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

The following section of this annual report for the fiscal year ended March 31, 2013 presents management's discussion and analysis of financial condition and results of operations ("MD&A") of JAPAN POST BANK (the "Bank," "we," "us," "our," and similar terms). This MD&A highlights selected information and may not contain all of the information that is important to readers of this annual report. For a more complete description of events, trends, and uncertainties, as well as the capital, liquidity, and credit and market risks affecting us and our operations, readers should refer to other sections in this annual report. This section should be read in conjunction with the non-consolidated financial statements and notes included elsewhere in this annual report.

Results of Operations

Financial Performance of JAPAN POST BANK

	Millions of yen		
	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2012	Difference
Gross operating profit:	**¥1,624,329**	¥1,670,002	¥ (45,673)
Net interest income	**1,532,152**	1,677,349	(145,196)
Net fees and commissions	**88,126**	88,460	(334)
Net other operating income (loss)	**4,050**	(95,806)	99,857
General and administrative expenses (excluding non-recurring losses):	**1,111,521**	1,174,532	(63,011)
Personnel expenses	**119,703**	116,142	3,560
Non-personnel expenses	**926,615**	989,933	(63,318)
Taxes and dues	**65,202**	68,455	(3,253)
Operating profit (before provision for general reserve for possible loan losses)	**512,808**	495,470	17,337
Net operating profit	**512,808**	495,470	17,337
Non-recurring gains (losses)	**80,727**	80,744	(17)
Net ordinary income	**593,535**	576,215	17,320
Extraordinary income (loss)	**(1,983)**	(2,435)	452
Income before income taxes	**591,552**	573,780	17,772
Net income	**¥ 373,948**	¥ 334,850	¥ 39,098

Net Operating Profit

In the fiscal year ended March 31, 2013, gross operating profit was ¥1,624.3 billion, a decrease of 2.73% from ¥1,670.0 billion in the fiscal year ended March 31, 2012. This decrease was attributable to a decrease of ¥145.1 billion in net interest income, among other factors.

General and administrative expenses (excluding non-recurring losses) were ¥1,111.5 billion, a year-on-year decrease of 5.36% from ¥1,174.5 billion.

As a result, net operating profit was ¥512.8 billion, an increase of 3.49% from ¥495.4 billion in the fiscal year ended March 31, 2012.

Net ordinary income was ¥593.5 billion, an increase of 3.00% from ¥576.2 billion in the fiscal year ended March 31, 2012.

Net income was ¥373.9 billion, an increase of 11.67% from ¥334.8 billion in the fiscal year ended March 31, 2012.

Net Interest Income

Net interest income was ¥1,532.1 billion, a decrease of 8.65% from ¥1,677.3 billion in the fiscal year ended March 31, 2012.

Interest income was ¥1,876.1 billion, a decline of 6.51% from ¥2,006.9 billion in the fiscal year ended March 31, 2012. The decline was primarily attributable to a decline in interest and dividends on securities.

The average balance of interest-earning assets was ¥183,178.8 billion, an increase of ¥1,515.6 billion from ¥181,663.1 billion in the fiscal year ended March 31, 2012. The increase was principally due to an increase in the balance of due from banks. The earnings yield on interest-earning assets was 1.02%, a drop of eight basis points from the fiscal year ended March 31, 2012. This primarily reflected the decrease in the earnings yield on Japanese Government Bonds, which account for the majority of the Bank's interest-earning assets.

Interest expenses were ¥343.9 billion, up 4.36% from ¥329.5 billion in the fiscal year ended March 31, 2012. This increase was mainly attributable to an increase in interest on interest rate swaps.

The average balance of interest-bearing liabilities was ¥173,952.0 billion, an increase of ¥638.1 billion from ¥173,313.8 billion in the fiscal year ended March 31, 2012. The interest rate on interest-bearing liabilities was 0.19%, unchanged from the fiscal year ended March 31, 2012. The interest rate on deposits remained unchanged year on year, at 0.15%.

Net Interest Income

	Millions of yen		
	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2012	Difference
Net interest income:	**¥1,532,152**	¥1,677,349	¥(145,196)
Interest income	**1,876,142**	2,006,939	(130,797)
Interest expenses	**¥ 343,990**	¥ 329,590	¥ 14,399

Earnings Yields of Interest-Earning Assets and Interest Rates on Interest-Bearing Liabilities

	Millions of yen					
	Fiscal year ended March 31, 2013			Fiscal year ended March 31, 2012		
	Average balance	Interest	Earnings yield (%)	Average balance	Interest	Earnings yield (%)
Interest-earning assets:	**¥183,178,803**	**¥1,876,142**	**1.02**	¥181,663,189	¥2,006,939	1.10
Loans	**3,996,399**	**43,712**	**1.09**	4,202,546	47,770	1.13
Securities	**169,604,359**	**1,816,271**	**1.07**	172,129,563	1,947,853	1.13
Due from banks, etc.	**9,040,423**	**9,735**	**0.10**	4,981,599	5,940	0.11
Interest-bearing liabilities:	**173,952,044**	**343,990**	**0.19**	173,313,898	329,590	0.19
Deposits	**176,328,187**	**271,837**	**0.15**	175,575,435	273,738	0.15
Borrowed money	**¥ 1**	**¥ 0**	**0.29**	¥ 0	¥ 0	0.30

Net Fees and Commissions

Net fees and commissions were ¥88.1 billion, a decrease of 0.37% from ¥88.4 billion in the fiscal year ended March 31, 2012.

Fees and commissions received were ¥114.8 billion, a 2.09% rise from ¥112.4 billion in the fiscal year ended March 31, 2012. This overall increase was attributable to an increase in other fees and commissions, despite lower fees and commissions on domestic and foreign exchanges.

Fees and commissions received included ¥63.7 billion of fees and commissions on domestic and foreign exchange, a decline of 0.27% from ¥63.8 billion in the fiscal year ended March 31, 2012. Other fees and commissions received were ¥51.1 billion, an increase of 5.20% from ¥48.5 billion in the fiscal year ended March 31, 2012.

Fees and commissions paid were ¥26.6 billion, an increase of 11.21% from ¥23.9 billion in the fiscal year ended March 31, 2012.

Net Fees and Commissions

	Millions of yen		
	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2012	Difference
Net fees and commissions:	**¥ 88,126**	¥ 88,460	¥ (334)
Fees and commissions received	**114,801**	112,446	2,355
Fees and commissions paid	**¥ 26,675**	¥ 23,985	¥2,689

Net Other Operating Income (Loss)

Net other operating income of ¥4.0 billion was recorded, compared with a net other operating loss of ¥95.8 billion in the fiscal year ended March 31, 2012.

