sold during the current fiscal year (from April 1, 2021 to March 31, 2022)

(Millions of yen)

| | Proceeds from sales | Gains on sales | Losses on sales |
|---|---|---|---|
| Equity securities | ¥6,830 | ¥5,135 | ¥244 |
| Domestic bonds: | 799,328 | 608 | 2,502 |
| Japanese national government bonds | 747,289 | 509 | 2,453 |
| Japanese local government bonds | 15,623 | 3 | 13 |
| Japanese corporate bonds | 36,415 | 96 | 35 |
| Other: | 383,258 | 950 | 9,680 |
| Foreign securities | 383,258 | 950 | 9,680 |
| Other | - | - | - |
| Total | ¥1,189,418 | ¥6,693 | ¥12,427 |

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

In the event individual securities (except for nonmarketable equity securities and others and investment in partnerships and others), other than trading securities, experience a decline in fair value which is significant as compared to the acquisition cost of such securities, the securities are written down as the decline in fair value is deemed to be other than temporary, and the difference is recorded as an impairment loss.

Impairment loss on such securities for the fiscal year ended March 31, 2022, was ¥773 million, which consisted of ¥375 million for equity securities and ¥397 million for other securities.

The Group's rules for the determination of whether an other-than-temporary impairment has occurred differ by the obligor categorization of the security issuer based upon the Group's self-assessment guidelines. The details of these rules are as follows: The definition of the obligor categorization is described in "2. Accounting policies (7) Reserve for credit losses" of "Basis of Preparation of Consolidated Financial Statements".

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

(Monetary assets held in trust)

**1.** Monetary assets held in trust for trading purposes (as of March 31, 2022)

(Millions of yen)

| | Carrying amount (Fair value) | Unrealized gain (loss) |
|---|---|---|
| Monetary assets held in trust for trading purposes | ¥4,843 | ¥ 78 |

**2.** There are no monetary assets held in trust held to maturity (as of March 31, 2022)

**3.** Monetary assets held in trust other than for trading purposes and held to maturity (as of March 31, 2022)

(Millions of yen)

| | Carrying amount | Acquisition cost | Unrealized gain (loss) | Gross unrealized gain | Gross unrealized loss |
|---|---|---|---|---|---|
| Other monetary assets held in trust | ¥383,334 | ¥385,876 | ¥ (2,541) | ¥207 | ¥ (2,749) |

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

(Revenue Recognition)

1.Information on disaggregated revenue from contracts with customers

Information on disaggregated revenue from contracts with customers allocated to each reportable segment was as follows:

(Millions of yen)

| | Institutional Business | | | | | |
|---|---|---|---|---|---|---|
| | Corporate Business | Structured Finance | Principal Transactions | Showa Leasing | Markets | Other Global Markets |
| Fees and commissions income [1,5] | ¥ 1,336 | ¥ 948 | ¥ 1,231 | ¥ 1,091 | ¥ 33 | ¥ 2,097 |
| Other business income [2,5] | 329 | 83 | 331 | 6,115 | 105 | 0 |
| Ordinary income from contracts with customers | 1,666 | 1,031 | 1,562 | 7,207 | 138 | 2,097 |
| Ordinary income other than the above [3,5] | 29,792 | 79,094 | 11,697 | 97,366 | 32,503 | 2,751 |
| Ordinary income from external customers | ¥ 31,458 | ¥ 80,126 | ¥ 13,259 | ¥ 104,573 | ¥ 32,642 | ¥ 4,849 |

(Millions of yen)

| | Individual Business | | | | Corporate/Other | | | Total |
|---|---|---|---|---|---|---|---|---|
| | | Consumer Finance | | | | | | |
| | Retail Banking | Shinsei Financial | APLUS | Other Individual | Overseas Business | Treasury | Other [4] | |
| Fees and commissions income [1,5] | ¥ 10,286 | ¥ 2,649 | ¥ 14,310 | ¥ 613 | ¥ 9 | ¥ 25 | ¥ (3,282) | ¥ 31,351 |
| Other business income [2,5] | — | — | 12,880 | 2 | 15 | 2,002 | (1,767) | 20,098 |
| Ordinary income from contracts with customers | 10,286 | 2,649 | 27,190 | 616 | 25 | 2,027 | (5,049) | 51,450 |
| Ordinary income other than the above [3,5] | 21,935 | 73,305 | 52,808 | 5,238 | 19,047 | 6,702 | (110,365) | 321,877 |
| Ordinary income from external customers | ¥ 32,221 | ¥ 75,954 | ¥ 79,999 | ¥ 5,854 | ¥ 19,073 | ¥ 8,729 | ¥ (115,415) | ¥ 373,328 |

(Notes)

1. "Fees and commissions income" are mainly from sales of mutual funds and insurances in "Retail Banking" and from collection agent service fees in the payment business in "APLUS."
2. "Other business income" are mainly from sales of used construction machines, etc. in "Showa Leasing" and merchant fees and annual membership fees in the credit card business in "APLUS."
3. "Ordinary income other than the above" includes revenue from transactions in the scope of application of "Accounting Standard for Financial Instruments" (ASBJ Statement No.10, revised on July 4, 2019) and "Accounting Standard for Lease Transactions" (ASBJ Statement No.13, revised on March 30, 2007).
4. "Other" under the Corporate/Other includes revenues which are not included in our reportable segments and elimination amounts of inter-segment transactions.
5. Revenues relating to each reportable segment are allocated based on our rational standard.

2.Basic information to understand revenue from contracts with customers

Basic information for understanding revenue from contracts with customers is as stated in "2. Accounting policies (15) Revenue and expense recognition".

3.Information on the relation between the satisfaction of performance obligations under the contract with customers and cash flow arising from contracts with customer, and on the amounts and timing of revenue expected to be recognized in the following fiscal year and thereafter from contracts with customers existing at the end of the current fiscal year

(1) Receivables and contract liabilities from contracts with customer

(Millions of yen)

| | In the current fiscal year (From April 1, 2021 to March 31, 2022) |
|---|---|
| Receivables from contracts with customers (as of April 1, 2021) | ¥2,037 |
| Receivables from contracts with customers (as of March 31, 2022) | ¥2,184 |
| Contract liabilities (as of April 1, 2021) | ¥1,230 |
| Contract liabilities (as of March 31, 2022) | ¥1,390 |

Receivables from contracts with customers were included in "Other assets" and contract liabilities were included in "Other liabilities" on the consolidated balance sheets.

Contract liabilities mainly include the balance of annual membership fees in the credit card business in APLUS segment that do not satisfy the performance obligation at the end of the fiscal year.

Of revenue recognized during the current fiscal year, the amount that was included in the contract liability balance at the beginning of the period and the amount of revenue recognized from the performance obligations satisfied in previous periods were not significant.

(2) Transaction price allocated to residual performance obligations

Notes are omitted for transaction price allocated to residual performance obligations, because the Group does not have any material contracts with an original expected duration of more than one year.

In addition, in the consideration received from contracts with customers, there are no material amounts such as variable consideration, etc. that are not included in the transaction price.

(Business Combinations)

(Business combinations under common control)
(Merger between consolidated subsidiaries)
On January 1, 2022, two consolidated subsidiaries, APLUS Co., Ltd. and APLUS FINANCIAL Co., Ltd, have merged by the absorption-type merger, based on their merger agreement dated on November 10, 2021. APLUS Co., Ltd. is the surviving company and succeeded the business of APLUS FINANCIAL Co., Ltd.

1. Outline of the business combination
(1) Names and business descriptions of the companies:
・Surviving company
Name: APLUS Co., Ltd.
Business: Shopping credit business
Card business
Payment business
・Absorbed company
Name: APLUS FINANCIAL Co., Ltd.
Business: Holding company of the APLUS Group
Housing loan operation in credit guarantees business
(2) Date of the business combination:
January 1, 2022
(3) Legal form of the business combination:
Absorption-type merger
(4) Name of the company after the business combination:
APLUS Co., Ltd.
(5) Other matters concerning outline of the business combination:
For a further optimization of business management

2. Overview of the accounting treatment
Based on “Accounting Standard for Business Combinations (ASBJ Statement No. 21 of January 16, 2019) ” and “Implementation Guidance on Accounting Standards for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10 of January 16, 2019) ”, the Group accounted for the above transaction as a transaction under common control.

