SHINSEI BANK

INTEGRATED REPORT

For the fiscal year ended March 31, 2018

2018

>> Management Principles

The Shinsei Bank Group has established the following Management Principles and is working on a day-by-day basis toward their attainment.

To become a banking group that is sought out by customers, and contributes to the development of both domestic and international industrial economies, while maintaining stable profitability.

To become a banking group that values diverse talents and cultures and is constantly taking on new challenges presented by change, based on its experiences and history.

To become a banking group that strives for highly transparent management and values that is trusted by all stakeholders including customers, investors and employees.

>> Editorial Policy

Here in this Integrated Report, the Shinsei Bank Group provides details of its financial and non-financial information in a bid to help investors and other stakeholders understand the Group's strategies and efforts toward creating sustainable corporate value. Referencing the framework provided by the International Integrated Reporting Council (IIRC)*, this Report introduces the Shinsei Bank Group's corporate creation.

In addition, this Report fulfills the disclosure requirements (an explanation of the Shinsei Bank's operations and matters regarding its financial position) stipulated under Article 21 of Japan's Banking Act. This Report also contains statements about the Group's management policies and future operating results that are forward-looking in nature. These forward-looking statements are not a guarantee to future performance. Actual results may differ from those indicated in such forward-looking statements due to a variety of factors, including changes in the operating environment.

* Established in 2010 for the purpose of developing an international framework for disclosure of corporate information, the International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting professions and NGOs.

>> Composition of the Shinsei Bank Integrated Report 2018

Shinsei Bank Group's Distinctive Attributes

Distinctive Corporate Attributes

Transcending banking sector boundaries, the Shinsei Bank Group is a financial group that **anticipates the trends that will occur in financial business**. Since its launch as the Shinsei Bank, Limited, in 2000, the Group has engaged in businesses other than banking, including unsecured loans for individual customers, shopping credit/credit cards, leases, securities and trusts. Based on actual demand arising from changes in society, we will continue to create niche areas, while **providing our target customers with products and services that are unique to the Shinsei Bank Group**.

Who We Are? >> p3
The Shinsei Bank Group Defined

How Are We Now ? >> p31
Shinsei Bank Group Business Overview

Unique Corporate Strategies

Underserved customer needs are emerging, **which are not met by conventional financial products and services** as brought about by major changes in the environment surrounding society and finance. Discovering these underserved customer needs as niche business areas in advance, we will provide solutions to them by combining the functions within the Shinsei Bank Group and collaborating with companies outside the Group. In a constant cycle of **"change in society ➡ emergence of new needs ➡ provision of solutions ➡ change in society," we will formulate unique corporate strategies by means of the Shinsei Bank Group's unique position and emerging capabilities (spirit of innovation)**.

Where We Go? >> p13
Where Is the Shinsei Bank Group Aiming to Be?

Why We Can? >> p25
The Shinsei Bank Group's Growth Strategies

Distinctive ESG Foundation

For it to respond properly to underserved customer needs that are not met by conventional financial products and services, it is imperative that the Shinsei Bank Group itself respond flexibly and promptly to changes in society. With regard to the important **environmental,** social and governance (ESG) foundation that underpins our strategies and business, we consider **governance a decision-making mechanism** that contributes to sustainable improvement in corporate value. We also consider **the Group's human resources as a social aspect** to be the driving force behind the value **creation process,** and our efforts to address **environmental issues** through our businesses and **relationships with society** encompassing both environmental and social aspects. Making maximum use of this distinctive ESG foundation, we will create value unique to the Shinsei Bank Group.

What Is Our Platform? >> p43
The Shinsei Bank Group's Platform

Keywords

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What Is Our Platform?
The Shinsei Bank Group's Platform

Financials/Information

Data Section

Who We Are?

Group Business Profile

SHINSEI BANK

SHINSEI FINANCIAL
(Unsecured loans to individuals, credit guarantees)

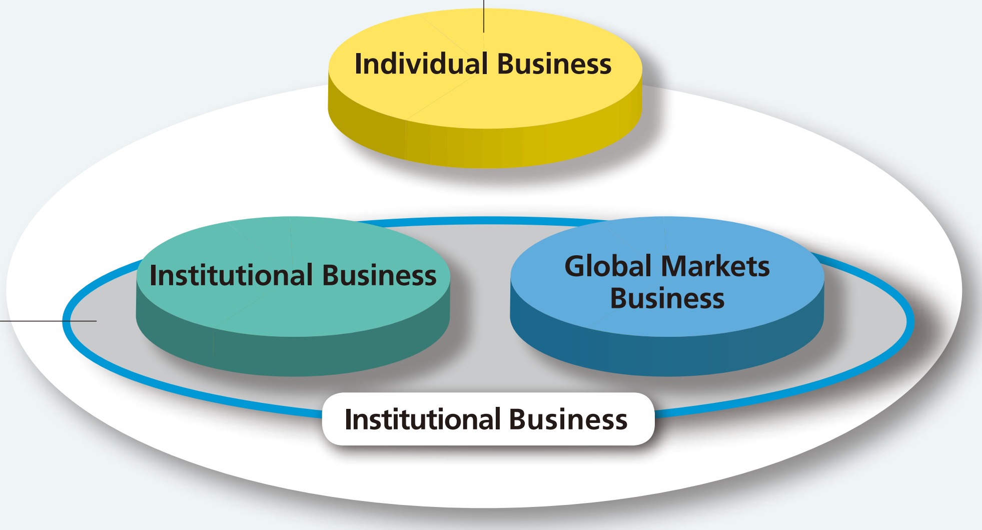
SHINSEI PERSONAL LOAN
(Unsecured loans to individuals)

APLUS FINANCIAL
(Shopping credit/other credit)

AJ 全日信販
(Shopping credit/other credit)

The Individual Business is composed of retail banking, and consumer finance, which handles unsecured personal loans, credit cards, shopping credit, settlements and sales of financial products to individuals and related services.

The Institutional Business is composed of the corporate business, structured finance business, private equity investment and business succession financing business as well as leasing business. The Global Markets Business delivers market services that provide market solutions for foreign exchange and interest rate derivatives, among others.



SHINSEI TRUST
(Trust banking)

SHOWA LEASING CO.,LTD.
(Leasing)

SHINSEI CORPORATE INVESTMENT
(Investment)

SHINSEI INVESTMENT & FINANCE
(Investment and finance)

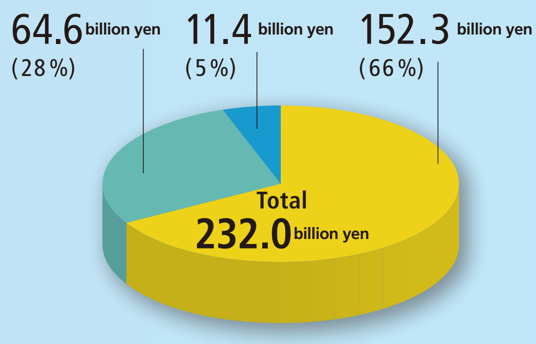
ALPHA SERVICER CO.,LTD.
(Servicing)

SHINSEI SECURITIES
(Securities)

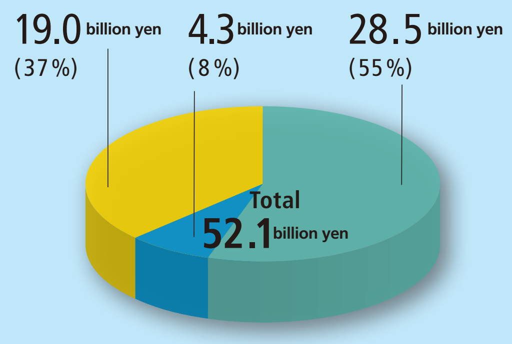
SHINSEI INVESTMENT MANAGEMENT
(Investment trust and discretionary investment advising)

SHINSEI INTERNATIONAL
(Securities)