Net Other Operating Income (Loss)

	Millions of yen		
	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2012	Difference
Net other operating income (loss):	**¥ 4,050**	¥ (95,806)	¥ 99,857
Other operating income	**47,524**	24,398	23,126
Other operating expenses	**¥43,473**	¥120,205	¥(76,731)

General and Administrative Expenses

General and administrative expenses (including non-recurring losses) were ¥1,110.7 billion, a decrease of 5.37% from ¥1,173.9 billion in the fiscal year ended March 31, 2012. The decrease was mainly due to a decline in non-personnel expenses.

Personnel expenses were ¥118.9 billion, an increase of 2.96% from ¥115.5 billion in the fiscal year ended March 31, 2012.

Non-personnel expenses were ¥926.6 billion, a decrease of 6.39% from ¥989.9 billion in the fiscal year ended March 31, 2012.

Non-personnel expenses included ¥609.5 billion in payments on bank agency services for JAPAN POST Co., Ltd., a decrease of 1.53% from ¥619.0 billion in the fiscal year ended March 31, 2012.

Taxes and dues were ¥65.2 billion, a decrease of 4.75% from ¥68.4 billion in the fiscal year ended March 31, 2012.

General and Administrative Expenses

	Millions of yen		
	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2012	Difference
Personnel expenses:	**¥ 118,949**	¥ 115,524	¥ 3,425
Salaries and allowances	**111,067**	107,495	3,571
Others	**7,882**	8,028	(145)
Non-personnel expenses:	**926,615**	989,933	(63,318)
Payments on bank agency services for JAPAN POST Co., Ltd.	**609,578**	619,085	(9,507)
Deposit insurance premiums paid to JAPAN POST HOLDINGS Co., Ltd.*	**27,009**	43,593	(16,584)
Deposit insurance expenses paid to Deposit Insurance Corporation of Japan	**94,311**	102,564	(8,253)
Rent for land, buildings and others	**11,689**	11,327	362
Expenses on consigned businesses	**62,746**	67,125	(4,379)
Depreciation and amortization	**25,812**	35,108	(9,296)
Communication and transportation expenses	**20,840**	22,413	(1,573)
Maintenance expenses	**14,023**	15,063	(1,040)
IT expenses	**36,789**	45,231	(8,441)
Others	**23,814**	28,419	(4,604)
Taxes and dues	**65,202**	68,455	(3,253)
Total	**¥1,110,767**	¥1,173,914	¥(63,146)

* The Bank makes payments of subsidies to JAPAN POST HOLDINGS Co., Ltd. in accordance with Article 122 of the Postal Service Privatization Act.

Non-recurring Gains (Losses)

In the fiscal year ended March 31, 2013, non-recurring gains were ¥80.7 billion, mostly the same as in the fiscal year ended March 31, 2012. We make investments in equities through money held in trust. Gains on money held in trust were ¥84.3 billion, up ¥2.4 billion year on year.

Non-recurring Gains (Losses)

	Millions of yen		
	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2012	Difference
Non-recurring gains (losses):	**¥80,727**	¥80,744	¥ (17)
Gains (losses) on money held in trust	**84,389**	81,970	2,419
Other non-recurring gains (losses)	**¥ (3,662)**	¥ (1,225)	¥(2,437)

Financial Condition

ASSETS

	Millions of yen		
	As of March 31, 2013	As of March 31, 2012	Y-o-Y change
Cash and due from banks	**¥ 9,195,940**	¥ 2,744,630	¥ 6,451,309
Call loans	**1,837,733**	1,206,290	631,443
Receivables under securities borrowing transactions	**8,141,533**	5,778,828	2,362,705
Monetary claims bought	**58,835**	94,867	(36,031)
Trading account securities	**247**	216	31
Money held in trust	**3,038,863**	3,715,446	(676,582)
Securities	**171,596,578**	175,953,292	(4,356,714)
Loans	**3,967,999**	4,134,547	(166,548)
Foreign exchanges	**3,051**	2,630	421
Other assets	**1,636,605**	1,804,199	(167,594)
Tangible fixed assets	**154,882**	160,171	(5,288)
Intangible fixed assets	**64,592**	65,986	(1,394)
Customers' liabilities for acceptances and guarantees	**145,000**	160,000	(15,000)
Reserve for possible loan losses	**(1,182)**	(1,210)	27
Total assets	**¥199,840,681**	¥195,819,898	¥ 4,020,783

Total Assets

As of March 31, 2013, total assets were ¥199,840.6 billion, an increase of ¥4,020.7 billion, or 2.05%, from ¥195,819.8 billion as of March 31, 2012. The increase was mainly attributable to an increase in receivables under securities borrowing transactions, and an increase in cash and due from banks.

Money Held in Trust

Money held in trust amounted to ¥3,038.8 billion, a decrease of ¥676.5 billion, or 18.21%, from ¥3,715.4 billion as of March 31, 2012. Investments in equities and other instruments through money held in trust were aimed at diversifying investments and associated risks.

The valuation difference on money held in trust was ¥497.6 billion, an increase of ¥259.0 billion from ¥238.6 billion as of March 31, 2012, reflecting a recovery in stock market prices.

The valuation difference on Money Held in Trust

Other money held in trust (excluding assets classified for trading purposes or held to maturity) as of March 31, 2013 and 2012 consisted of the following:

Millions of yen					
As of March 31, 2013			As of March 31, 2012		
Acquisition cost (A)	Amount on the balance sheet (B)	Difference (B)–(A)	Acquisition cost (A)	Amount on the balance sheet (B)	Difference (B)–(A)
¥2,541,188	**¥3,038,863**	**¥497,674**	¥3,476,818	¥3,715,446	¥238,628

Securities

The balance of securities as of March 31, 2013 was ¥171,596.5 billion, a decrease of ¥4,356.7 billion, or 2.47%, from ¥175,953.2 billion as of March 31, 2012.

The balance of Japanese Government Bonds was ¥138,198.7 billion, a decrease of ¥6,741.0 billion, or 4.65%, from ¥144,939.8 billion as of March 31, 2012.

As of March 31, 2013, Japanese local government bonds amounted to ¥5,806.0 billion, an increase of ¥70.5 billion, or 1.22%, from March 31, 2012.

As of March 31, 2013, Japanese corporate bonds (including commercial paper) amounted to ¥11,852.9 billion, a decrease of ¥993.3 billion, or 7.73%, from March 31, 2012.