(Per share information)
Common shareholders’ equity per share was ¥4,484.01.
Profit attributable to owners of parent per common share was ¥96.78.
Diluted profit attributable to owners of parent per common share was ¥96.75.

(Stock option)

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

Other general and administrative expenses ¥124 million

**2.** Outline, number and movement of stock options

(1) The Bank

(a) Outline of stock options

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

| | The 3rd stock acquisition rights (Share compensation-type) | The 4th stock acquisition rights (Share compensation-type) |
|---|---|---|
| Number of grantees | Directors: 2 | Directors: 2 |
| Number of stock options granted (Note) | Common stock: 13,220 shares | Common stock: 18,170 shares |
| Grant date | May 28, 2018 | May 30, 2019 |
| Condition for vesting | Condition for vesting is nil | Condition for vesting is nil |
| Required service period | Required service period is nil | Required service period is nil |
| Exercise period | From May 29, 2018 to May 28, 2048 | From May 31, 2019 to May 30, 2049 |

| | The 5th stock acquisition rights (Share compensation-type) | The 6th stock acquisition rights (Share compensation-type) |
|---|---|---|
| Number of grantees | Directors: 2 | Directors: 1 |
| Number of stock options granted (Note) | Common stock: 19,290 shares | Common stock: 12,600 shares |
| Grant date | May 29, 2020 | July 8, 2021 |
| Condition for vesting | Condition for vesting is nil | Condition for vesting is nil |
| Required service period | Required service period is nil | Required service period is nil |
| Exercise period | From May 30, 2020 to May 29, 2050 | From July 9, 2021 to July 8, 2051 |

| | The 7th stock acquisition rights (Share compensation-type) |
|---|---|
| Number of grantees | Directors: 2 |
| Number of stock options granted (Note) | Common stock: 7,860 shares |
| Grant date | January 21, 2022 |
| Condition for vesting | Condition for vesting is nil |
| Required service period | Required service period is nil |
| Exercise period | From January 22, 2022 to January 21, 2052 |

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

(b) Number of stock options and movement therein

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

(i) Number of stock options

| | 1st (Share compensation-type) | 2nd (Share compensation-type) | 3rd (Share compensation-type) | 4th (Share compensation-type) |
|---|---|---|---|---|
| Nonvested (share) | | | | |
| Outstanding at the beginning of the fiscal year | - | - | - | - |
| Granted during the fiscal year | - | - | - | - |
| Forfeited during the fiscal year | - | - | - | - |
| Vested during the fiscal year | - | - | - | - |
| Outstanding at the end of the fiscal year | - | - | - | - |
| Vested (Share) | | | | |
| Outstanding at the beginning of the fiscal year | 8,950 | 11,150 | 8,810 | 18,170 |
| Vested during the fiscal year | - | - | - | - |
| Exercised during the fiscal year | 8,950 | 11,150 | 8,810 | 18,170 |
| Forfeited during the fiscal year | - | - | - | - |
| Exercisable at the end of the fiscal year | - | - | - | - |

| | 5th (Share compensation-type) | 6th (Share compensation-type) | 7th (Share compensation-type) |
|---|---|---|---|
| Nonvested (share) | | | |
| Outstanding at the beginning of the fiscal year | - | - | - |
| Granted during the fiscal year | - | 12,600 | 7,860 |
| Forfeited during the fiscal year | - | - | - |
| Vested during the fiscal year | - | 12,600 | 7,860 |
| Outstanding at the end of the fiscal year | - | - | - |
| Vested (Share) | | | |
| Outstanding at the beginning of the fiscal year | 19,290 | - | - |
| Vested during the fiscal year | - | 12,600 | 7,860 |
| Exercised during the fiscal year | 19,290 | 12,600 | 7,860 |
| Forfeited during the fiscal year | - | - | - |
| Exercisable at the end of the fiscal year | - | - | - |

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

(ii) Price information

| | 1st (Share compensation-type) | 2nd (Share compensation-type) |
|---|---|---|
| Exercise period | From May 27, 2016 to May 26, 2046 | From May 26, 2017 to May 25, 2047 |
| Exercise price | 1 Yen | 1 Yen |
| Weighted-average stock price at the date of exercise | 2,188 Yen | 2,188 Yen |
| Fair value at grant date | 1,620 Yen | 1,780 Yen |

| | 3rd (Share compensation-type) | 4th (Share compensation-type) |
|---|---|---|
| Exercise period | From May 29, 2018<br>to May 28, 2048 | From May 31, 2019<br>to May 30, 2049 |
| Exercise price | 1 Yen | 1 Yen |
| Weighted-average stock price at the date of exercise | 2,188 Yen | 1,949 Yen |
| Fair value at grant date | 1,724 Yen | 1,489 Yen |

| | 5th (Share compensation-type) | 6th (Share compensation-type) |
|---|---|---|
| Exercise period | From May 30, 2020<br>to May 29, 2050 | From July 9, 2021<br>to July 8, 2051 |
| Exercise price | 1 Yen | 1 Yen |
| Weighted-average stock price at the date of exercise | 1,949 Yen | 2,188 Yen |
| Fair value at grant date | 1,310 Yen | 1,347 Yen |

| | 7th (Share compensation-type) |
|---|---|
| Exercise period | From January 22, 2022<br>to January 21, 2052 |
| Exercise price | 1 Yen |
| Weighted-average stock price at the date of exercise | 2,201 Yen |
| Fair value at grant date | 2,057 Yen |

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

(2) OJBC Co. Ltd

(a) Outline of stock options

| | The 1st stock acquisition rights |
|---|---|
| Number of grantees | Nippon Wealth Limited<br>Directors: 3<br>Employees: 5 |
| Number of stock options granted (Note 1) | Class B Preferred shares:<br>2,114,680 shares |
| Grant date | April 28, 2015 |
| Condition for vesting | (Note 2) |
| Required service period | From April 28, 2015 to April 28, 2017 |
| Exercise period | From April 28, 2017 to April 28, 2025 |

Note:

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

(b) Number of stock options and movement therein

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

(i) Number of stock options

| | 1st |
|---|---|
| Nonvested (share) | |
| Outstanding at the beginning of the year | - |
| Granted during the year | - |
| Forfeited during the year | - |
| Vested during the year | - |
| Outstanding at the end of the year | - |
| Vested (Share) | |
| Outstanding at the beginning of the year | 1,713,620 |
| Vested during the year | - |
| Exercised during the year | - |
| Forfeited during the year | 1,713,620 |
| Exercisable at the end of the year | - |

(ii) Price information

| | 1st |
|---|---|
| Exercise period | From April 28, 2017 to April 28, 2025 |
| Exercise price | 1.10 USD |
| Weighted-average stock price at the date of exercise | - |
| Fair value at grant date | 0.26 USD |

**3.** Measurement of the fair values of stock options

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

The Bank

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

(b) Major inputs and variables to the model used

| | 6th (Share compensation-type) |
|---|---|
| Exercise period | From July 9, 2021 to July 8, 2051 |
| Expected volatility (Note 1) | 35.901% |
| Expected life (Note 2) | 7.3Years |
| Expected dividends (Note 3) | 12.0Yen/Share |
| Risk-free interest rate (Note 4) | -0.105% |

Note:

1. Measured based on the historical stock price corresponding to expected life (from March 21, 2014 to July 8, 2021).
2. Estimated based on the retirement data of the director and statutory executive officers of the Bank.
3. Based on the actual dividend for the fiscal year ended in March 2021 (12.0Yen/Share).
4. Used the average compound yield of Long term Japanese national government bond (JGB) with the maturity that is approximate to expected life.

| | 7th<br>(Share compensation-type) |
|---|---|
| Exercise period | From January 22, 2022 to January 21, 2052 |
| Expected volatility<br>(Note 1) | 30.792% |
| Expected life<br>(Note 2) | 0.05Years |
| Expected dividends<br>(Note 3) | 12.0Yen/Share |
| Risk-free interest rate<br>(Note 4) | -0.070% |