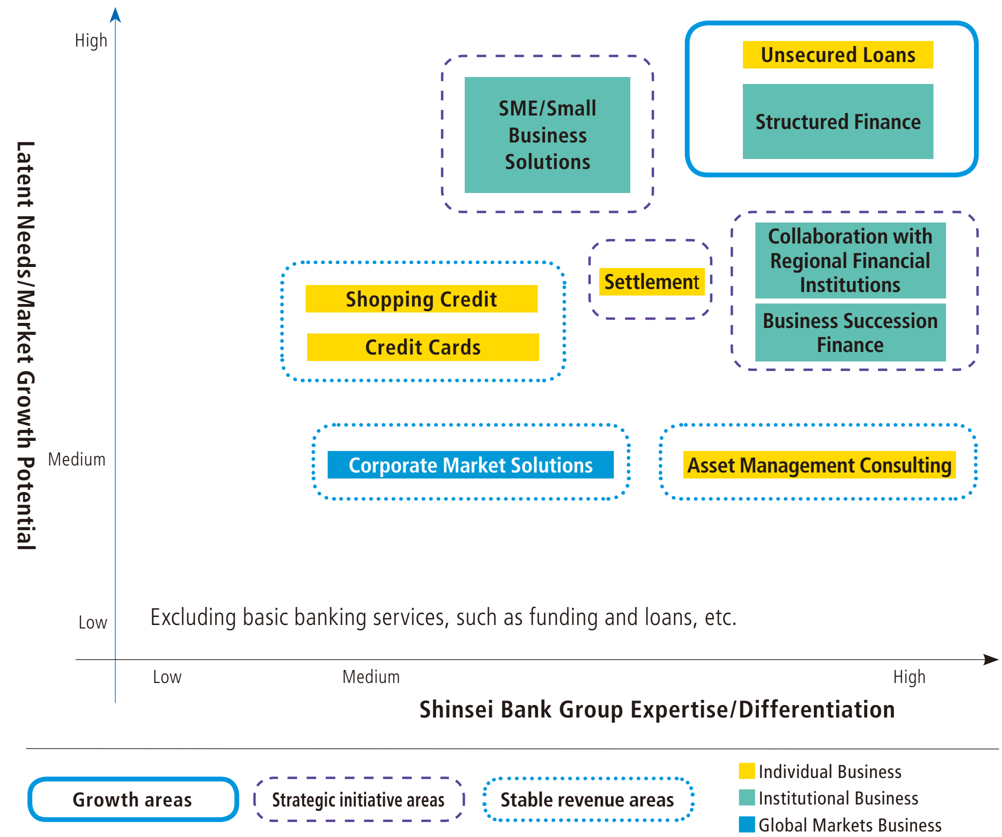
Total Revenue



Ordinary Business Profit after Net Credit Costs



Strategic Mapping of Businesses



Highlights

2018 HIGHLIGHTS

Non-Financial Information

Number of Town Hall Meetings Held (Fiscal 2017)

26

Social

Executives and employees of the Shinsei Bank Group regularly come together to deepen their mutual understanding toward the Group's management strategy, medium- to long-term vision and other important policies in a town hall format.

Ratio of Outside Directors on the Board of Directors

71%

Governance

Five of the seven Board of Directors members at Shinsei Bank are outside directors and comprise a majority of the Board of Directors. The Bank has maintained a Board structure where outside directors comprise a majority since it commenced operations.

Cumulative Total of Students That Have Participated in the MoneyConnection® Financial Literacy Program

120,000

Social

The Shinsei Bank Group is actively engaged in both promoting and expanding the MoneyConnection® Financial Literacy Program, which is designed to help prevent young people from becoming a "NEET" (not in employment, education or training).

Ratio of Outside Directors with Corporate Executive Experience

80%

Governance

Four of the five outside directors on the Bank's Board are or have experience as corporate executives. Outside directors possess extensive experience and deep expertise in business.

Renewable Energy (solar, wind and biomass power)

91%

Environment

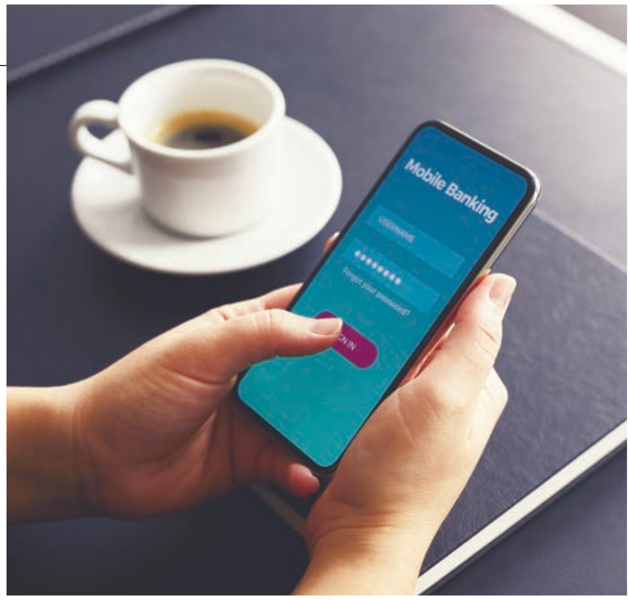
Renewable energy (including solar, wind and biomass power) project finance accounts for 91% of the total balance of domestic project finance as of March 31, 2018.

Ratio of Female Managers (End of March 2018)

30%

Social

The Shinsei Bank has set the target of lifting its ratio of female managers to 35% by fiscal 2020.

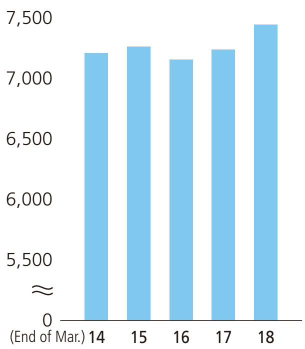




Financial Information

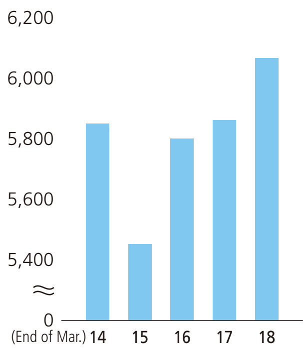
Operating Assets

(Billions of yen)

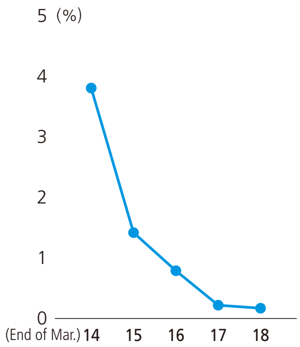


Deposits

(Billions of yen)

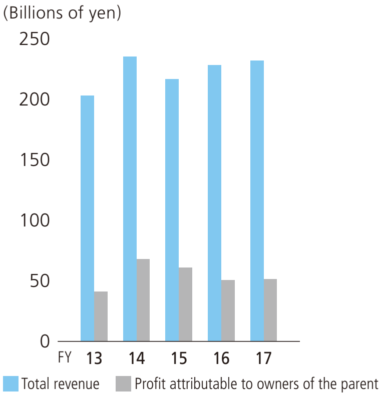


Ratio of Nonperforming Claims Classified under the Financial Revitalization Law to Total Claims (Nonconsolidated)



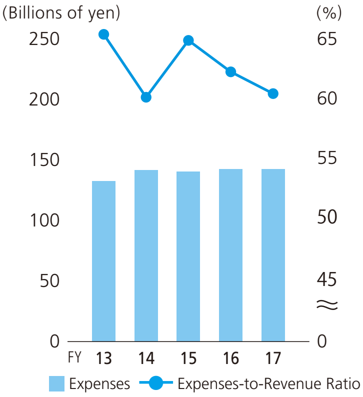
Total Revenue/Profit Attributable to Owners of the Parent

(Billions of yen)



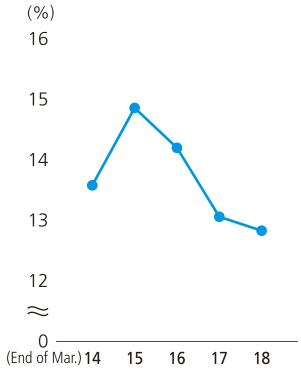
Expenses/ Expenses-to-Revenue Ratio

(Billions of yen) (%)



Capital Ratio (Basel III, Domestic Standard)

(%)



Value Creation Model to Remain a Financial Innovator

INPUT
Capital

Social Issues

- Declining birthrate, aging population
- Greater social inequality
- Natural disasters and energy issues stemming from climate change

Changes in Environment Surrounding Finance

- Declining profitability of traditional financial operations due to changes in social structure
- Entry into market of new players through financial information innovation
- Increase in uncertainty of overseas economies and geopolitical risk

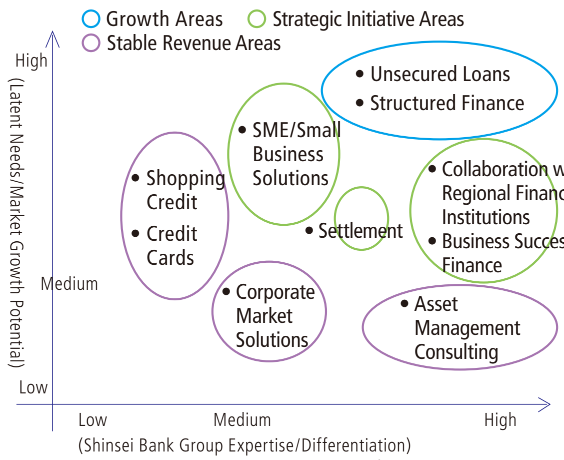
The Shinsei Bank Group's

Strengths

Information Technology
Retail business that utilizes scientific/statistical methods

Business Strategies

Clarification of Targets, Selection and Concentration



Note: Excluding basic banking services, such as funding and loans.