To diversify our investment, we increased the amount invested in foreign securities. Other securities, which mainly consisted of foreign securities, amounted to ¥15,738.7 billion, increasing ¥3,307.2 billion, or 26.60%, from March 31, 2012.

Securities

	Millions of yen		
	As of March 31, 2013	As of March 31, 2012	Y-o-Y change
Securities:	**¥171,596,578**	¥175,953,292	¥(4,356,714)
Japanese Government Bonds	**138,198,732**	144,939,816	(6,741,084)
Japanese local government bonds	**5,806,099**	5,735,585	70,513
Japanese corporate bonds	**11,852,985**	12,846,374	(993,388)
Other securities	**¥ 15,738,761**	¥ 12,431,516	¥ 3,307,245

The changes in unrealized gains (losses) were attributable to the following factors.

The valuation difference on held-to-maturity securities increased ¥236.7 billion year on year to ¥3,304.9 billion. The valuation difference on available-for-sale securities whose fair value is available increased ¥1,723.7 billion year on year to ¥2,963.9 billion.

Unrealized Gains (Losses) on Securities

Held-to-maturity securities whose fair value is available as of March 31, 2013 and 2012 consisted of the following:

		Millions of yen		
		As of March 31, 2013		
	Type	Amount on the balance sheet	Fair value	Difference
Those for which the fair value exceeds the amount on the balance sheet	Japanese Government Bonds	**¥89,247,254**	**¥ 92,244,168**	**¥2,996,914**
	Japanese local government bonds	**2,078,294**	**2,131,151**	**52,856**
	Japanese corporate bonds	**5,488,581**	**5,697,189**	**208,608**
	Others	**254,090**	**300,789**	**46,699**
	Total	**97,068,219**	**100,373,299**	**3,305,079**
Those for which the fair value does not exceed the amount on the balance sheet	Japanese Government Bonds	**1,568,406**	**1,568,344**	**(62)**
	Japanese local government bonds	**—**	**—**	**—**
	Japanese corporate bonds	**77,978**	**77,953**	**(24)**
	Others	**—**	**—**	**—**
	Total	**1,646,384**	**1,646,297**	**(87)**
Total		**¥98,714,603**	**¥102,019,596**	**¥3,304,992**

Type		Amount on the balance sheet	Fair value	Difference
		Millions of yen		
		As of March 31, 2012		
Those for which the fair value exceeds the amount on the balance sheet	Japanese Government Bonds	¥ 95,106,378	¥ 97,896,746	¥2,790,367
	Japanese local government bonds	2,494,009	2,570,416	76,407
	Japanese corporate bonds	6,006,702	6,200,069	193,366
	Others	178,096	188,019	9,922
	Total	103,785,187	106,855,251	3,070,063
Those for which the fair value does not exceed the amount on the balance sheet	Japanese Government Bonds	229,998	229,993	(5)
	Japanese local government bonds	—	—	—
	Japanese corporate bonds	269,069	268,967	(101)
	Others	55,947	54,184	(1,762)
	Total	555,014	553,145	(1,869)
Total		¥104,340,202	¥107,408,396	¥3,068,194

Available-for-sale securities whose fair value is available as of March 31, 2013 and 2012 consisted of the following:

Type		Amount on the balance sheet	Acquisition cost	Difference
		Millions of yen		
		As of March 31, 2013		
Those for which the amount on the balance sheet exceeds the acquisition cost	Bonds	**¥50,333,216**	**¥48,736,260**	**¥1,596,955**
	Japanese Government Bonds	**41,223,647**	**39,942,346**	**1,281,301**
	Japanese local government bonds	**3,705,919**	**3,560,666**	**145,253**
	Japanese corporate bonds	**5,403,649**	**5,233,248**	**170,401**
	Others	**14,437,296**	**13,029,183**	**1,408,113**
	Total	**64,770,513**	**61,765,444**	**3,005,069**
Those for which the amount on the balance sheet does not exceed the acquisition cost	Bonds	**7,064,086**	**7,081,794**	**(17,708)**
	Japanese Government Bonds	**6,159,424**	**6,159,931**	**(507)**
	Japanese local government bonds	**21,885**	**21,901**	**(15)**
	Japanese corporate bonds	**882,777**	**899,961**	**(17,184)**
	Others	**1,740,275**	**1,763,636**	**(23,361)**
	Total	**8,804,361**	**8,845,431**	**(41,069)**
Total		**¥73,574,875**	**¥70,610,875**	**¥2,963,999**

Type		Amount on the balance sheet	Acquisition cost	Difference
		Millions of yen		
		As of March 31, 2012		
Those for which the amount on the balance sheet exceeds the acquisition cost	Bonds	¥44,710,655	¥43,709,135	¥1,001,520
	Japanese Government Bonds	35,572,628	34,803,998	768,629
	Japanese local government bonds	3,211,041	3,114,688	96,352
	Japanese corporate bonds	5,926,986	5,790,447	136,538
	Others	10,016,347	9,634,637	381,709
	Total	54,727,003	53,343,772	1,383,230
Those for which the amount on the balance sheet does not exceed the acquisition cost	Bonds	14,704,962	14,763,858	(58,896)
	Japanese Government Bonds	14,030,810	14,032,690	(1,879)
	Japanese local government bonds	30,535	30,570	(34)
	Japanese corporate bonds	643,616	700,598	(56,981)
	Others	2,860,091	2,944,166	(84,075)
	Total	17,565,053	17,708,025	(142,971)
Total		¥72,292,057	¥71,051,798	¥1,240,259

Loans

The balance of outstanding loans was ¥3,967.9 billion, a decrease of ¥166.5 billion, or 4.02%, from ¥4,134.5 billion as of March 31, 2012.

All of our loans are classified as normal loans.