Note:

1. Measured based on the historical stock price corresponding to expected life (from January 3, 2022 to January 21, 2022).
2. Estimated based on the retirement data of the director and statutory executive officers of the Bank.
3. Based on the actual dividend for the fiscal year ended in March 2021 (12.0Yen/Share).
4. Used the average compound yield of Long term Japanese national government bond (JGB) with the maturity that is approximate to expected life

**4.** Method of determining the vested number of stock options

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

**5.** Outline, number and movement of restricted stock compensation

(1) Outline of restricted stocks

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

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

| | Granted on April 19, 2019 |
|---|---|
| Categories and numbers of recipients | Executive Officers of the Bank as well as Chief Officers and Senior Officers of the Group Headquarters: 35 persons |
| Number of shares granted | 36,886 shares of common stock of the Bank |
| Grant date | April 19, 2019 |
| Required service period | From April 1, 2019 to March 31, 2020 |
| Transfer restriction period | From April 19, 2019 to April 18, 2022 |
| Cancellation conditions | On the condition that the recipient has maintained his/her position of executive director, etc. of the Bank or its subsidiary continuously during the transfer restriction period, the transfer restriction shall be cancelled at the expiration of the transfer restriction period.<br>If the recipient loses the position of executive director, etc. of the Bank or its subsidiary prior to the expiration of the transfer restriction period, the transfer restrictions will be immediately removed. The number of shares subject to removal of transfer restrictions are obtained by multiplying the number of allotted stocks held by the recipient at the time of his/her resignation or retirement by the value obtained as a result of dividing the period of service of the recipient or during the transfer restriction period (on a monthly basis) by 12. The Bank shall automatically acquire, without consideration, the allotted stocks for which transfer restrictions have not been removed at the time of expiration of the transfer restriction period or at the time of removal of the transfer restrictions. |
| Fair value at grant date | 1,599 Yen |

| | Granted on July 18, 2019 |
|---|---|
| Categories and numbers of recipients | Directors of the Bank(Directors excluding outside directors): 2 persons |
| Number of shares granted | 12,232 shares of common stock of the Bank |
| Grant date | July 18, 2019 |
| Required service period | From June 19, 2019 to the date of the ordinary general meeting of shareholders in 2020 |
| Transfer restriction period | From July 18, 2019 to July 17, 2022 |
| Cancellation conditions | On the condition that the recipient has maintained his/her position of executive director, etc. of the Bank or its subsidiary continuously during the transfer restriction period, the transfer restriction shall be cancelled at the expiration of the transfer restriction period.<br>If the recipient loses the position of executive director, etc. of the Bank or its subsidiary prior to the expiration of the transfer restriction period, the transfer restrictions will be immediately removed. The number of shares subject to removal of transfer restrictions are obtained by multiplying the number of allotted stocks held by the recipient at the time of his/her resignation or retirement by the value obtained as a result of dividing the period of service of the recipient or during the transfer restriction period (on a monthly basis) by 12. The Bank shall automatically acquire, without consideration, the allotted stocks for which transfer restrictions have not been removed at the time of expiration of the transfer restriction period or at the time of removal of the transfer restrictions. |
| Fair value at grant date | 1,635 Yen |

| | Granted on May 8, 2020 |
|---|---|
| Categories and numbers of recipients | Executive Officers of the Bank as well as Chief Officers and Senior Officers of the Group Headquarters: 34 persons |
| Number of shares granted | 37,392 shares of common stock of the Bank |
| Grant date | May 8, 2020 |
| Required service period | From April 1, 2020 to March 31, 2021 |
| Transfer restriction period | From May 8, 2020 to May 7, 2023 |
| Cancellation conditions | On the condition that the recipient has maintained his/her position of executive director, etc. of the Bank or its subsidiary continuously during the transfer restriction period, the transfer restriction shall be cancelled at the expiration of the transfer restriction period.<br>If the recipient loses the position of executive director, etc. of the Bank or its subsidiary prior to the expiration of the transfer restriction period, the transfer restrictions will be immediately removed. The number of shares subject to removal of transfer restrictions are obtained by multiplying the number of allotted stocks held by the recipient at the time of his/her resignation or retirement by the value obtained as a result of dividing the period of service of the recipient or during the transfer restriction period (on a monthly basis) by 12. The Bank shall automatically acquire, without consideration, the allotted stocks for which transfer restrictions have not been removed at the time of expiration of the transfer restriction period or at the time of removal of the transfer restrictions. |
| Fair value at grant date | 1,524 Yen |

| | Granted on July 16, 2020 |
|---|---|
| Categories and numbers of recipients | Directors of the Bank(Directors including outside directors): 7 persons |
| Number of shares granted | 24,629 shares of common stock of the Bank |
| Grant date | July 16, 2020 |
| Required service period | From June 17, 2020 to the date of the ordinary general meeting of shareholders in 2021 |
| Transfer restriction period | From July 16, 2020 to July 15, 2023 |
| Cancellation conditions | On the condition that the recipient has maintained his/her position of executive director, etc. of the Bank or its subsidiary continuously during the transfer restriction period, the transfer restriction shall be cancelled at the expiration of the transfer restriction period.<br>If the recipient loses the position of executive director, etc. of the Bank or its subsidiary prior to the expiration of the transfer restriction period, the transfer restrictions will be immediately removed. The number of shares subject to removal of transfer restrictions are obtained by multiplying the number of allotted stocks held by the recipient at the time of his/her resignation or retirement by the value obtained as a result of dividing the period of service of the recipient or during the transfer restriction period (on a monthly basis) by 12. The Bank shall automatically acquire, without consideration, the allotted stocks for which transfer restrictions have not been removed at the time of expiration of the transfer restriction period or at the time of removal of the transfer restrictions. |
| Fair value at grant date | 1,421 Yen |

| | Granted on April 23, 2021 |
|---|---|
| Categories and numbers of recipients | Executive Officers of the Bank as well as Chief Officers and Senior Officers of the Group Headquarters: 37 persons |
| Number of shares granted | 32,338 shares of common stock of the Bank |
| Grant date | April 23, 2021 |
| Required service period | From April 1, 2021 to March 31, 2022 |
| Transfer restriction period | From April 23, 2021 to April 22, 2024 |
| Cancellation conditions | On the condition that the recipient has maintained his/her position of executive director, etc. of the Bank or its subsidiary continuously during the transfer restriction period, the transfer restriction shall be cancelled at the expiration of the transfer restriction period.<br>If the recipient loses the position of executive director, etc. of the Bank or its subsidiary prior to the expiration of the transfer restriction period, the transfer restrictions will be immediately removed. The number of shares subject to removal of transfer restrictions are obtained by multiplying the number of allotted stocks held by the recipient at the time of his/her resignation or retirement by the value obtained as a result of dividing the period of service of the recipient or during the transfer restriction period (on a monthly basis) by 12. The Bank shall automatically acquire, without consideration, the allotted stocks for which transfer restrictions have not been removed at the time of expiration of the transfer restriction period or at the time of removal of the transfer restrictions. |
| Fair value at grant date | 1,931 Yen |

| | Granted on July 21, 2021 |
|---|---|
| Categories and numbers of recipients | Directors of the Bank (Directors including outside directors) as well as Chief Officers of the Group Headquarters: 8 persons |
| Number of shares granted | 23,184 shares of common stock of the Bank |
| Grant date | July 21, 2020 |
| Required service period | From June 23, 2021 to the date of the ordinary general meeting of shareholders in 2022 (to March 31, 2022 for Chief Officers of the Group Headquarters) |
| Transfer restriction period | From July 21, 2021 to July 20, 2024 |
| Cancellation conditions | On the condition that the recipient has maintained his/her position of executive director, etc. of the Bank or its subsidiary continuously during the transfer restriction period, the transfer restriction shall be cancelled at the expiration of the transfer restriction period.<br>If the recipient loses the position of executive director, etc. of the Bank or its subsidiary prior to the expiration of the transfer restriction period, the transfer restrictions will be immediately removed. The number of shares subject to removal of transfer restrictions are obtained by multiplying the number of allotted stocks held by the recipient at the time of his/her resignation or retirement by the value obtained as a result of dividing the period of service of the recipient or during the transfer restriction period (on a monthly basis) by 12. The Bank shall automatically acquire, without consideration, the allotted stocks for which transfer restrictions have not been removed at the time of expiration of the transfer restriction period or at the time of removal of the transfer restrictions. |
| Fair value at grant date | 1,530 Yen |