Refer to p. 27, p. 34~42

Group Management Infrastructure

Reorganization/Maximum Effective Utilization of Group Management Resources

Our insistence on our values

- Speed
- Uniqueness (Expertise)
- Customer Base

Where the Shinsei Bank Group Sees Itself

Based on actual demand arising from changes in society, we will continue to create niche areas ourselves and provide products and services unique to the Shinsei Bank Group to our target customers.

Value Creation Process

Finance Technology

High-value-added financial services made possible through tailor-made services

Management Platform

G — Further strengthening of governance with intention of improving value over the medium term

S — Development, personal growth of human resources capable of supporting Group's sustainable growth

E — Initiatives to combat environmental issues through main businesses

Refer to p.44~79

Robust Group Governance Refer to p.28

Business by Function

Functions Residing at Group Headquarters

Group Governance

and their background

Emerging Capabilities (Spirit of Innovation)

Respect for Individuality (Diversity)

Value to Be Created

OUTPUT Capital

Financial Capital
Sustainable revenue

Refer to p.22~24, p.80~85

Human/Intellectual Capital
Provision of solutions to actual demand arising from changes in society

Refer to p.46~47, p.64~65

Society-Related Capital
Approaches to social issues through corporate activities

Refer to p.67~71

Evolution of the Shinsei Bank Group

Institutional Business | Individual Business | Corporate

2000

Shinsei Bank launched

Name changed from The Long-Term Credit Bank of Japan, Limited (LTCB), to Shinsei Bank, Limited

2004

Listed the Bank's common stock on the First Section of the Tokyo Stock Exchange

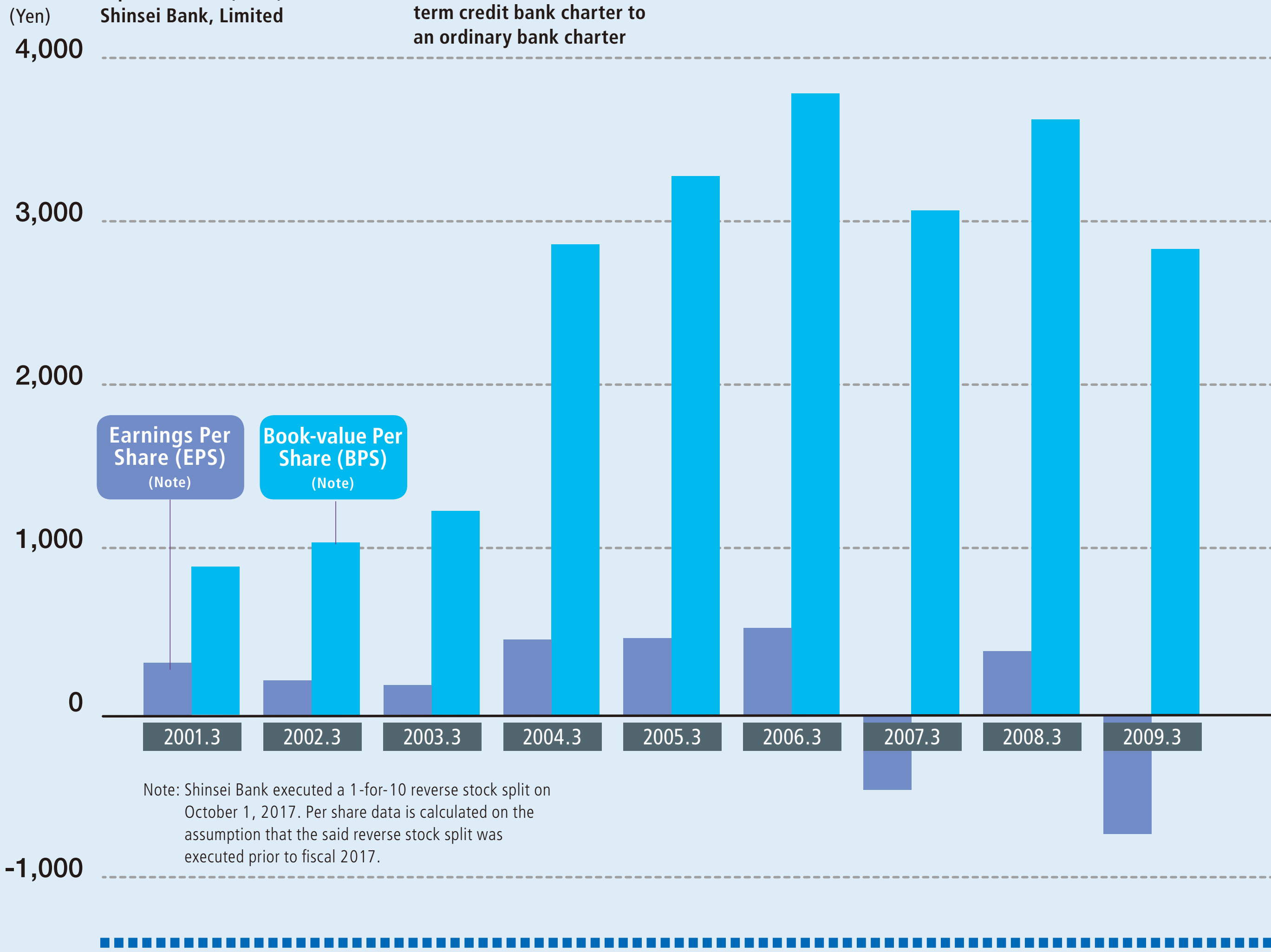
Converted the Bank's long-term credit bank charter to an ordinary bank charter

2005

Launched 32 colors of new cash cards for retail PowerFlex account customers

2009

Launched the Shinsei Step Up Program (a relationship reward program)



Note: Shinsei Bank executed a 1-for-10 reverse stock split on October 1, 2017. Per share data is calculated on the assumption that the said reverse stock split was executed prior to fiscal 2017.

2001

Shinsei Securities Co., Ltd. commenced operations

2003

Shinsei Investment Management Co., Ltd. commenced operations

2004

APLUS Co., Ltd. (now APLUS FINANCIAL Co., Ltd.) converted into a consolidated subsidiary

2005

Showa Leasing Co., Ltd. converted into a consolidated subsidiary

2007

SHINKI Co., Ltd. (now Shinsei Personal Loan Co., Ltd.) converted into a consolidated subsidiary

2008

GE Consumer Finance Co., Ltd. (now Shinsei Financial Co., Ltd.) converted into a consolidated subsidiary

2010

Announced the Bank's First Medium-Term Management Plan

Adopted a Company with an Audit & Supervisory Board

2012

Launched the Shinsei Bank PowerSmart Home Mortgage (*Anshin Pack*)

2012

Provided nonrecourse loans for the construction of lodgings for post-earthquake reconstruction workers

2013

Announced the Bank's Second Medium-Term Management Plan

2015

Launched the "Shinsei Bank Smart Card Loan Plus" (a new unsecured personal loan brand)