Loans by Industry

Millions of yen

	As of March 31, 2013		As of March 31, 2012		Y-o-Y change
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	Amount
Agriculture, forestry, fisheries, and mining	—	—	—	—	—
Manufacturing	**¥ 132,491**	**3.33**	¥ 164,207	3.97	¥ (31,716)
Utilities, information/communications, and transportation	**184,034**	**4.63**	182,217	4.40	1,816
Wholesale and retail	**21,563**	**0.54**	31,776	0.76	(10,213)
Finance and insurance	**2,739,270**	**69.03**	2,713,376	65.62	25,893
Construction and real estate	**22,251**	**0.56**	22,252	0.53	(0)
Services and goods rental/leasing	**27,256**	**0.68**	196,450	4.75	(169,193)
Central and local governments	**613,793**	**15.46**	622,540	15.05	(8,746)
Others	**227,337**	**5.72**	201,726	4.87	25,611
Total	**¥3,967,999**	**100.00**	¥4,134,547	100.00	¥(166,548)

Disclosures Under the Financial Reconstruction Act

Millions of yen

	As of March 31, 2013	As of March 31, 2012	Y-o-Y change
Loans to borrowers classified as bankrupt or quasi-bankrupt	—	—	—
Loans to borrowers classified as doubtful	—	—	—
Loans requiring close monitoring	—	—	—
Subtotal (A)	—	—	—
Loans to borrowers classified as normal	**¥4,134,159**	¥4,317,006	¥(182,846)
Total (B)	**¥4,134,159**	¥4,317,006	¥(182,846)
Non-performing loan ratio (A) / (B) (%)	—	—	—

Deferred Tax Assets/Liabilities

Net deferred tax liabilities as of March 31, 2013 were ¥870.5 billion, an increase of ¥485.0 billion from net deferred tax liabilities of ¥385.4 billion as of March 31, 2012. This change was mainly attributable to an increase in net unrealized gains on available-for-sale securities in deferred tax liabilities.

Major Components of Deferred Tax Assets and Liabilities

	Millions of yen		
	As of March 31, 2013	As of March 31, 2012	Y-o-Y change
Deferred tax assets:	**¥ 330,059**	¥ 154,367	¥ 175,691
Reserve for possible loan losses	**171**	206	(35)
Reserve for employees' retirement benefits	**48,806**	48,843	(36)
Depreciation	**17,326**	13,573	3,753
Accrued interest on deposits	**24,217**	14,690	9,527
Impairment losses of money held in trust	**3,076**	9,813	(6,736)
Deferred losses on hedges	**208,661**	39,088	169,573
Accrued enterprise taxes	**9,111**	8,996	115
Others	**18,686**	19,156	(469)
Deferred tax liabilities:	**(1,200,568)**	(539,809)	(660,759)
Net unrealized gains on available-for-sale securities	**(1,190,683)**	(525,706)	(664,976)
Others	**(9,885)**	(14,103)	4,217
Net deferred tax liabilities	**¥ (870,509)**	¥(385,441)	¥(485,068)

LIABILITIES

	Millions of yen		
	As of March 31, 2013	As of March 31, 2012	Y-o-Y change
Deposits	**¥176,096,136**	¥175,635,370	¥ 460,766
Payables under securities lending transactions	**9,443,239**	8,302,091	1,141,147
Foreign exchanges	**272**	152	119
Other liabilities	**2,145,910**	1,377,341	768,568
Reserve for employees' bonuses	**5,609**	5,185	424
Reserve for employees' retirement benefits	**136,247**	135,982	265
Reserve for directors' retirement benefits	**198**	170	27
Deferred tax liabilities	**870,509**	385,441	485,068
Acceptances and guarantees	**145,000**	160,000	(15,000)
Total liabilities	**¥188,843,123**	¥186,001,735	¥2,841,387

Total Liabilities

Total liabilities were ¥188,843.1 billion, an increase of ¥2,841.3 billion, or 1.52%, from ¥186,001.7 billion as of March 31, 2012. The main reason for this increase was an increase in deposits of ¥460.7 billion, and an increase of ¥1,141.1 billion in payables under securities lending transactions.

Deposits

The balance of deposits was ¥176,096.1 billion, an increase of ¥460.7 billion, or 0.26%, from ¥175,635.3 billion as of March 31, 2012.

Changes in Liquid Deposits and Fixed-Term Deposits

Liquid deposits were ¥59,971.4 billion as of March 31, 2013, a decrease of ¥223.3 billion, or 0.37%, from ¥60,194.8 billion as of March 31, 2012. Fixed-term deposits were ¥115,878.6 billion, an increase of ¥697.6 billion, or 0.60%, from ¥115,180.9 billion.

Balances by Type of Deposit

Millions of yen

	As of March 31, 2013		As of March 31, 2012		Y-o-Y change
	Amount	(%)	Amount	(%)	Amount
Liquid deposits:	**¥ 59,971,472**	**34.05**	¥ 60,194,830	34.27	¥(223,357)
Transfer deposits	**10,209,954**	**5.79**	9,474,107	5.39	735,847
Ordinary deposits, etc.	**49,358,959**	**28.02**	50,309,540	28.64	(950,580)
Savings deposits	**402,558**	**0.22**	411,182	0.23	(8,624)
Fixed-term deposits:	**115,878,602**	**65.80**	115,180,951	65.57	697,651
Time deposits, etc.	**18,817,949**	**10.68**	18,426,695	10.49	391,254
TEIGAKU deposits, etc.	**97,057,788**	**55.11**	96,750,382	55.08	307,406
Other deposits	**246,060**	**0.13**	259,588	0.14	(13,527)
Subtotal	**176,096,136**	**100.00**	175,635,370	100.00	460,766
Negotiable certificates of deposit	**—**	**—**	—	—	—
Total	**¥176,096,136**	**100.00**	¥175,635,370	100.00	¥ 460,766

Reserve for Employees' Retirement Benefits

The reserve for employees' retirement benefits was ¥136.2 billion, an increase of ¥0.2 billion from ¥135.9 billion as of March 31, 2012. We have adopted a lump-sum retirement benefit plan.

Employees' Retirement Benefit Obligation

Millions of yen

	As of March 31, 2013	As of March 31, 2012
Projected benefit obligation	**¥(128,120)**	¥(129,186)
Unfunded projected benefit obligation	**(128,120)**	(129,186)
Unrecognized net actuarial losses	**(8,127)**	(6,796)
Net amount recorded on the balance sheets	**(136,247)**	(135,982)
Reserve for employees' retirement benefits	**¥(136,247)**	¥(135,982)

Breakdown of Total Retirement Benefit Costs

Millions of yen

	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2012
Service cost	**¥6,499**	¥6,461
Interest cost on projected benefit obligation	**2,195**	2,190
Amortization of unrecognized net actuarial losses	**(812)**	(676)
Others	**0**	0
Total retirement benefit costs	**¥7,882**	¥7,976

NET ASSETS

	Millions of yen		
	As of March 31, 2013	As of March 31, 2012	Y-o-Y change
Common stock	**¥ 3,500,000**	¥3,500,000	—
Capital surplus	**4,296,285**	4,296,285	—
Retained earnings	**1,440,830**	1,150,595	¥ 290,234
Total shareholders' equity	**9,237,115**	8,946,881	290,234
Net unrealized gains on available-for-sale securities	**2,137,265**	941,871	1,195,394
Deferred gains (losses) on hedges	**(376,823)**	(70,589)	(306,233)
Total valuation and translation adjustments	**1,760,442**	871,281	889,161
Total net assets	**¥10,997,558**	¥9,818,162	¥1,179,395

Net assets as of March 31, 2013 were ¥10,997.5 billion, an increase of ¥1,179.3 billion, or 12.01%, from ¥9,818.1 billion as of March 31, 2012.