(2) Number of restricted stocks and movement therein

| | Granted on July 19, 2018 | Granted on October 31, 2018 | Granted on April 19, 2019 | Granted on July 18, 2019 |
|---|---|---|---|---|
| Number of shares before the cancellation of transfer restrictions | | | | |
| Outstanding at the end of the last fiscal year | 11,675 | 32,447 | 36,886 | 12,232 |
| Granted during the fiscal year | - | - | - | - |
| Acquisition without consideration by the Bank | - | - | - | - |
| Cancellation of the transfer restrictions | 11,675 | 32,447 | - | 7,951 |
| Outstanding at the end of the fiscal year | - | - | 36,886 | 4,281 |

| | Granted on May 8, 2020 | Granted on July 16, 2020 | Granted on April 23, 2021 | Granted on July 21, 2021 |
|---|---|---|---|---|
| Number of shares before the cancellation of transfer restrictions | | | | |
| Outstanding at the end of the last fiscal year | 37,392 | 24,629 | - | - |
| Granted during the fiscal year | - | - | 32,338 | 23,184 |
| Acquisition without consideration by the Bank | - | - | - | 4,084 |
| Cancellation of the transfer restrictions | - | 19,703 | - | 12,252 |
| Outstanding at the end of the fiscal year | 37,392 | 4,926 | 32,338 | 6,848 |

(Subsequent events)

(Succession of business by absorption-type company split)

On May 1, 2022, Shinsei Financial Co., Ltd., a wholly-owned subsidiary of the Bank, has succeed to part of the credit business, part of the loan business, and all of the credit guarantee business of PayPay Card Corporation (previous YJ Card Corporation) (Hereinafter referred to as "Target Business") under the absorption-type company split agreement. As of the same date, APLUS INVESTMENT Co., Ltd., a wholly-owned subsidiary of the Bank, has succeed to part of the Target Business from Shinsei Financial Co., Ltd. under the absorption-type company split agreement.

The transaction between Shinsei Financial Co., Ltd. and APLUS INVESTMENT Co., Ltd. is accounted for as a business combination under common control in accordance with “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, January 16, 2019) and the “Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, January 16, 2019).

1. Outline of the business combination

(1) Name and business description of the company splitting in the absorption-type split

Name: PayPay Card Corporation (previous YJ Card Corporation)

Business description: Part of credit business<br>Part of loan business<br>Credit guarantee business

(2) Purpose of the succession

For revenue growth of the Group.

(3) Date on which the business combination is effective

May 1, 2022

(4) Legal form of the business combination

Absorption-type company split;

Company Succeeding in the Absorption-type Split: Shinsei Financial Co., Ltd.

Company Splitting in the Absorption-type Split: PayPay Card Corporation (previous YJ Card Corporation)

2. Acquisition costs of the acquired businesses and their breakdown

Not determined

3. Primary acquisition-related costs and their breakdown

Not determined

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

Not determined

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

Not determined

# Notes to the nonconsolidated financial statements

All yen amounts are rounded down to millions of yen.

**Significant accounting policies**

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

Trading account positions including derivatives embedded in compound financial instruments, which are managed and accounted for separately from the financial assets and liabilities that are their host, entered into to generate gains arising from short-term changes in interest rates, currency exchange rates or market prices of financial instruments and other market-related indices, or from price differences among markets, are included in "Trading assets" and "Trading liabilities" on a trade-date basis. The income and losses resulting from trading activities are included in "Trading income" and "Trading losses."

Trading securities and monetary claims purchased for trading purposes are stated at market value at the balance sheet date and derivative financial instruments related to trading positions are stated at fair value based on estimated amounts that would be settled in cash if such positions were terminated at the balance sheet date.

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

For derivatives, based on net assets or liabilities after offsetting financial assets and financial liabilities with respect to specific market risk or specific credit risk, the fair value of each group of the financial assets or financial liabilities is determined.

**2.** Measurement of securities

(a) Securities for trading purposes (except for those included in trading accounts) are carried at fair value (cost of securities sold is determined by the moving-average method). Securities being held to maturity are carried at amortized cost (using the straight-line method) determined by the moving-average method. Investments in subsidiaries and affiliates are carried at cost determined by the moving-average method. Available-for-sale securities are carried at fair value (cost of securities sold is determined by the moving-average method) except for nonmarketable equity securities and others, which are carried at cost determined by the moving-average method. Investments in partnerships and others are carried at the amount of the Bank's share of net asset value based on their most recent financial statements.

Unrealized gain (loss) on available-for-sale securities is directly recorded in a separate component of equity, after deducting the amount charged to profit or loss by applying fair value hedge accounting. Foreign currency-denominated available-for-sale securities (bonds) are translated into Japanese yen at the exchange rates as of the balance sheet date, and of the translation amount, the translation difference arising from changes in fair values in foreign currencies is treated as unrealized gain or loss on available-for-sale securities and the other translation difference is treated as profit or loss.

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

**3.** Measurement of derivatives

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

Based on net assets or liabilities after offsetting financial assets and financial liabilities with respect to specific market risk or specific credit risk, the fair value of each group of the financial assets or financial liabilities is determined.

**4.** Measurement of other monetary claims purchased

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

**5.** Depreciation

(a) Premises and equipment (excluding leased assets)

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

Buildings: 8 – 24 years
Others: 4 – 20 years

(b) Intangible assets (excluding leased assets)

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

| | |
|---|---|
| Capitalized software for internal use | 5–10 years (the estimated useful lives) |
| Goodwill | 10 years |

(c) Leased assets

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

**6.** Deferred charges

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

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

**7.** Reserves and allowances

(a) Reserve for credit losses

The reserve for credit losses has been established according to the obligor categorization described below based on the predetermined internal rules for establishing the reserve.

| | |
|---|---|
| Legally bankrupt obligors: | Obligors who have legally or formally declared bankruptcy, special liquidation |
| Virtually bankrupt obligors: | Obligors who are in a situation substantially equivalent to that of the "Legally bankrupt obligors" |
| Possibly bankrupt obligors: | Obligors who are not currently in a state of bankruptcy but are deemed likely to go bankrupt in the future |
| Substandard obligors: | Obligors whose debts, all or in part, are Substandard Claims (Restructured Loans and Loans in Arrears for three months or longer) |
| Need caution obligors: | Obligors requiring attention for credit control due to problems with loan terms and repayment performance, poor business conditions, instability, or financial problems |
| Normal obligors: | Obligors whose business conditions are favorable and whose financial conditions are deemed to have no particular problems |

For claims to legally bankrupt obligors and 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 possibly bankrupt obligors, except claims to obligors with large claims described below, a specific reserve is provided by forecasting a loss amount expected from the net amount for the next three years, which is the amount deducting amounts expected to be collectible through the disposal of collateral and execution of guarantees from the claim amount.

With regard to claims to possibly bankrupt obligors, substandard obligors and certain obligors 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 (Hereinafter referred to as "future cash flows") for debt service are reasonably estimable and the balance of claims to such obligors are at or larger than the predetermined amount, the reserve for credit losses is determined as the difference between (i) relevant estimated future cash flows discounted by the original contractual interest rate and (ii) the book value of the claim (discounted cash flow method). In cases where it is difficult to reasonably estimate future cash flows, the reserve is provided based on the expected loss amount for the remaining term of respective claims.