2016

Announced the Bank's Third Medium-Term Management Plan

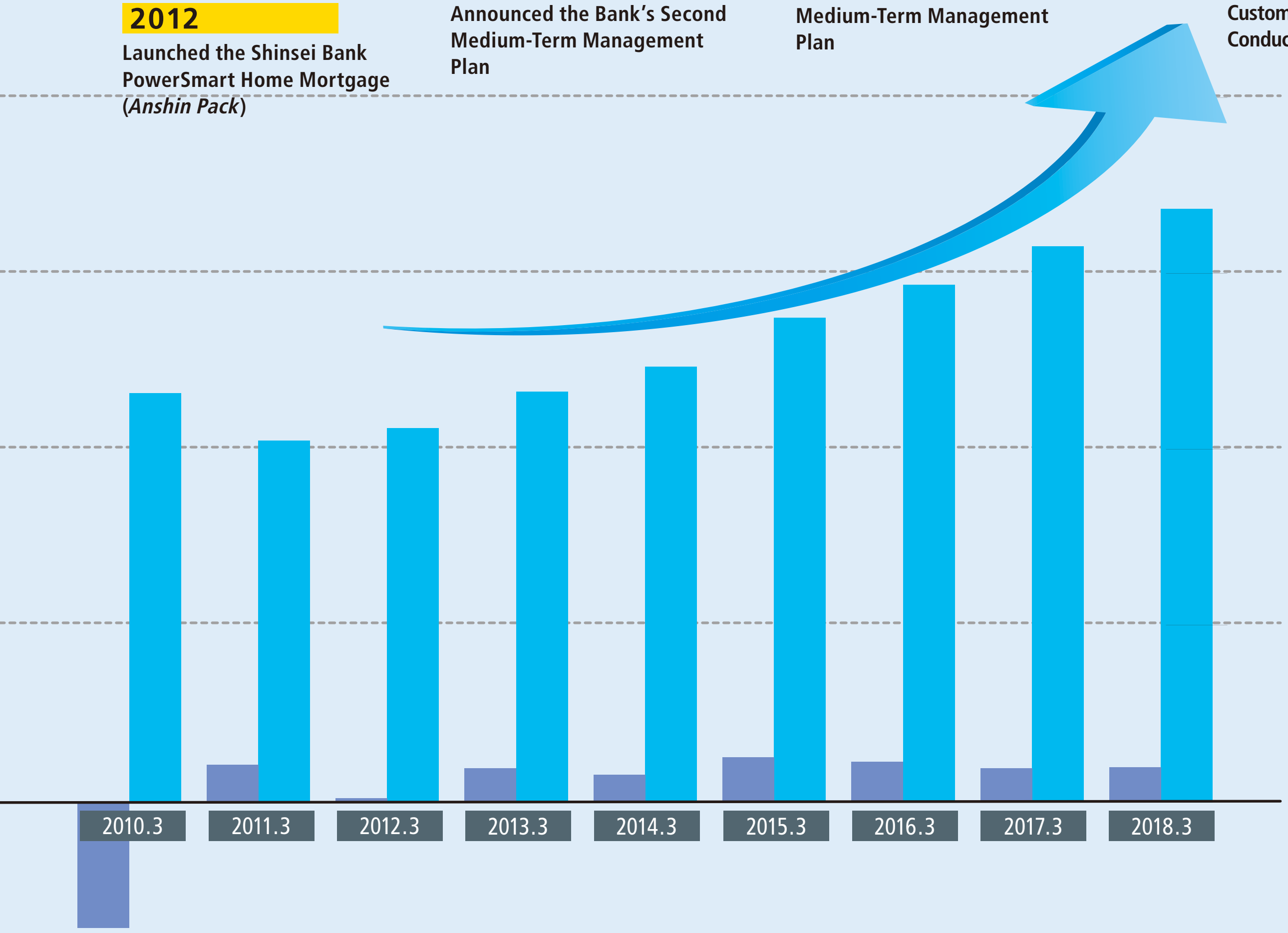
2017

Established the "Shinsei Bank Group Headquarters"

Announced the acquisition of treasury shares

Executed a 1-for-10 reverse stock split

Established the "The Policy on Customer-Oriented Business Conduct"



First Medium-Term Management Plan → Second Medium-Term Management Plan → Third Medium-Term Management Plan

2016

Shinsei Financial Co., Ltd. established a FinTech joint venture (SecondXight, Inc.) to leverage artificial intelligence (AI) capabilities

Shinsei Financial Co., Ltd. entered the unsecured personal loan business in Vietnam

APLUS Co., Ltd. started providing settlement agent services in Japan for the Chinese payment service provider "WeChat Pay"

2016

Showa Leasing Co., Ltd. converted into a wholly owned consolidated subsidiary

2017

Realigned the Shinsei Principal Investments Group

2018

Shinsei Financial Co., Ltd. launched a new "Lake ALSA" brand, an unsecured loan product

Major Events

2017.4 Arranged project financing for a megasolar project in Sakata City, Yamagata Prefecture **Growth areas**

Shinsei Bank Group established Group Headquarters

2017.5 Established the Femto Growth Fund II L.P.

2017.6 Established "The Policy on Customer-Oriented Business Conduct" and its "Action Plan"

2017.7 Arranged project financing for the acquisition of a megasolar power plant by AMP Solar Group Japan **Growth areas**

2017.8 Recognized as the financial institution that provided the highest level of customer satisfaction in the banking-sector section of the 2nd Japanese Customer Satisfaction Index (JCSI) survey in fiscal 2017

2017.9 Undertook an investment in Wisdom Academy Inc. through the Child-Care Support Fund

Arranged project financing for a woody biomass power generation project in Kamisu City, Ibaraki **Growth areas**

2017.10 Arranged a syndicated loan for Canadian Solar Infrastructure Fund, Inc. **Growth areas**

Commenced the robo-advisor based asset management service for individual customers **Stable revenue areas**

2017.11 Invested in Exchange Corporation Holdings Limited **Strategic initiative areas**

APLUS Co., Ltd. and Showa Leasing Co., Ltd. launched an auto leasing business for individual customers

2017.12 Undertook a review of the Bank's unsecured loan business strategy **Growth areas**

Agreed on a capital and business alliance with Lancers, Inc.

2018.1 Resolved to acquire treasury shares

2018.2 Established "Group Committee to Promote the Active Participation of Women"

2018.3 Announced to build the "YUI Platform," a Shinsei Bank Group integrated customer database

2018.4 Launched "Lake ALSA," a new unsecured loan product **Growth areas**

2018.5 Resolved to acquire treasury shares

Agreed on a capital and business alliance with Global Trust Networks Co., Ltd.

Where We Go?


ONLINE BANKING
Checking
Savings
Assets
Credit card
Account
Settings
85%

CEO Message

Hideyuki Kudo
President and
Chief Executive Officer

In order to be a financial group that stays a step ahead,

we continue to endeavor to maximize the Shinsei Bank Group's strengths and management resources to address unmet customer needs arising from social changes and further evolve the Group's unique business model.

Social Issues & Environmental Changes Surrounding the Financial Industry

Operating conditions surrounding financial institutions are changing in a period of sweeping change in a variety of social, economic and financial areas. In light of difficult earnings conditions in the traditional businesses and rapid technological development, the search for areas that can generate new customer value is an issue as well as an opportunity faced by the entire financial industry, and differentiation in business models is starting to arise from this trend.

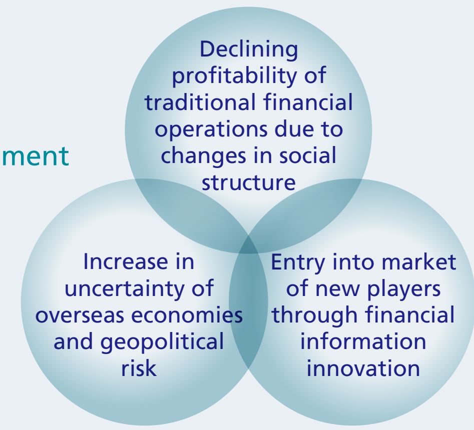
Labor shortages caused by the aging population along with widening social disparity are social issues facing Japan. Consequently, with employment flexibility and acceleration of diversity, freelancing, second jobs and other new work styles are on the rise. At the same time, the number of foreign workers in Japan has reached an all-time high. Against this backdrop, the Shinsei Bank Group is providing financial support to address unmet needs within latent customer segments to which conventional approaches have been unable to fully deliver financial products and services. To address world-wide environmental and energy issues, the Shinsei Bank Group is breaking new ground by financing projects to meet the need to adopt renewable energy in Japan following the Great East Japan Earthquake.

External Environments

Changes in Macro Economic Environment

- Declining birthrate, aging population
- Greater social inequality
- Natural disasters and energy issues stemming from climate change

Changes in Financial Environment



CEO Message

Financial Environmental Changes

Three major changes are occurring in the financial industry.

First, the traditional commercial bank business model consisting solely of accumulating deposits and providing lending is no longer able to generate significant additional value following the adoption of a negative interest rate policy by the Bank of Japan and the emergence of FinTech, a phenomenon that is integrating financial and IT functions on a highly sophisticated level.