Shareholders' equity was ¥9,237.1 billion, an increase of ¥290.2 billion, or 3.24%, from March 31, 2012, due to an increase in retained earnings. We posted ¥2,137.2 billion of net unrealized gains on available-for-sale securities in the fiscal year ended March 31, 2013, an increase of ¥1,195.3 billion. In addition, we use the deferred hedge method in hedging interest rate risk and foreign currency risk, and in the fiscal year ended March 31, 2013 we booked ¥376.8 billion of deferred losses on hedges.

Capital Resource Management

Capital Adequacy Ratio

As determined under the Banking Act of Japan, our capital adequacy ratio (non-consolidated, domestic standard) as of March 31, 2013 was 66.04%, a decrease of 2.35 percentage points from March 31, 2012. In addition, Tier I capital accounted for the majority of our capital.

Total risk-based capital, the numerator of the ratio, was ¥9,144.0 billion, an increase of ¥280.4 billion from ¥8,863.6 billion as of March 31, 2012. This increase was mainly attributable to growth in retained earnings.

Risk-weighted assets, which correspond to the denominator of the ratio, amounted to ¥13,846.0 billion, representing an increase of ¥887.1 billion from ¥12,958.8 billion as of March 31, 2012. The main reason for the increase in risk-weighted assets was an increase in foreign securities investments aimed at diversifying investments.

Capital Adequacy Ratio (Non-Consolidated, Domestic Standard)

	Millions of yen		
	As of March 31, 2013	As of March 31, 2012	Y-o-Y change
Tier I capital (A)	**¥ 9,143,628**	¥ 8,863,167	¥280,460
Tier II capital (B)	**454**	491	(37)
Deductions (C)	**—**	—	—
Total risk-based capital (A) + (B) – (C) = (D)	**9,144,082**	8,863,659	280,423
Risk-weighted assets (E)	**13,846,024**	12,958,826	887,197
On-balance-sheet items	**10,212,098**	9,394,189	817,909
Off-balance-sheet items	**436,338**	295,615	140,722
Operational risk equivalent / 8%	**3,197,587**	3,269,021	(71,434)
Capital adequacy ratio (D) / (E) (%)	**66.04**	68.39	(2.35)
Tier I capital ratio (A) / (E) (%)	**66.03**	68.39	(2.35)

Dividends

We increased the total cash dividend paid for the fiscal year ended March 31, 2013 to ¥93.4 billion. The per-share cash dividend was ¥623.25 and the dividend payout ratio was 25.00%.

Risk Management

Advances in financial globalization and information technology have led to rapid growth in the diversity and complexity of banking operations, making risk management at financial institutions increasingly important. We place a high priority on risk management and are taking steps to refine our sophisticated framework for risk management, including the identification and control of the risks associated with our operational activities.

Our basic policy is to appropriately manage risks in view of our management strategies and risk characteristics and most effectively utilize our capital. By doing so, we are able to increase enterprise value while maintaining sound finances and appropriate operations.

The authorities and responsibilities of organizational entities and of directors and employees involved in risk management are assigned so that conflicts of interest do not arise. In addition, we have established a system that provides for appropriate cross checks.

Risk Management System

We have established risk management entities for each risk category as well as the Risk Management Department, which is responsible for monitoring the risks within the risk categories in an integrated manner in order to ensure the effectiveness of our comprehensive risk management. The Risk Management Department operates independently from other departments.

Management of operational risk, which is the main risk from the perspective of appropriate operations, is overseen by the Operational Risk Management Office.

We have established special advisory committees to the Executive Committee to handle risk management responsibilities: the Risk Management Committee and the Asset Liability Management (ALM) Committee. These advisory committees submit risk management reports based on risk characteristics and hold discussions about risk management policies and systems.

Prior to launching new products, services, or businesses, we assess potential risks and select appropriate methods to measure risks.

Compliance with Basel Regulations

The Basel Committee on Banking Supervision has set capital adequacy standards, which are international standards to ensure bank soundness. Basel II, a version of these standards that has been revised to more appropriately respond to risk conditions, has been applied in Japan since March 31, 2007.

Basel II is based on three pillars. Pillar 1 is minimum capital requirements. Pillar 2 is the assessment and management of risks faced by the business as a whole, including risks not addressed by Pillar 1 (such as interest rate risk in the banking book and credit concentration risk) and the determination of the amount of capital required for business management. Pillar 3 is market discipline allowing for market assessment through appropriate disclosures. We comply with all provisions of Basel II.

In calculating our capital adequacy ratio, we have adopted the standardized approach to calculate our credit risk-weighted assets, as well as a basic indicator approach to assess the capital requirements for operational risk. We have adopted special exemptions for market risk amounts.

Basel 2.5, which has been applied since December 31, 2011, requires financial institutions to bolster their management of securitization exposure and upgrade disclosure, among other provisions. We comply with all provisions of Basel 2.5.

Integrated Risk Management

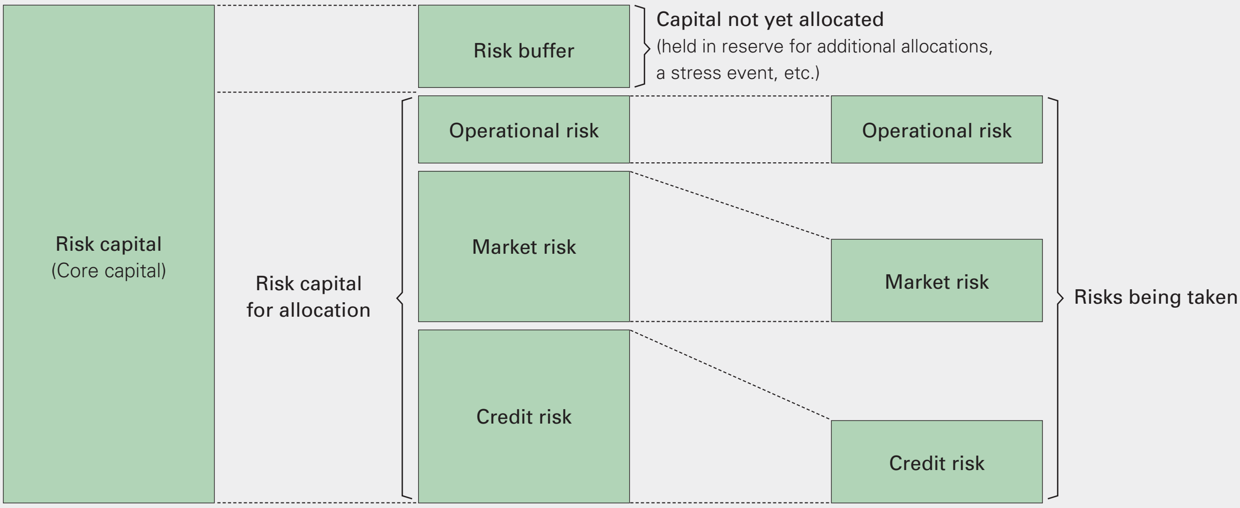
We broadly classify and define risks into five categories: market, market liquidity, funding liquidity, credit, and operational risks. We manage these risks using both quantitative and qualitative approaches.