For other claims (claims to normal, need caution and substandard obligors), the reserve for credit losses is recorded by estimating an expected loss amount of loans and claims. The expected loss amount is calculated based on the characteristics of the portfolio. The portfolio is divided into loans for general non-financial corporations, real estate non-recourse loans, project finance and loans for individual customers. For loans to general non-financial corporations, real estate non-recourse loans and loans for individual customers, loss rate is calculated based mainly on the actual credit loss for the average remaining term to maturity of each obligor category or the actual credit loss for the average remaining term to maturity. For project finance, loss rate is calculated based on the actual credit loss on the basis of actual default for the average remaining term to maturity of each obligor category or the average rate of the probability of default over a certain period in the past. The reserve is provided by making necessary adjustments to the expected loss amount.

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

All claims are assessed by sales promotion divisions and credit analysis divisions based on the predetermined internal rules for the self-assessment of asset quality. The risk management divisions, which are independent of sales promotion divisions and credit analysis divisions, conduct verifications of these assessments, and additional reserves may be provided based on the verification results.

For collateralized or guaranteed claims to legally bankrupt obligors or virtually bankrupt obligors, the amount of claims exceeding the estimated value of collateral or guarantees, which is deemed uncollectible, has been charged off in principle and totaled ¥ 9,874 million.

(b) Accrued employees' bonuses

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

(c) Reserve for employees' retirement benefits

The reserve for employees' retirement benefits is provided for the payment of employees' retirement benefits based on the estimated amounts of the projected benefit obligation and the estimated value of pension plan assets as of the balance sheet date. The projected benefit obligation is estimated using the benefit formula basis for attributing the expected benefits to the current fiscal year.

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

| | |
|---|---|
| Unrecognized actuarial gain (loss): | Amortized using the straight-line method over the average remaining service period (9.68-11.54 years) from the fiscal year of occurrence. |

(d) Reserve for reimbursement of deposits

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

(e) Reserve for reimbursement of debentures

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

**8.** Translation of foreign currency-denominated assets and liabilities

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

**9.** Revenue and expense recognition

Revenue recognition from contracts with customers

The Bank recognizes revenue from contracts with customers based on the following five steps in principle.

Step 1: Identify the contracts with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Revenues from contracts with customers for the Bank is mainly from sales of mutual funds and insurances in Retail Banking.

The Bank recognizes its revenues when the Bank satisfies the performance obligation at the time of transfer of these goods or services.

In addition, these revenues do not contain element of material variable estimates or significant financing component.

**10.** 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 "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in the Banking Industry" (Industry Committee Practical Guidelines No. 24, March 17, 2022, by the Japanese Institute of Certified Public Accountants (the "JICPA")). Under portfolio hedging to mitigate the change in fair value, a portfolio of hedged items with common maturities such as deposits or loans is designated and matched with a group of hedging instruments such as interest rate swaps, which offset the effect of fair value fluctuations of the hedged items by identified maturities. The effectiveness of the portfolio hedging is assessed by each group.

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

(b) Hedge of foreign exchange fluctuation risks

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

Under deferral hedge accounting, which is in accordance with "Accounting and Auditing Treatment of Accounting Standards for Foreign Exchange Transactions in the Banking Industry" (Industry Committee Practical Guidelines No. 25, October 8, 2020 by the JICPA), hedged items are identified by grouping the foreign currency-denominated financial assets and liabilities by currency and designating derivative transactions such as currency swap transactions, funding swap transactions and forward exchange contracts as hedging instruments. Hedge effectiveness is reviewed by comparing the total foreign currency position of the hedged items and hedging instruments by currency.

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

(c) Intracompany derivative transactions

Gains (losses) on intracompany derivative hedging transactions between the trading book and the banking book are not eliminated since offsetting transactions with third parties are appropriately entered into in conformity with the non-arbitrary and strict hedging policy in accordance with Industry Committee Practical Guidelines 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.

**11.** Reserve for employees' retirement benefits

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

**12.** Consolidated corporate tax system

The consolidated corporate tax system is adopted by the Bank.

**13.** Application of tax effect accounting for the transition from the consolidated tax system to the group tax sharing system

The Bank will shift from the consolidated taxation system to the group tax sharing system from the next fiscal year. However, the Bank records the amounts of deferred tax assets and deferred tax liabilities on items relating to the transition from the consolidated tax system to the group tax sharing system introduced by "Act on Partial Revision of the Income Tax Act" (Act No.8 of 2020), and deferred tax assets and deferred tax liabilities on items revised in nonconsolidated tax system, in accordance with the provisions of the tax law before amendments relating to this transition. This accounting treatment is in accordance with the paragraph 44 of "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28, February 16, 2018) in accordance with the paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ Practical Issues Task Force (PITF) No. 39, March 31, 2020).

The Bank plans to apply "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System"(ASBJ Practical Issues Task Force (PITF) No. 42, August 12, 2021) that stipulates the handling of corporate tax, local corporate tax, and tax effect accounting treatment and disclosure, from the beginning of the next fiscal year.

**(Change in accounting policy)**

(Application of Accounting Standard for Revenue Recognition and Its Implementation Guidance)

The Bank has applied the “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 29, March 31, 2020) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 26, 2021) since the beginning of the current fiscal year, and the Bank recognized revenue at the amount expected to be received in exchange for the promised goods or services at the time the control of those goods or services was transferred to the customer.

In applying the Accounting Standard for Revenue Recognition and its Implementation Guidance, the Bank followed the transitional treatment described in the proviso of paragraph 84 of the Accounting Standard for Revenue Recognition, and the cumulative effect of applying of the new accounting policy retroactively prior to the beginning of the current fiscal year was added to or deducted from the balance of “Retained Earnings” at the beginning of the current fiscal year. As a result, there was a minor impact on the financial statements for the current fiscal year.

(Application of the Accounting Standard for Fair Value Measurement and Its Implementation Guidance)

The Bank has applied “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019), etc. since the beginning of the current fiscal year.

Accordingly, in accordance with paragraph 8 of "Accounting Standard for Fair Value Measurement," the Bank has revised the fair value method to reflect the own credit risks and the counterparty's credit risks in the fair value of derivative transactions by making maximum use of relevant observable inputs estimated from derivatives and others traded in the market. As for the impact of this revise, in accordance with the transitional treatment set forth in paragraph 20 of “Accounting Standards for Fair Value Measurement,” the cumulative effect of applying of the new accounting policy retroactively prior to the current fiscal year is added to or deducted from “Retained earnings” at the beginning of the current fiscal year.

As a result, both of “Ordinary profit” and “Income before income taxes” decreased by ¥254 million, due to the decrease of ¥275 million in “Trading income” and increase of ¥20 million in “Other business income” for the current fiscal year. Also, at the beginning of the current fiscal year, “Unappropriated retained earnings” of “Retained earnings” increased by ¥559 million, “Trading assets” decreased by ¥1,216 million, “Other assets” decreased by ¥253 million, “Deferred tax assets” increased by ¥197 million, “Trading liabilities” decreased by ¥1,326 million, and “Other liabilities” decreased by ¥504 million.

Among available-for-sale securities, the Bank had previously adopted the method of measurement applied to monetary claims or the method of measuring at cost for securities whose fair value cannot be reliably determined. According to the application of this accounting standard and its implementation guidance, the Bank changed the method of measurement to the one measuring at fair value, except for nonmarketable equity securities and others. Also, in accordance with the transitional treatment set forth in paragraph 19 of "Accounting Standard for Fair Value Measurement" and paragraph 44-2 of "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Bank has applied the new accounting policy prospectively since the beginning of this fiscal year.

**(Significant Accounting Estimates)**

An item whose amount is recorded in the financial statements for the current fiscal year based on accounting estimates and which may have a material impact on the financial statements for the following fiscal year is as follows.

Reserve for credit losses

**1.** Amount recorded in the nonconsolidated financial statements for the current fiscal year

Reserve for credit losses ¥38,149 million

**2.** Information that contributes to the understanding of the significant accounting estimates

The Bank determines obligor categories (normal, need caution, substandard, possibly bankrupt, virtually bankrupt and legally bankrupt) for each obligor based on the obligor's financial information and available external information and records reserve for loan losses for each obligor category based on the calculation method described in "7. Reserves and allowances (a) Reserve for credit losses" of "Significant accounting policies".