Second, we are seeing changes from the development of FinTech and new entrants from relevant outside sectors. Financial institutions are now facing competition from companies that use data collected from entry points outside of the financial industry. In addition, the entry of new players from non-financial sectors could pose a major threat to financial institutions, as regulations make it difficult for them to enter non-financial sectors. Nevertheless, the fact remains that financial institutions themselves have high expectations for FinTech to drive innovation in terms of providing never-seen-before value to existing customers while identifying and supporting the increase in value for new customer segments with unmet needs by entering ecosystems that leverage FinTech.

Third, geopolitical risks mainly overseas have heightened. With domestic and overseas financial institutions being connected by networks, there is a lack of clear financial regulations in areas such as virtual currency, where value storage and payment methods that can easily cross borders have appeared on the scene. Similar to the collapse of Lehman Brothers, the fear that an issue arising in a particular country could quickly spread worldwide has definitely not eased. Rather, such risks are on the rise in different forms.

Shinsei Bank Group Business Strategies and Strengths

Being in a unique position that differentiates it from both megabanks and regional banks, the Shinsei Bank Group leverages its technological strengths in both IT and finance to be first in identifying and meeting "unmet customer needs."

Key concepts

1. **Society (S): Respond to financial needs that are not met by existing products and services**
2. **Environment (E): Become the market leader in the renewable energy field**
3. **Seek growth opportunities in Southeast Asia**

The Shinsei Bank Group's originality lies in providing highly specialized products, services and solutions that leverage both IT and financial technologies to meet actual customer-oriented demand. The Group aims to create added value for customers by identifying business opportunities from needs not met by existing products and services along with those needs that remain under the surface, while pioneering initiatives in businesses expected to see high margins and market growth.

Combining IT and financial technologies had specifically involved establishing SecondXight, Inc. as a FinTech joint venture with a company specializing in data analysis in order to utilize AI and Big Data. In addition, the Group has been upgrading tools to provide such new services as an integrated Group customer database that goes online in fiscal 2018. Through these initiatives, various Group management resources will be organically linked, while

Leveraging Synergies across Key Businesses

Create new businesses that go beyond the existing framework guided by the genuine needs of customers

Shinsei Bank	×	Showa Leasing	→ To meet the real needs of our customers, we will manage our corporate businesses across legal entities and Group organizations with the aim of offering integrated services and conducting advanced risk management.
Showa Leasing	×	APLUS	→ Vendor leasing to business owners and auto leasing to individuals via merchants of APLUS
Shinsei Bank Group	×	Different industries	→ Business alliances and investments aiming to create ecosystems targeting underserved customers such as freelancers and foreigners in Japan, and business alliances with non-financial players who have customer bases

simultaneously identifying what kinds of latent needs will emerge and in what forms for which customers and then employing these resources to find the best way to address them. Effectively matching customer needs with Group functions is an area where the Shinsei Bank Group can provide value to address social issues and it serves as the starting point to build our original business model. A specific example of this is the approach to freelance personnel. Although we expect freelancers to top 20 million in 2030, conventional financial institutions that depended on previously stable cash flow are unable to sufficiently meet freelance financing needs. However, the ecosystem in which freelancers operate shows significant promise for unique financial institutions like us that are experts in small loans while using Big Data and AI. In 2017, Shinsei Bank established a capital/business alliance with a crowdsourcing major player, Lancers, Inc., aimed at developing financial products and services for freelance personnel. With our presence rising in the freelance labor market, we will penetrate ecosystems in which freelancers operate and provide solutions for customers who had been previously overlooked, thereby creating a virtuous circle within this ecosystem.

The Group has positioned its financial technologies in growth fields, focusing on structured finance as a means to provide high-value-added financial services. Particularly in project finance, we boast an abundant track record in the field of renewable energy by leveraging our accumulated financial expertise based on cash flows generated from operating activities. Environment and energy are important social issues. As a market leader in project finance for renewable energy, the Shinsei Bank Group is contributing to the stable growth of renewable energy and to the solution of social problems through these business activities. (For further information, please refer to p.68–70.)

The Shinsei Bank Group will develop its small loan businesses overseas by forming alliances with local financial institutions that have customer bases centered on Southeast Asia, which displays high growth potential. In Vietnam, we have already established a consumer finance joint venture with a major private-sector commercial bank, enabling a steady rise in customers there. The Shinsei Bank Group aims to expand its businesses by providing services that package together our consumer finance experience and expertise, personnel and financial technologies accumulated to date to contribute to growth in Southeast Asia.

CEO Message

Management Infrastructure to Realize a Business Model That Is a Step Ahead

The ability to adapt to changing conditions is important for remaining a step ahead. As a means to identify business opportunities and meet social needs amid these changing conditions, the Shinsei Bank Group aims to identify methods for combining business functions not limited to particular business models as well as integrating personnel from different companies.

Key concepts

1. **Governance (G): Enhance sophistication of integration of administrative functions in the Shinsei Bank and its Group**
2. **Generate greater dynamism through business integration with other business categories inside and outside the Group**

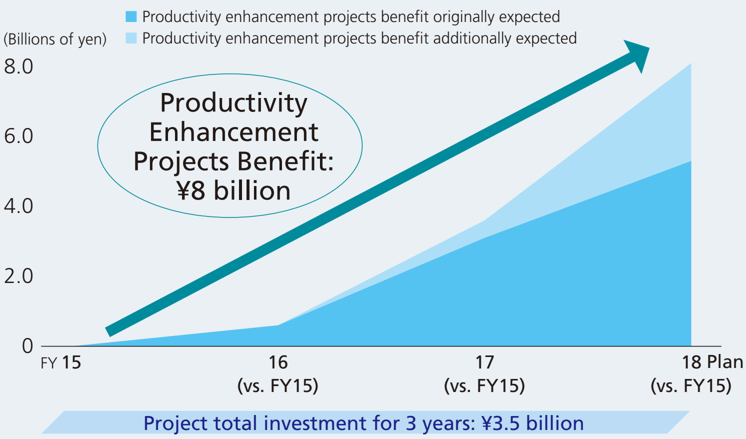
Strength from Flexible Organizations

In order to sufficiently meet changing customer needs, it is important not only to just attract talented personnel but also supplement any insufficiencies from both inside and outside the Group. In other words, it is vital to be able to grasp the roots of customer needs rather than taking a rigid sector-focused approach as well as have the dynamic creativity to optimally meet these needs. We are working to integrate the Group as one of the strategies in the Third Medium-Term Management Plan.

In April 2017, we established a virtual Group Headquarters within Shinsei Bank in order mainly to concentrate and increase the sophistication of headquarters functions and establish a foundation for organically linking administrative functions. In so doing, we have integrated indirect Group company headquarters-related functions in the areas of personnel, finance and general affairs. Beyond enhancing the Group's corporate governance structure, raising the sophistication of indirect administrative functions and increasing productivity and

Management Infrastructure Integration

Striving to improve operational efficiency and raise overall productivity by integrating administrative functions



Increase efficiency and the degree of operating sophistication through consolidation focusing mainly on Group headquarters and administrative functions
- Group headquarters systems
- Review of operations
- Consolidation and relocation of offices
- Reduction of nonpersonnel expenses

To review front-office functions
- Revision of branch strategy and branch management
- Review of products and services

To pursue further efficiency using technology
- Launch of automated services in call center functions, etc.
- Expansion of AI and RPA usage

efficiency through integration, the aim of the virtual Group Headquarters further out is to reorganize the Group's overall business functions in order to provide optimal solutions for customer needs.

In general, financial institutions seek to avoid new risks, but being insensitive to familiar risks is hardwired into their DNA. With a major paradigm shift occurring and the pace of change accelerating, however, it is becoming evident that those who are not the first to change will find themselves left out in the cold.

When tackling new ideas, traditional financial institutions lack an agile approach for improving through repeated trial and error. They start by making sure that all conceivable risks have been thoroughly eliminated. As this approach is the hallmark of financial institutions, any attempt to alter this would be nearly tantamount to changing their conceptual foundation and corporate culture. As a catalyst for changing the corporate culture, an important matter is how to take better advantage of the diversity within the Shinsei Bank Group. With this in mind, we are promoting the role of women in the workplace as one important theme. Over and above the obvious appointment of women to managerial-level positions, we recognize the need to make each and every employee, regardless of gender, feel that their work is worthwhile by creating a work environment that allows for healthy competition and provides opportunities for employees to use their abilities to the fullest extent possible. Foremost, we encourage employees to have the desire to attain both personal and organizational growth. In this sense, management must be committed to making the most of innovation, and therefore diversity, which is the wellspring of corporate value creation, and implement appropriate measures to facilitate this. Examples of Group initiatives are the formation of the Committee on Promoting the Role of Group Women in the Workplace and the removal of restrictions on diverse work styles. (For further information, please refer to p.46–47, p.64–65.)