In our quantitative approach, we have introduced integrated risk management that quantifies and controls risk. Specifically, we establish in advance a total amount of equity capital that is available to take on risk, or risk capital. Risk capital is then allocated to each business in accordance with the type of expected risk and nature of the business activities. To quantify market risk and credit risk and control risk exposure, we use value at risk (“VaR”) techniques. VaR is a statistical method used to compute the maximum expected loss based on assets and liabilities held at given probabilities and for given periods of time. In addition, we conduct stress testing based on scenarios that assume deterioration in the macroeconomic environment to confirm the impact on our financial condition, capital adequacy ratio and so forth.

In our qualitative approach, which is used in conjunction with the quantitative methodology, we assess the nature of the risks. For instance, for operational risk we have established a plan, do, check, action ("PDCA") cycle that recognizes, evaluates, manages, and mitigates risk across our business activities.

Allocation of risk capital is determined by the Representative Executive Officer (President & CEO) following discussions in the ALM Committee and the Executive Committee.

Risk Capital Allocation



Market Risk Management / Market Liquidity Risk Management

1. Market Risk Management System

We manage market risk in a way that reflects the characteristics of our assets, which are principally marketable securities (e.g., Japanese Government Bonds), and our liabilities, which are principally term deposits including TEIGAKU deposits. Through the following methods, we aim to achieve a stable income flow while appropriately controlling market risk.

We use the VaR statistical method to quantify market risk. We adjust our market risk frameworks and loss limits in order to ensure that market risk does not exceed risk capital allocated for this purpose. We conduct risk monitoring and management on an on-going basis, and also carry out stress testing to account for extreme market fluctuations that might exceed our statistical estimates.

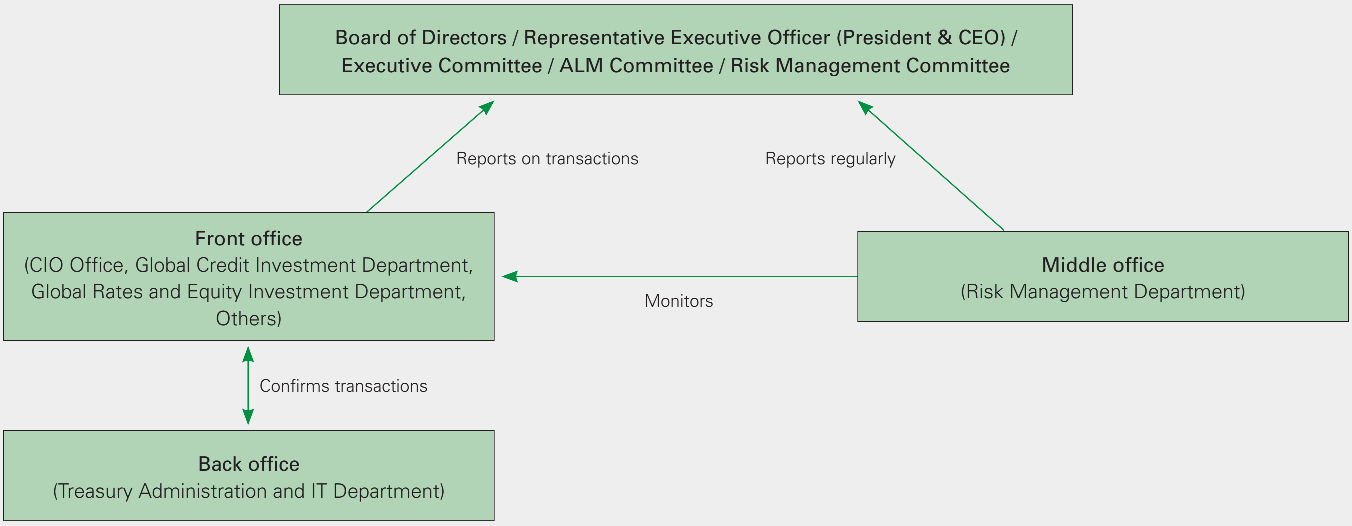
We have established a system for closely monitoring interest rate risk, in recognition of the importance of interest rates on our business. As part of this system, we perform simulations to gauge the effect of interest changes on our earnings.

To provide a system of cross checks and balances in market risk management, we have set up the Risk Management Department as a "middle office" that is independent from our front and back offices.

Matters concerning the establishment and operation of a market risk management system and implementation of market risk management are decided through discussions in the Risk Management Committee, the ALM Committee and the Executive Committee.

Daily reports concerning our VaR, market risk limits and loss limits are made directly to management, allowing management to respond rapidly to developments. Risk analyses based on backtesting and stress testing are conducted regularly with reports made to the Executive Committee.

Market Risk Management System



2. Market Risk Measurement Model

Our internal VaR risk management model measures market risk based on a historical simulation method. The VaR model is based on a one-tailed confidence interval of 99%, a holding period of 240 business days (i.e., one year), and an observation period of 1,200 business days (i.e., five years).

To measure market risk relating to liquid deposits, we define the amount of "core deposits" as the smallest of the minimum balance in the last five years, the balance after deducting the maximum annual outflow in the last five years from the current balance, or the equivalent of 50% of the current balance, and assume the maturity of the deposits up to five years (the average is 2.5 years). Meanwhile, market risk relating to TEIGAKU deposits is calculated based on an estimated future cash flow model.

3. Market Risk Exposure

In the fiscal year ended March 31, 2013, our VaR was as follows:

VaR (From April 1, 2012 to March 31, 2013)

	Billions of yen			
	Year-end	Maximum	Minimum	Average
Fiscal year ended March 31, 2013	**¥1,502.1**	**¥1,893.6**	**¥1,354.4**	**¥1,564.3**

Currently, we are engaged only in banking operations. We do not conduct trading operations.