The impacts of the Novel Coronavirus outbreak and the resulting stagnant economic activities (hereinafter referred to as the "impact of the spread of the Novel Coronavirus infection, etc.") has weaken by the end of March 2021, but the impacts on the credit risk for loans to some obligors will remain for several more years. Even after April 2021, the spread of the Novel Coronavirus infection has caused some impact. However, no material changes were made from this assumption at the end of March 2022. Based on this assumption, we have assumed that there will be material impacts on the credit risk for loans to specific obligors with the varying degrees of such impacts by obligor.

In order to prepare for losses expected from such impacts, we have determined obligor categories for obligors whose performance is deteriorating due to the impact of the spread of the Novel Coronavirus infection, etc. by assessing the possibility of future deterioration or recovery in their business conditions and the possibility of their business continuity and have provisioned reserves for credit losses according to their obligor categories.

Obligor categories for real estate non-recourse loans included in the Bank's loans and claims are determined based on the valuation of the underlying real estate, which is calculated with the assumptions including rental income, vacancy rate and discount rate. Among the properties subject to non-recourse loans, hotels and commercial facilities that have been strongly affected by the impact of the spread of the Novel Coronavirus infection, etc. are assumed to continue to be affected for a few years in the future, and the projected trend in future rent income are reflected in the assumptions in the evaluation of the properties subject to non-recourse loans.

Reserve for credit losses is determined based on necessary adjustments taking obligor's business plan into consideration (reduction of future cash flow to reflect future uncertainties and establishment of multiple scenarios, etc.) in estimating future cash flow for obligors such as possibly bankrupt obligors and substandard obligors to whom the Bank makes provision based on the discounted cash flow method among those whose business performance has deteriorated due to the recent changes in the economic environment in addition to the impact of the spread of the Novel Coronavirus infection, etc.

The possibility of such deterioration or recovery of the obligor's financial condition, the possibility of business continuity, and the prospect of future cash flows are affected by the impact of the spread of the Novel Coronavirus infection, etc. and changes in the economic environments inside and outside. Therefore, the uncertainty of the estimation is high.

Accordingly, the amount of reserve for credit losses provisioned as of March 31, 2022 is based on our best estimate at present. However, the amount of reserve for credit losses may change during the next fiscal year if there are changes in the economic environment surrounding the obligors or in their financial conditions.

**(Additional information)**

(Acquisition of treasury shares)

On May 13, 2021, the Bank decided to acquire its own treasury shares in accordance with the provision of its Articles of Incorporation, pursuant to Article 459, paragraph 1 of the Companies Act of Japan.

(1) Reason for acquisition

As a part of the Bank's efforts to achieve the repayment of public funds, a resolution to undertake the acquisition of treasury shares has been approved in light of factors such as the Bank's current capital position, earnings capability and per share values. Through this acquisition of treasury shares, assuming the maintenance of capital at sufficient levels, the Bank aims to increase the per share values through the implementation of an appropriate capital policy. However, subsequent to the launch of a takeover bid by SBI Regional Bank Holdings Co., Ltd. on September 10, 2021, comprehensively considering the fact that the pricing process of the Bank's shares had become different from that under the ordinary circumstances, etc., the Bank had taken the decision to temporarily suspend the acquisition of its treasury shares since September 27, 2021, but the Bank restarted the acquisition of its treasury shares from December 28, 2021.

In addition, on the same date, the Bank decided to change the acquisition period from "From May 14, 2021 to March 31, 2022" to "From May 14, 2021 to May 12, 2022".

(2) Details of acquisition

(i) Type of shares to be repurchased

Common stock

(ii) Total number of shares to be repurchased

(Up to) 20 million shares (9.29% of total number of common shares issued, excluding treasury shares)

(iii) Total repurchase amount

(Up to) ¥20.0 billion

(iv) Acquisition period

From May 14, 2021 to May 12, 2022

In accordance with the aforementioned resolution by the Board of Directors, the Bank has undertaken the acquisition of treasury shares as follows:

(i) Type of shares repurchased

Common stock

(ii) Total number of shares repurchased

11,063,300 shares

(iii) Total amount of repurchase

¥19,406,058,480

(iv) Acquisition period

From May 14, 2021 to April 30, 2022

(v) Acquisition method

Open market purchase on the Tokyo Stock Exchange

**Notes**

(Balance Sheet)

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

(Millions of yen)

| | Carrying amount |
|---|---|
| Equity securities | ¥434,148 |
| Other | 18,511 |

**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 ¥6,701 million of those securities was held by the Bank at the balance sheet date.

**3.** Claims under the Japanese Banking Act (JBA) and the Financial Revitalization Law are as follows. Claims are corporate bonds in the "Securities" in the nonconsolidated balance sheet (limited to bonds for which redemption of principal and payment of interest are guaranteed in whole or in part, and the issuance of such bonds is due to private placement of securities (Article 2, Paragraph 3 of the Financial Instruments and Exchange Act), loans and bills discounted, foreign exchange claims, accrued income and suspense payments in other assets, customers' liabilities for acceptances and guarantees, and securities lent (limited to those under a loan for use or lease contract).

| | |
|---|---|
| Claims against bankrupt and quasi-bankrupt obligors: | ¥1,613 million |
| Doubtful claims: | ¥30,163 million |
| Loans past due for three months or more: | ¥725 million |
| Restructured loans: | ¥3,554 million |
| Total amount: | ¥36,055 million |

Claims against bankrupt and quasi-bankrupt obligors are claims against obligors under bankruptcy and similar claims, as provided for under the Bankruptcy Law, the Corporate Reorganization Law, the Civil Rehabilitation Law, and similar laws.

Doubtful claims are claims against obligors that are not yet in bankruptcy but have experienced deterioration in their financial condition and operating performance and for which there is a high probability of contractual defaults on principal and interest payments.

Loans past due for three months or more shall mean loans on which principal and/or interest are past due three months or more, excluding claims against bankrupt and quasi-bankrupt obligors and doubtful claims.

Restructured loans are loans where the Bank relaxes lending conditions, such as by reducing the original interest rate, or by forbearing interest payments or principal repayments to support the borrower's reorganization, but excluding claims against bankrupt and quasi-bankrupt obligors, doubtful claims, or loans past due for three months or more.

The above amount of claims is the amount before deduction of reserve for credit losses.

(Change in presentation)

The Cabinet Office Ordinance to Partially Amend the Ordinance for Enforcement of the Banking Act, etc. (Cabinet Office Ordinance No. 3 of January 24, 2020) came into effect on March 31, 2022. Accordingly, the classification of risk-monitored loans in the JBA is indicated in accordance with the classification of disclosed claims based on the Financial Revitalization Law.

**4.** The total principal amount of loans accounted for as a sale through loan participations was ¥6,653 million as of March 31, 2022. This "off-balance sheet" treatment is in accordance with Report No. 3 issued by the Framework Committee of the JICPA on November 28, 2014. The total principal amount of such loans in which the Bank participated was ¥12,761 million as of March 31, 2022.

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

| | | |
|---|---|---|
| Cash and due from banks | ¥ | 10 million |
| Monetary assets held in trust | | 1,910 |
| Securities | | 278,170 |
| Loans and bills discounted | ¥ | 727,425 |

Liabilities collateralized were as follows:

| | | |
|---|---|---|
| Deposits | ¥ | 1,218 million |
| Payables under repurchase agreements | | 9,567 |
| Payables under securities lending transactions | | 237,530 |
| Borrowed money | | 490,735 |
| Other presented in other liabilities | | 12 |
| Acceptances and guarantees | ¥ | 169 |

In addition, ¥7,998 million of security deposits, ¥1,219 million of guarantee deposits under resale agreements and repurchase agreements and ¥40,000 million of cash collateral paid for Zengin-net were included in “Other” presented in “Other assets”.

**6.** The Bank sets credit lines of overdrafts and issues commitments to extend credit to meet the financing needs of its customers. The unfulfilled amounts of these commitments were ¥2,182,545 million, out of which the amounts with the commitments of the agreement expiring within one year or being able to be cancelled at any time with no condition were ¥1,823,174 million.