The Shinsei Bank Group is taking on the challenge of changing its way of thinking by undertaking initiatives on a trial-and-error basis that involve organizational integration through the establishment of the virtual Group Headquarters and operational integration across business lines both within and outside the Group. We are gradually seeing the fruits of these efforts.

CEO Message

Capital Policies and Public Fund Repayment

Shinsei Bank continued to record profits in the fiscal year ended March 31, 2018 and, in turn, has made progress in accumulating capital. In addition to increasing profits and accumulating capital to repay public funds, we seek to receive the ongoing appreciation from capital markets by receiving high ratings for our business model, combining in a well-balanced manner rises in shareholder returns and fostering trust in our management approach.

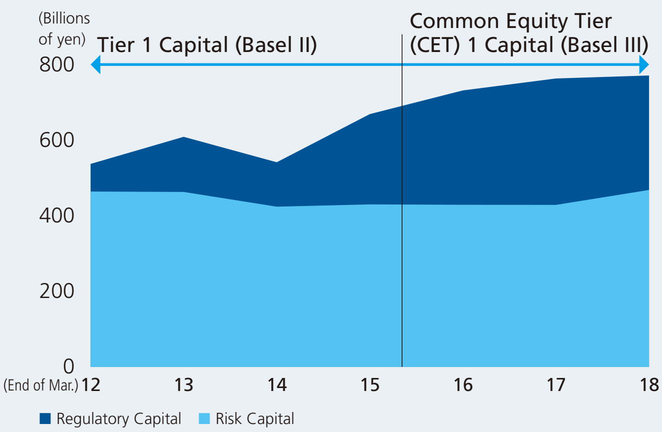
Key concepts

1. **Strong governance based on the concept that the Board of Directors should be share-holder-centric in their thinking**
2. **Accumulating capital to repay public funds while raising shareholder value**

70% or more of the Directors of Shinsei Bank are outside directors, and the Bank places a very strong emphasis on responding to the expectations of capital markets and share-holders. The Board of Directors therefore engages in earnest discussions, while business execution undergoes a strict series of tests and challenges right up to the implementation stage. (For further details, please refer to p.48–62.) To meet the capital market expectations over shareholder returns while being required to accumulate capital to pay back public funds, top management must in the near term manage capital in a manner that strikes a balance between these two contradictory objectives. Over the medium-to-long term, however, these two objectives should become consistent, as these involve raising both returns on capital and value per share. In other words, it is important that we gain favorable evaluations from capital markets regarding our growth-oriented business model that is able to accumulate capital to repay public funds while simultaneously raising value per share as the original preferred shares issued by the Bank for public funds have now been converted into common stock.

In light of this, we have increased "core profitability by prioritizing management resources toward strong-suit fields through business selection/concentration" over the past few years, which has enabled us to both accumulate capital and raise our total payout ratio. Going forward, in addition to these ongoing efforts, we aim to realize even-higher returns on capital via measures that include pursuing non-organic growth strategies as well as seeking to boost capital market evaluations by gaining favorable ratings for our business model and further improving trust in management.

Regulatory Capital/Risk Capital Trends



Total Payout Ratio

(Billions of yen)

FY	14	15	16	17
Total payout (A)	2.6	12.6[1]	12.5	15.5
Profit attributable to owners of the parent (B)	67.8	60.9	50.7	51.4
Total payout ratio (A)/(B)	4%	21%	25%	30%

[1] Excluding ¥2 billion relating to acquisition of treasury shares in order to attain full owner-ship of Showa Leasing

Message to Our Stakeholders

The importance of financial functions that support corporate and individual activities is unlikely to change. Amid changes in society and customer needs, however, bank functions and approaches will likely change as financial functions are redefined more broadly. The Shinsei Bank Group will work to maximize shareholder value by deftly identifying these changes and, in turn, becoming a financial group that stays a step ahead.

Key concepts

1. **Be the first to identify and meet changing needs**
2. **Society (S): Supplement financial system deficiencies**

The Shinsei Bank Group has established a superior position business-wise compared to other financial institutions based on its ability to flexibly identify and address unmet needs within society. We have a role to play in supplementing areas that are lacking in financial systems in any era.

A variety of different sectors rather than simply relying on existing bank and nonbank businesses are entering into our financial operations. To be certain, while banks are a specific means of financing via deposits and have a duty to protect depositors, specific social interest in banks is waning. Banks and other financial institutions should meet the needs of various customers while undertaking a wide range of tie-ups and alliances. Against this backdrop, the financial institutions that survive will likely be those that do not strictly adhere to traditional business models. We intend to be the first to implement such measures to ensure that the Shinsei Bank Group is a financial group that is able to meet the expectations of our stakeholders.

Going forward, we ask for the continued understanding and support of all stakeholders.

July 2018

Hideyuki Kudo
President and Chief Executive Officer

Letter from Finance

We will promote the optimal allocation of management resources as defined in the Group's management strategy.

Shouichi Hirano
Chief Officer,
Group Corporate Planning and Finance

Total revenue increased to ¥232.0 billion, **up ¥3.5 billion** from the ¥228.5 billion recorded in fiscal 2016.

The expenses-to-revenue ratio improved to **61.5%**, from 62.3% recorded in fiscal 2016.

Ordinary business profit was ¥89.4 billion, **an increase of ¥3.3 billion** from ¥86.0 billion in fiscal 2016.

The Common Equity Tier 1 Capital Ratio (international standard, fully loaded basis) was **12.2%**.

The nonperforming claims ratio (nonconsolidated basis) remained low at **0.17%**.

Fiscal 2017 Financial Results Summary

Results of Operations

Total revenue increased to ¥232.0 billion, up ¥3.5 billion from the ¥228.5 billion recorded in fiscal 2016.

- Net interest income totaled ¥128.7 billion, a ¥6.4 billion increase from the ¥122.2 billion recorded in the previous fiscal year, reflecting loan growth in Consumer Finance Businesses.
- Noninterest income decreased to ¥103.2 billion, a decline of ¥2.9 billion from the ¥106.2 billion recorded in the previous fiscal year. In fiscal 2017, we recorded gains on sales of equities in the Corporate Business and Showa Leasing, profits from the equity method investment in the Principal Transactions Business, as well as an increase in fee income from the Corporate Business. On the other hand, gains on sales of bonds in ALM operations and fee income related to the sales of asset management products in the Retail Banking Business decreased in fiscal 2017, in addition

to an absence of a large gain on sales of securities recorded in fiscal 2016. As a result of these factors, noninterest income decreased compared to the previous fiscal year.

Expenses totaled ¥142.5 billion, up ¥0.1 billion from the ¥142.4 billion recorded in fiscal 2016. A decline in personnel expenses resulting from progress of the productivity enhancement projects was offset by an increase in expenses related to IT systems and marketing activities. The expenses-to-revenue ratio improved to 61.5%, from 62.3% recorded in fiscal 2016.

Net credit costs increased to ¥37.2 billion in fiscal 2017, up ¥5.3 billion from the ¥31.8 billion recorded in fiscal 2016 due to provisioning of the specific reserves for loan losses in the Institutional Business and the general reserves for loan losses relating to the steady growth of the loan balance in the Consumer Finance Business.

A fiscal year-end review of the adequacy of reserves for losses on excess interest repayments in our consumer finance subsidiaries resulted in a total of ¥6 billion in gains on the reversal of reserves for losses on excess interest repayments.

Profit attributable to owners of the parent totaled ¥51.4 billion in fiscal 2017, up ¥0.6 billion from the ¥50.7 billion recorded in fiscal 2016.

Assets and Liabilities

Assets totaled ¥9,456.6 billion.

- **Loans and bills discounted** increased to ¥4,895.9 billion, up ¥62.5 billion from March 31, 2017. Increases in the lending balance of the Structured Finance Business and the Consumer Finance Business were partly offset by decreases in Institutional Business lending and Retail Banking housing loans.
- **Securities** increased to ¥1,123.5 billion, up ¥108.8 billion from March 31, 2017.

Liabilities totaled ¥8,600.6 billion.

- **Deposits and NCDs** increased to ¥6,067.0 billion, up ¥204.1 billion from March 31, 2017. Stable deposits remained high at 80% of our total funding base.