4. Stress Testing

VaR models statistically calculate maximum losses at a certain probability, based on historical data. Accordingly, VaR models do not appropriately measure risks in the event of extreme market fluctuations or in the event that historical assumptions do not hold. Consequently, we regularly conduct stress testing to measure our potential losses in the event of market fluctuations exceeding the limits assumed in the model. The results of the stress testing are reported to the Executive Committee.

In our stress testing, we use a number of scenarios, including the estimated effect of the largest fluctuations in financial markets over the past decade.

5. Market Liquidity Risk Management

Our basic approach to market liquidity risk management is to monitor portfolio assets and market conditions so that we are able to take appropriate actions in line with market liquidity conditions. The Risk Management Department monitors market liquidity risk as well as market risk.

Funding Liquidity Risk Management

Our basic approach to funding liquidity risk management is to closely monitor our funding conditions and take timely and appropriate actions when necessary. In addition, we maintain appropriate liquidity reserves in preparation for unexpected fund outflows.

The Risk Management Department, which was originally established to manage funding liquidity risk, conducts monitoring and analysis of funding liquidity risk.

In managing funding liquidity risk, we establish, monitor, and manage funding liquidity indicators to ensure stable liquidity management.

In accordance with funding liquidity and fund-raising trends, we have categorized risk into three stages: "normal," "concerned," and "emergency." We have determined the principal measures we will take in the event that funding liquidity risk reaches the "concerned" or "emergency" stages.

Credit Risk Management

1. Credit Risk Management System

We use the VaR statistical method to quantify credit risk. We set upper limits for such elements in our credit risk limit frameworks and implement monitoring and management so that we ensure that credit risk does not exceed allocated capital. We also carry out stress testing to consider the possibility of credit risk due to large-scale economic fluctuations outside those in the VaR model.

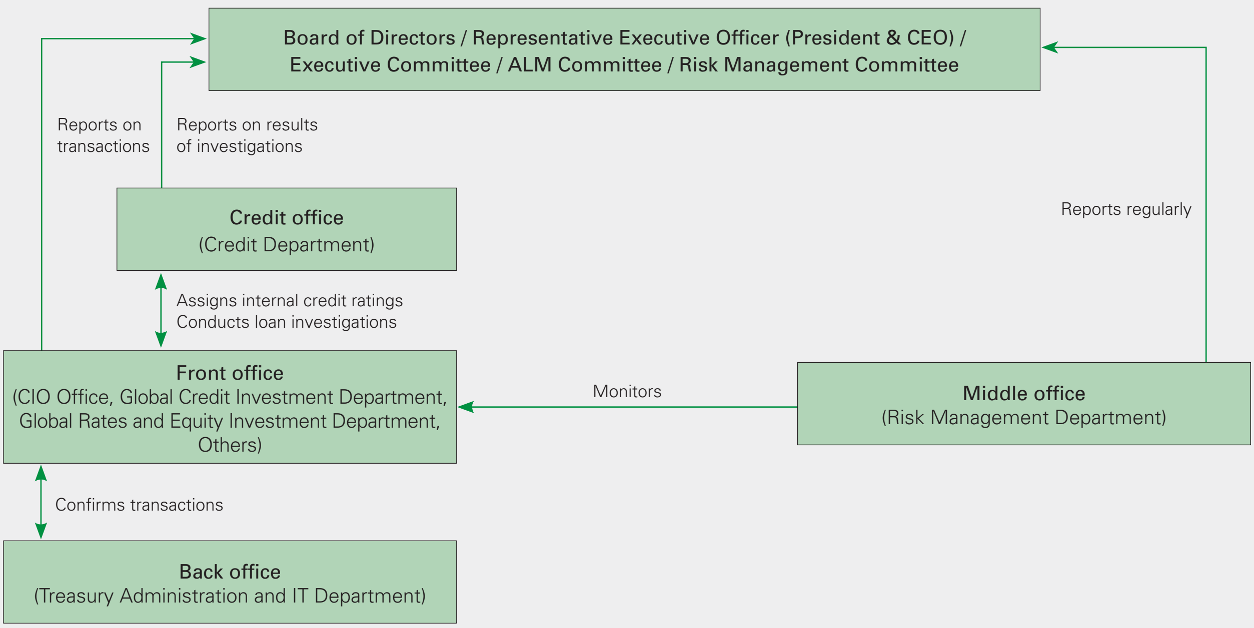
In order to control credit concentration risk, we have set credit limits for individual companies and corporate groups.

The Risk Management Department provides a system of cross checks and balances in credit risk management, as a "middle office" that is independent from our front and back offices. The Risk Management Department oversees our internal credit rating system, self-assessments of loans, and other credit risk management activities.

Our Credit Department handles credit investigations. The Credit Department assigns internal credit ratings, monitors borrower status, watches large borrowers, and conducts individual credit management, such as individual loan investigations.

Matters concerning the establishment and operation of a credit risk management system and implementation of credit risk management are decided through discussions in the Risk Management Committee, the ALM Committee and the Executive Committee.

Credit Risk Management System

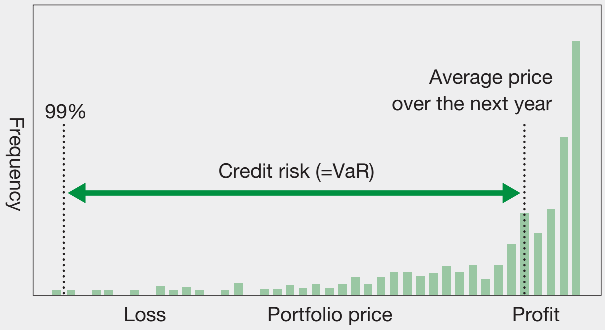


2. Measuring Credit Risk

Our internal VaR risk measurement model measures credit risk through the Monte Carlo simulation method, with calculations based on a 99% confidence level and a one-year time period.

In addition, we calculate losses using the mark-to-market method. The mark-to-market method recognizes losses on defaults by borrowers as well as those on loans whose economic value was reduced due to reductions in the credit ratings of the respective borrowers.

Value at Risk (VaR) Image



3. Stress Testing

VaR calculations represent a statistical measurement of credit risk based on the probabilities associated with changes in credit ratings and other financial conditions. Consequently, the models cannot properly reflect credit risks under conditions of extreme economic fluctuations or when the assumptions used for our calculations are no longer valid. As a result, we periodically conduct stress testing to measure our potential losses in the event of credit-standing fluctuations that exceed the assumptions used in the model. The results of the stress testing are reported to the Executive Committee.