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

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

**7.** Accumulated depreciation on premises and equipment was ¥21,751 million.

**8.** Deferred gains on premises and equipment deducted for tax purposes were ¥29 million.

**9.** Software in progress of ¥2,787 million were included in Software.

**10.** The amount of guarantee obligations for privately-placed bonds (Paragraph 3 of Article 2 of the Financial Instruments and Exchange Act), out of “Japanese corporate bonds” included in the “Securities” stands at ¥3,080 million.

**11.** Total obligations to the Directors and Audit & Supervisory Board Members stand at ¥20 million.

**12.** Total monetary claims to subsidiaries and affiliates stand at ¥813,232 million.

**13.** Total monetary liabilities against subsidiaries and affiliates stand at ¥192,861 million.

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

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

The amount of legal reserve to be accrued in connection with such dividends from surplus in the current fiscal year was ¥516 million.

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

| | | | |
|---|---|---|---|
| Projected benefit obligation | ¥ | (67,628) | million |
| Fair value of plan assets | | 79,960 | |
| Unfunded retirement benefit obligations | | 12,331 | |
| Unrecognized net actuarial losses | | (3,136) | |
| Net amount recognized on the balance sheet | | 9,195 | |
| Prepaid pension cost | ¥ | 9,195 | |

(Statement of Income)

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

Total interest income: ¥46,184 million

Total fees and commissions income: ¥4,097 million

Total earnings from other businesses and other ordinary transactions: ¥214 million

Total earnings from other transactions: ¥1,629 million

Expenses from transactions with subsidiaries and affiliates

Total interest expenses: ¥7 million

Total fees and commissions expenses: ¥15,334 million

Total expenses from other businesses and other ordinary transactions: ¥548 million

Total expenses from other transactions: ¥3,462 million

**2.** "Other" of "Other business expenses" was losses on investment in partnerships and others of ¥1,569 million.

**3**. "Other extraordinary gains" was gain on sale of investments in subsidiaries and affiliates of ¥1,629 million.

**4.** "Impairment losses" are impairment losses as for the following asset groups.

| Location | Usage | Asset type | Amount (Millions of yen) |
|---|---|---|---|
| Fukuoka, Osaka, etc. | Branches | Buildings, Other premises and equipment | ¥132 |
| Tokyo, Osaka, etc. | IT-related property | Other premises and equipment, Software | ¥96 |
| Total | | | ¥228 |

The Bank determines the asset group based on management segmentation.

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

In the above impairment loss amount, ¥119 million was for "Buildings," ¥17 million was for "Other premises and equipment" and ¥91 million was for "Software."

**5.** Impairment loss on investments in subsidiaries and affiliates of ¥1,447 million was included in "Other extraordinary losses".

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

(1) Parent company and major corporate shareholders

Not applicable.

(2) Subsidiaries and affiliates

(Millions of yen)

<table>
<tr><th>Category</th><th>Name of corporation or organization</th><th>Ratio of voting rights held by the Bank</th><th>Relation-ship</th><th>Details of transaction</th><th>Transaction amount</th><th>B/S account</th><th>Balance at fiscal year end</th></tr>
<tr><td rowspan="14">Subsidiaries</td><td rowspan="2">APLUS Co., Ltd.</td><td rowspan="2">Direct holding 100%</td><td rowspan="2">Deposit<br>Lending<br>Guarantee</td><td>Overdraft loan transaction (Note 1)</td><td>¥323,822</td><td>Loans and bills discounted</td><td>¥370,000</td></tr>
<tr><td>Receipt of loan interests (Note 1)</td><td>851</td><td>Accrued income</td><td>2</td></tr>
<tr><td rowspan="6">Shinsei Financial Co., Ltd.</td><td rowspan="6">Direct holding 100%</td><td rowspan="6">Deposit<br>Lending<br>Guarantee</td><td>Overdraft loan transaction (Note 1)</td><td>66,493</td><td>Loans and bills discounted</td><td>109,800</td></tr>
<tr><td>Receipt of loan interests (Note 1)</td><td>340</td><td>Accrued income</td><td>19</td></tr>
<tr><td>Guarantee to Bank's loan assets (Note 2)</td><td>185,416</td><td>-</td><td>-</td></tr>
<tr><td>Payment of guarantee fees (Note 2)</td><td>14,376</td><td>Accrued expenses</td><td>1,547</td></tr>
<tr><td>Subrogation receipt (Note 2)</td><td>13,380</td><td>-</td><td>-</td></tr>
<tr><td>Receipt of dividend</td><td>34,999</td><td>-</td><td>-</td></tr>
<tr><td rowspan="6">Showa Leasing Co., Ltd.</td><td rowspan="6">Direct holding 100%</td><td rowspan="6">Deposit<br>Lending<br>Guarantee</td><td>Overdraft loan transaction (Note 1)</td><td>4,165</td><td rowspan="5">Loans and bills discounted</td><td rowspan="5">100,273</td></tr>
<tr><td>Execution of loans on deed (Note 1)</td><td>82,834</td></tr>
<tr><td>Receipt of loans on deed repayment (Note 1)</td><td>45,764</td></tr>
<tr><td>Execution of loans on bills (Note 1)</td><td>99,982</td></tr>
<tr><td>Receipt of loans on bills repayment (Note 1)</td><td>113,320</td></tr>
<tr><td>Receipt of loan interests (Note 1)</td><td>202</td><td>Accrued income</td><td>11</td></tr>
</table>

Note:

1. The lending is for the purpose of business operation. The interest rate was determined at a reasonable level according to market conditions. Transaction amount of overdraft loan is the average balance during this current fiscal year.
2. Shinsei Financial Co., Ltd. guarantees the unsecured loans to individuals. The guarantee fees were determined at a reasonable level according to market conditions.

(3) Fellow subsidiaries

Not applicable.

(4) Directors and major individual shareholders

(Millions of yen)

| Category | Name of corporation or organization | Ratio of voting rights held by the counterparty | Relation-ship | Details of transaction | Transaction amount | B/S account | Balance at fiscal year end |
|---|---|---|---|---|---|---|---|
| Director | Hideyuki Kudo | Owned directly 0.0% | Representative director, president and chief executive officer (Note 1) | In-kind contributions of monetary compensation claims (Note 2) | ¥12 | - | - |
| Director | Yoshiaki Kozano | Owned directly 0.0% | Chief Officer,In charge of Group Business Strategy Division | Exercise of stock options (Note 3) | ¥17 | - | - |

Note:

1. Hideyuki Kudo retired from the Bank's President and Chief Executive Officer on February 8, 2022 and is no longer a related party. Therefore, the transaction amount is the one from April 1, 2021 to the date of his retirement.
2. The in-kind contributions of the monetary compensation claims for the restricted stock compensation.
3. This is the exercise of stock option rights in accordance with the share compensation type stock option system, and the transaction amount indicates the amount of the consideration for the treasury stock at the time of disposal of it.

(Statement of Changes in Equity)

Type and number of treasury stock were as follows:

(Unit: thousand shares)

| | Number of shares as of April 1, 2021 | Number of shares increased | Number of shares decreased | Number of shares as of March 31, 2022 | Note |
|---|---|---|---|---|---|
| Treasury stock: | | | | | |
| Common stock | 43,743 | 10,201 | 142 | 53,802 | (Note)1,2 |
| Total | 43,743 | 10,201 | 142 | 53,802 | |

Note1: The increase of number of shares in treasury stock is associated with the repurchase of 0 thousand shares less than one unit, and the repurchase of 4 thousand shares due to the free acquisition of a restricted stock compensation, and the repurchase of 10,197 thousand shares from market.

2: The decrease of number of shares in treasury stock is associated with the transfer of 86 thousand shares upon exercise of the stock option (stock acquisition rights), and the disposal of 55 thousand shares as a restricted stock compensation.