Capital and Asset Quality

The Common Equity Tier 1 Capital Ratio (international standard, fully loaded basis) was 12.2%. The Bank has maintained a sufficient level of capital.

Nonperforming loans on a nonconsolidated basis under the Financial Revitalization Law decreased ¥1.9 billion from March 31, 2017. The nonperforming loan ratio remained low at 0.17%.

Results of Operations (consolidated)

Unit: Billions of yen

FY	2017	2016	YoY
Net Interest Income	128.7	122.2	6.4
Noninterest Income	103.2	106.2	-2.9
Total Revenue	232.0	228.5	3.5
Expenses	-142.5	-142.4	-0.1
Ordinary Business Profit (OBP)	89.4	86.0	3.3
Net Credit Costs	-37.2	-31.8	-5.3
OBP after Net Credit Costs	52.1	54.1	-1.9
Income before Income Taxes	55.4	51.7	3.6
Profit Attributable to Owners of the Parent	51.4	50.7	0.6

Letter from Finance

Financial Management Policies for Fiscal 2018

While being attentive to overseas political-economic conditions and the interest rate environment, we will continue to promote financial management that optimizes the allocation of management resources as defined in the Group's management strategy. Along with ensuring that the income contribution from the growth areas of unsecured loans and Structured Finance remains robust, we are pursuing to improve productivity by increasing and enhancing the efficiency of operations to further improve our expenses-to-revenue ratio.

In the financial plan for fiscal 2018, we foresee growth in total revenue and increases in expenses related to IT system upgrades and marketing. The increases in expenses are expected to be partly offset by the expense savings realized from the productivity enhancement projects. Net credit costs are expected to improve in fiscal 2018 due primarily to the absence of provisioning of the specific reserves for loan losses recorded in the Institutional Business in fiscal 2017. As a result, both ordinary business profit after net credit costs and profit attributable to owners of the parent are expected to increase from fiscal 2017.

Towards Maintaining or Increasing the Total Payout Ratio

We have recorded stable profits in recent years, which demonstrate accumulation of capital for repaying the public funds. The public funds have been converted into common stock. Hence, we realize the importance of accumulating capital to repay the public funds as well as improving the valuation of the Bank from the market in order to increase the stock price.

In light of this, in fiscal 2017, we executed a share buyback program of common stock up to ¥10 billion to enhance the shareholders' return based on the profits recorded in fiscal 2016. In addition, in May 2018, we announced a share buyback program up to either ¥13 billion or 13 million shares as a payout from profits recorded in fiscal 2017. As a result, the total payout ratio including both dividends and stock repurchases is expected to increase to 30%.

Going forward, we aim to maintain or increase our total payout ratio within the range of Japanese banks' regular total payout ratios, on the premise that we steadily accumulate capital to repay the public funds.

Total Payout Ratio

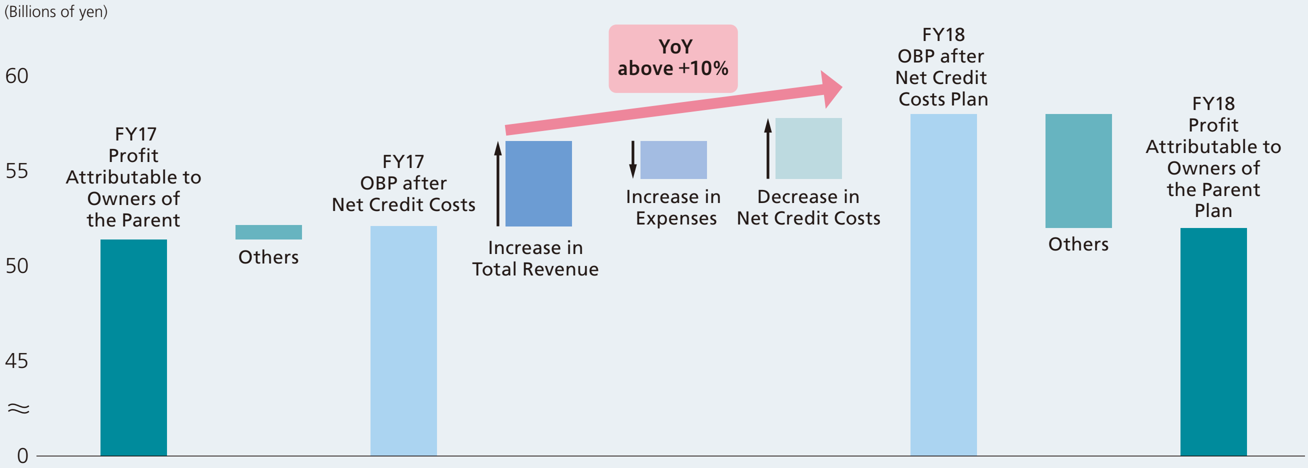
(Billions of yen)

FY	2014	2015	2016	2017
Total Payout (A)	2.6	12.6[1]	12.5	15.5
Profit Attributable to Owners of the Parent (B)	67.8	60.9	50.7	51.4
Total Payout Ratio (A)/(B)	4%	21%	25%	30%

1. Excluding ¥2 billion relating to acquisition of treasury shares in order to attain full ownership of Showa Leasing

FY2018 Financial Plan: Summary (Details announced on May 11, 2018)

(Billions of yen)



Why We Can?

Special Feature: To Maintain Its Role as a Financial Innovator

Overview and Progress under the Third Medium-Term

Third Medium-Term Management Plan Overview (April 2016 – March 2019)

Group Integration

Creation of new businesses beyond the current framework based on real customer needs

- Realization of Group synergies which leverage newly created services and the Group's customer base
- Creation of sustainable business model capable of delivering stable growth

Shinsei Bank Group Customers

Needs

- **Loans, Finance and Settlement services for individual customers**
- **Finance and Settlement services for small business owners/SME customers**
- **Asset formation, asset management, asset/business succession**
- **Project-based business (real estate, shipping/aircraft, energy, infrastructure)**

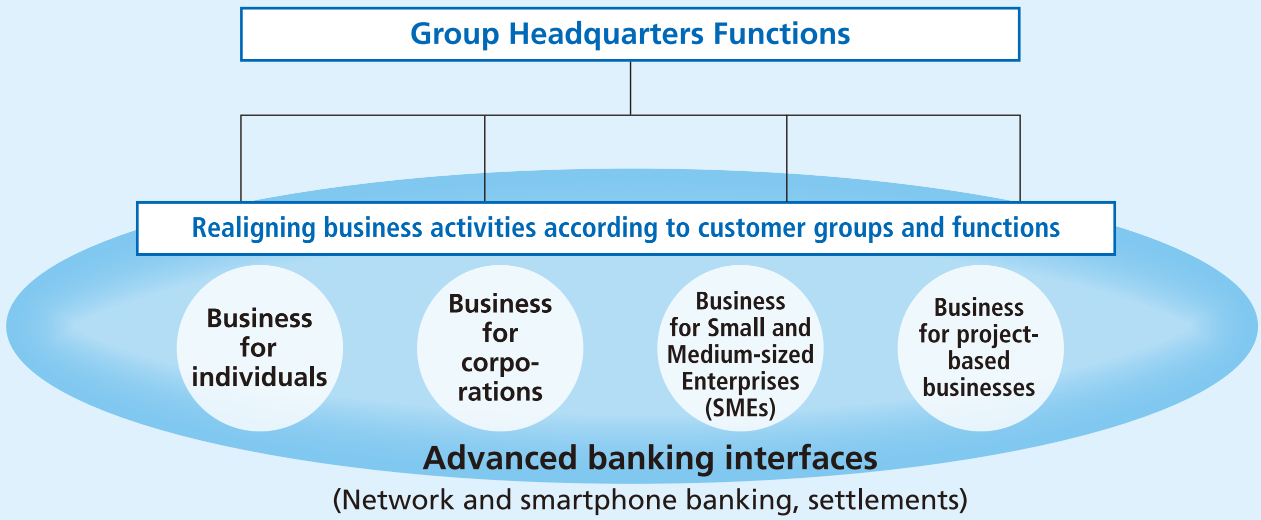
Combining Group Management Infrastructure

Seeking to improve operational efficiency through integration of management administration functions and aiming for overall increases in productivity

- Support front-office frameworks necessary to provide customers with optimal products and services
- Maintain a continuously optimized management organization through an ongoing review process
- Realization of optimal, Group-wide allocation of management resources
- Achieve exceptional productivity and efficiency through lean operations