In conducting stress testing, we use a number of scenarios, including the estimated effect of the highest level of defaults experienced over the past decade.

4. Internal Credit Ratings

Internal credit ratings are used for various purposes such as in credit policies in daily credit management, credit risk measurement, appropriate pricing, management of the credit portfolio, initial self-assessments, and in making preparations related to write-offs and reserves. Accordingly, in accordance with their credit rating, borrowers are classified into the following 14 categories.

Internal Credit Rating System

<table>
<tr><th colspan="2">Grades</th><th>Concept</th><th colspan="2">Category</th></tr>
<tr><td colspan="2">1</td><td>Has highest credit standing and many superior attributes.</td><td colspan="2" rowspan="12">Normal</td></tr>
<tr><td colspan="2">2</td><td>Has exceedingly high credit standing and superior attributes.</td></tr>
<tr><td colspan="2">3</td><td>Has high credit standing and certain superior attributes.</td></tr>
<tr><td rowspan="2">4</td><td>a</td><td rowspan="2">Has sufficient credit standing but requires attention in case of significant changes in the environment.</td></tr>
<tr><td>b</td></tr>
<tr><td rowspan="2">5</td><td>a</td><td rowspan="2">Has no problems with credit standing at this point but has attributes requiring attention in case of changes in the environment.</td></tr>
<tr><td>b</td></tr>
<tr><td rowspan="2">6</td><td>a</td><td rowspan="2">Has no current problems with credit standing but has attributes requiring constant attention.</td></tr>
<tr><td>b</td></tr>
<tr><td colspan="2">7</td><td>Has problems with loan conditions, such as by seeking interest rate reductions or rescheduling. Has problems with performance, such as overdue payments of principal or interest. Also has attributes requiring attention to management in the future, such as weak or unstable results or financial problems.</td><td colspan="2">Borrowers requiring caution</td></tr>
<tr><td colspan="2">8</td><td>Payment of principal or interest is past due three months or more calculated from the day following the scheduled payment date. Or, to facilitate the recovery of the loan, loan provisions have been eased to assist in the restructuring of the borrower or otherwise assisting the borrower. The borrower has fallen into business difficulties.</td><td>(Borrowers requiring monitoring)</td><td></td></tr>
<tr><td colspan="2">9</td><td>Is not currently in bankruptcy but is having management problems. Progress with management improvement plan is not exceptional, and there is a high probability of bankruptcy in the future.</td><td colspan="2">Doubtful borrowers</td></tr>
<tr><td colspan="2">10</td><td>Is not yet legally bankrupt but is in serious financial difficulty. Deemed to have no prospects for restructuring. Effectively bankrupt.</td><td colspan="2">Substantially bankrupt borrowers</td></tr>
<tr><td colspan="2">11</td><td>Legally bankrupt.</td><td colspan="2">Bankrupt borrowers</td></tr>
</table>

5. Self-assessments, Write-Offs, and Reserves

As one aspect of credit risk management, we conduct self-assessments to classify the assets we hold based on the degree of risk in terms of recovery and damage to collateral value. These self-assessments are the basis for appropriate accounting treatment, including write-offs and reserve for possible loan losses.

Detailed accounting standards for reserve for possible loan losses are as follows.

In accordance with predefined standards for write-offs and reserves, reserve for possible loan losses is provided for, as described below, in accordance with borrower categories stipulated in "Practical Guidance for Checking Internal Controls for Self-Assessments of Assets by Banks and Other Financial Institutions and for Audits of Loans Written Off and Loan Loss Allowance Provisions" (Japanese Institute of Certified Public Accountants, Special Committee for Audits of Banks, etc., Report No. 4). Operational divisions conduct assessments of all loans in accordance with our standards for loan self-assessments. The results of those assessments are audited by the Internal Audit Planning Department, which is independent from operational divisions. The reserve is provided for in accordance with those assessments.

Loans to borrowers classified as normal or requiring caution are divided into groups, and the expected loss amount for each classification is reserved based on the data provided by credit rating agencies.

For loans to doubtful borrowers, we subtract from the loan balance both the estimated collectible amount from collateral and the estimated collectible amount from guarantees. We then make a provision at an amount equal to a portion of the resulting amount, based on our judgment.

For loans to bankrupt borrowers and loans to substantially bankrupt borrowers, we subtract from the loan balance both the estimated collectible amount from collateral and the estimated collectible amount from guarantees. We then make a provision at an amount equal to the entire resulting amount.

Asset Classifications

Asset Category	Description
Unclassified (Type I)	Not classified as type II, III, or IV and deemed to have no problems in regard to recovery risk or damage to asset value.
Type II	Above-ordinary level of recovery risk due to failure to meet contractual obligations or to doubts about credit-related issues, etc.
Type III	Final recovery or asset value is very doubtful. There is a high risk of incurring a loss but it is difficult to rationally calculate the amount of that loss.
Type IV	Assessed as unrecoverable or worthless.

6. Management of Individual Borrowers

We regularly monitor borrowers' loan repayment status, financial conditions, and other matters that affect credit standing in order to respond to the credit risks of borrowers in a timely and appropriate manner. We also engage in stricter monitoring for those borrowers requiring extra attention due to the condition of their business, such as borrowers subject to possible credit rating downgrades or which have experienced sharp drops in their stock price.

Operational Risk Management

Operational risk is the risk that losses will be incurred due to inadequate or failed internal processes, people and systems, or due to external events. We classify operational risk into seven categories: processing, IT system, information assets, legal, human resources, tangible assets, and reputational risks. Operational risk is managed in an integrated manner, by the Operational Risk Management Office within the Compliance Division.

We identify, assess, control, monitor, and mitigate risk for each risk category to manage operational risk and to maintain the soundness of our operations.

The risk management process identifies risks associated with business operations and assesses these risks based on the occurrence frequency, and the degree of their impact on operations. Through the implementation of Risk & Control Self-Assessment ("RCSA"), operational risks and the control effectiveness for mitigating these risks are regularly assessed and examined. RCSA points out areas that require improvement and aspects of our risk management activities that need to be reinforced. Based on the results, we form improvement plans, establish measures to further mitigate risk exposure, and take the required actions.

We have an operational risk reporting system to track and update operational incidents and systems problems in a timely manner. We analyze the contents of these reports to determine the causes of these incidents and problems and identify trends. This process yields fundamental data for formulating and executing effective countermeasures.