(Securities)

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

**1.** Trading securities (as of March 31, 2022)

(Millions of yen)

| | Unrealized gain (loss) |
|---|---|
| Trading securities | ¥- |

**2.** Securities being held to maturity (as of March 31, 2022)

(Millions of yen)

| | Type | Carrying amount | Fair value | Unrealized gain (loss) |
|---|---|---|---|---|
| Fair value exceeds carrying amount | Japanese national government bonds | ¥45,010 | ¥45,100 | ¥90 |
| | Subtotal | 45,010 | 45,100 | 90 |
| Fair value does not exceed carrying amount | Japanese national government bonds | 64,978 | 64,507 | (471) |
| | Subtotal | 64,978 | 64,507 | (471) |
| Total | | ¥109,988 | ¥109,608 | ¥(380) |

**3.** Equity securities of subsidiaries and affiliates (as of March 31, 2022)

There were no marketable equity securities of subsidiaries and affiliates.

Nonmarketable equity securities of subsidiaries and affiliates consist of the following:

(Millions of yen)

| | Carrying amount |
|---|---|
| Equity securities of subsidiaries | ¥433,435 |
| Equity securities of affiliates | 713 |
| Total | ¥434,148 |

**4.** Securities available for sale (as of March 31, 2022)

(Millions of yen)

| | Type | Carrying amount (Fair value) | Amortized/ Acquisition cost | Unrealized gain (loss) |
|---|---|---|---|---|
| Carrying amount exceeds amortized/acquisition cost | Equity securities | ¥6,451 | ¥3,992 | ¥2,458 |
| | Domestic bonds: | 7,873 | 7,853 | 19 |
| | Japanese national government bonds | - | - | - |
| | Japanese local government bonds | 1,101 | 1,100 | 1 |
| | Japanese corporate bonds | 6,772 | 6,753 | 18 |
| | Other: | 71,599 | 70,605 | 993 |
| | Foreign securities | 62,178 | 61,339 | 838 |
| | Other | 9,420 | 9,265 | 154 |
| | Subtotal | 85,924 | 82,452 | 3,472 |
| Carrying amount does not exceed amortized/acquisition cost | Equity securities | 587 | 688 | (100) |
| | Domestic bonds: | 241,844 | 244,541 | (2,697) |
| | Japanese national government bonds | 102,458 | 102,635 | (177) |
| | Japanese local government bonds | 1,096 | 1,100 | (3) |
| | Japanese corporate bonds | 138,289 | 140,806 | (2,516) |
| | Other: | 189,798 | 201,232 | (11,434) |
| | Foreign securities | 189,522 | 200,953 | (11,430) |
| | Other | 275 | 278 | (3) |
| | Subtotal | 432,230 | 446,462 | (14,231) |
| Total | | ¥518,154 | ¥528,914 | ¥(10,759) |

(Note 1) Carrying amount of “Nonmarketable equity securities and others” and “Investment in partnerships and others” are as follows, and these are not included in the table shown above.

(Millions of yen)

| | Carrying amount |
|---|---|
| Nonmarketable equity securities and others | ¥4,332 |
| Investment in partnerships and others | 47,340 |

“Nonmarketable equity securities and others” and “Investment in partnerships and others” are not included in the table of “Securities available for sale” shown above, because these are out of the scope of fair values disclosure according to Guidance on Accounting Standard for Fair Value Measurement Paragraph 5 and 27 (ASBJ Guidance No.31, July 4, 2019), respectively.

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

(Millions of yen)

| | |
|---|---|
| Unrealized gain (loss) before deferred tax on: | |
| Available-for-sale securities | ¥(10,759) |
| Interests in available-for-sale securities held by partnerships | 651 |
| Other monetary assets held in trust | (2,558) |
| Less: Deferred tax liabilities | - |
| Unrealized gain (loss) on available-for-sale securities | ¥(12,667) |

**5.** Available-for-sale securities sold during the current fiscal year (from April 1, 2021 to March 31, 2022)

(Millions of yen)

| | Proceeds from sales | Gains on sales | Losses on sales |
|---|---|---|---|
| Equity securities | ¥5,392 | ¥4,071 | ¥228 |
| Domestic bonds: | 799,328 | 608 | 2,502 |
| Japanese national government bonds | 747,289 | 509 | 2,453 |
| Japanese local government bonds | 15,623 | 3 | 13 |
| Japanese corporate bonds | 36,415 | 96 | 35 |
| Other: | 383,258 | 950 | 9,680 |
| Foreign securities | 383,258 | 950 | 9,680 |
| Other | - | - | - |
| Total | ¥1,187,979 | ¥5,630 | ¥12,411 |

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

In the event individual securities (except for nonmarketable equity securities and others and investment in partnerships and others), other than trading securities, experience a decline in fair value which is significant as compared to the acquisition cost of such securities, the securities are written down as the decline in fair value is deemed to be other than temporary, and the difference is recorded as an impairment loss.

Impairment loss on such securities for the fiscal year ended March 31, 2022, was ¥773 million, which consisted of ¥ 375 million for equity securities and ¥397 million for others securities.

The Bank’s rules for the determination of whether an other-than-temporary impairment has occurred differ by the obligor categorization of the security issuer based upon the Bank’s self-assessment guidelines. The details of these rules are as follows: The definition of the obligor categorization is described in “7. Reserves and allowances (a) Reserve for credit losses” of “Significant accounting policies”.

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

(Monetary assets held in trust)

**1.** Monetary assets held in trust for trading purposes (as of March 31, 2022)

(Millions of yen)

| | Carrying amount (Fair value) | Unrealized gain (loss) |
|---|---|---|
| Monetary assets held in trust for trading purposes | ¥6,535 | ¥(1,550) |

**2.** There were no monetary assets held in trust held to maturity (as of March 31, 2022)

**3.** Monetary assets held in trust other than for trading purposes and held to maturity (as of March 31, 2022)

(Millions of yen)

| | Carrying amount | Acquisition cost | Unrealized gain (loss) | Gross unrealized gain | Gross unrealized loss |
|---|---|---|---|---|---|
| Other monetary assets held in trust | ¥293,357 | ¥295,916 | ¥ (2,558) | ¥190 | ¥(2,749) |

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 are as follows.

| | (Millions of yen) |
|---|---|
| Deferred tax assets | |
| Tax loss carryforwards (Note 2) | ¥24,065 |
| Securities | 17,387 |
| Reserve for credit losses | 14,756 |
| Deferred loss on derivatives under hedge accounting | 8,288 |
| Unrealized loss on available-for-sale-securities | 3,895 |
| Asset retirement obligations | 2,204 |
| Accrued expenses | 799 |
| Other | 6,978 |
| Subtotal | ¥78,377 |
| Valuation allowance for tax loss carryforwards (Note 2) | (21,631) |
| Valuation allowance for deductible temporary differences | (52,147) |
| Total valuation allowance (Note 1) | ¥(73,779) |
| Total deferred tax assets | ¥4,598 |
| Deferred tax liabilities | |
| Retirement benefit costs | 2,815 |
| Asset retirement costs included in premises and equipment | 719 |
| Deferred gain on derivatives under hedge accounting | 467 |
| Other | 48 |
| Total Deferred tax liabilities | ¥4,051 |
| Net deferred tax assets | ¥546 |

(Note 1) Valuation allowance has increased by ¥2,100 million from the previous year. This is mainly caused by the increase in the valuation allowance for unrealized loss on available-for-sale securities.

(Note 2) Expiration schedule of tax loss carryforwards

Fiscal period ended March 31, 2022

(Millions of yen)

| | Within 1 year | 1 year through 2 year | 2 year through 3 year | 3 year through 4 year | 4 year through 5 year | Over 5 year | Total |
|---|---|---|---|---|---|---|---|
| Tax loss carryforwards (*1) | 5,734 | 10,682 | 3,617 | 1,554 | 2,476 | - | 24,065 |
| Valuation allowance | (3,300) | (10,682) | (3,617) | (1,554) | (2,476) | - | (21,631) |
| Deferred tax assets | 2,434 | - | - | - | - | - | (*2) 2,434 |

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

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

(Per share information)

Common shareholders' equity per share was ¥4,158.00.

Net income per common share was ¥144.26.

Diluted net income per common share was ¥144.22.