Optimal Conditions for the Group as a Whole

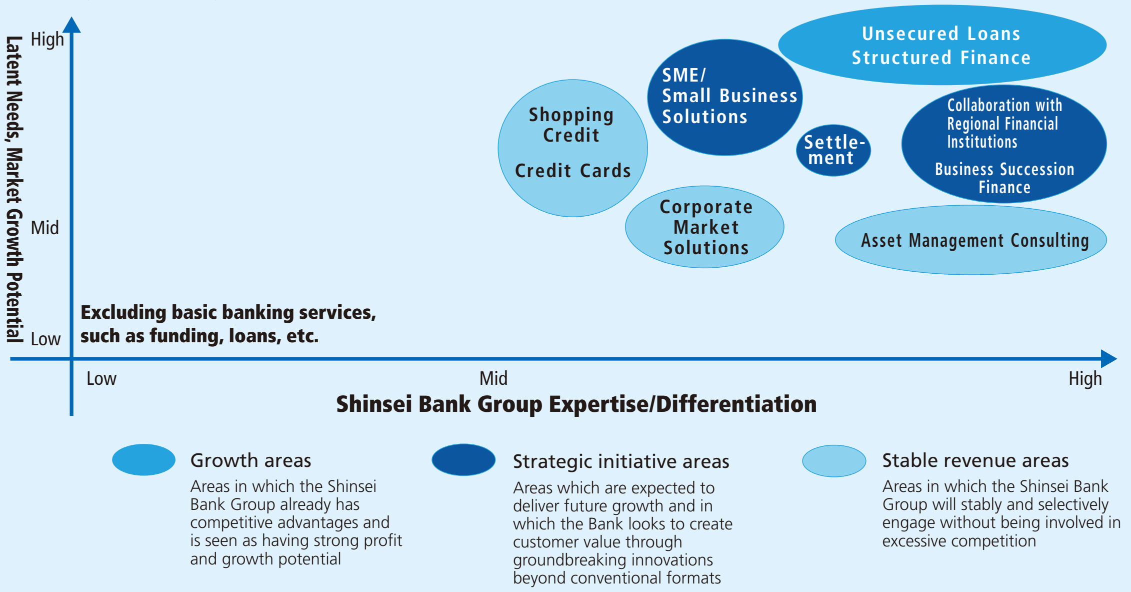
Future Outlines: Realign Business and Services from the Customers' Perspective



Management Plan

Overview and Progress of Business Strategies

Strategic Mapping of Businesses



Progress on Business Strategies

	Business	Progress up to FY2017	Toward FY2018
Growth Areas	Unsecured Loans	· Secured growth in the balance of unsecured loans in excess of the rate of market growth in Japan · Formed a joint venture with a major private-sector bank in Vietnam to promote Consumer Finance Business growth	· Expand customers of the Lake ALSA brand through Shinsei Financial Co., Ltd. · Consider expanding the small-lot finance business in collaboration with local overseas partners
	Structured Finance	· Secured steady growth in the balance of structured finance · Achieved progress in the diversification of project finance transaction volume in Japan	· Continue to engage in activities while carefully taking into consideration market conditions as well as risk and return · Continue to engage in the sourcing of high-quality projects in the international project financing field
Stable Revenue Areas	Asset Management Consulting	· Experienced sluggish trends in revenue related to asset management product sales	· Enhance customers' experience utilizing customer data and channels
	Corporate Market Solutions	· Recorded robust derivative revenue trends through efforts aimed at diversifying the customer base	· Expand the customer base, including collaboration with other financial institutions
	Shopping Credit, Credit Cards	· Increased the number of credit cards issued · Increase in shopping credit outstanding	· Utilize the YUI Platform (an integrated customer database)
Strategic Initiative Areas	SME* Business Solutions	· Promoted vendor leasing through the merchant partner channels of APLUS Co., Ltd.	· Build a new collaboration scheme utilizing resources both inside and outside the Group
	Settlements	· Expanded WeChat Pay merchant partners	· Promote cross-sales among WeChat Pay merchant partners
	Business with Regional Financial Institutions	· Realized robust syndication transactions flow	· Undertake meticulous follow-up in an effort to address the asset management product sales needs of regional financial institutions
	Business Succession Finance	· Concentrated resources into support for change or discontinuance of businesses while implementing measures aimed at increasing the level of awareness	· Continue to implement measures aimed at increasing the level of awareness in a bid to expand the number of new transactions

*Note: Small and Medium-sized Enterprises (SMEs)

Special Feature: To Maintain Its Role as a Financial Innovator

Group Organizational Strategy

Responsible for the specific upgrades to the organizational structure necessary to implement the Group business strategy for the promotion of a variety of Group-wide productivity enhancement projects

Group Management Framework (Group Headquarters System)

Structuring a unique and workable corporate governance framework, with a strong consciousness of the integrated operation of the Group, based on an understanding of the current environment and the special features of the Shinsei Bank

Group Management Framework

- Group integrated management (governance enhancement)
- Platforms for business development
- Simpler organization and quick decision making

Group Governance Framework Specific Initiatives

1. Group support functions (Corporate Function) are integrated into the Group Headquarters as a virtual company, and all businesses including the Bank will be reorganized into equal business units.
2. Important matters under Group Strategy are resolved at the Group Executive Committee and important Group Committees.
3. Establish "Cross-company Business Unit" consisting of cross-company members working across multiple companies in order to facilitate businesses to fully demonstrate Group functions. Also form a group of specialists to be in charge of realizing synergies through integration of the Group and implement strategies in Group businesses.

Objectives of Group Headquarters

Convert functions into business units

Convert each business into equal business units through the integration of Group support functions into Group Headquarters as a virtual company

Consolidate overlapping functions

Remove overlapping functions and reduce workload

Expand room for better efficiency

Realize room for much better efficiency by sharing best practices and jointly implementing new methods

Enhance functions across the Group

Further enhance Group functions using extra management resources realized through better efficiency

Decision-making level

Enable quick and consistent decision making by simplifying reporting lines

Group Business Strategy

Responsible for reviewing business management systems on a Group-wide basis, for the Group's new business development and for examining and executing the strategic alliances for the development of that new business

Strategy to Generate New Business Opportunities

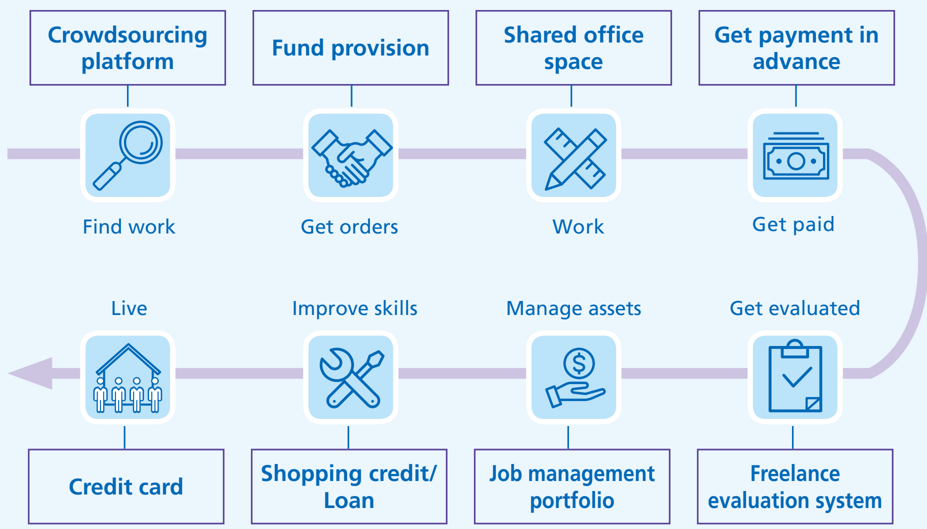
Seek nonorganic growth opportunities to utilize the strengths of the Shinsei Bank Group

- Focus on finding opportunities in both Japan and overseas that will draw on Shinsei Bank Group strengths. In non-banking business, especially in the Consumer Finance Business.
- For overseas activities, focus on the regions that have a large population with a "population bonus" and where high economic growth can be expected. Work with a suitable partner and utilize Shinsei Bank Group's "know-how" to promote finance business.

Develop a promotional framework to respond to the needs of underserved customers

- Unbundle and realign different functions within Shinsei Bank Group and form an alliance with a 3rd party when necessary.
- Provide services to the newly emerging customer segments that form their own ecosystems. For example, of the market segments that are expected to expand going forward, we will pay particular attention to freelancers and foreign workers while considering the offering of new financial services.

Provide products and services to freelancers

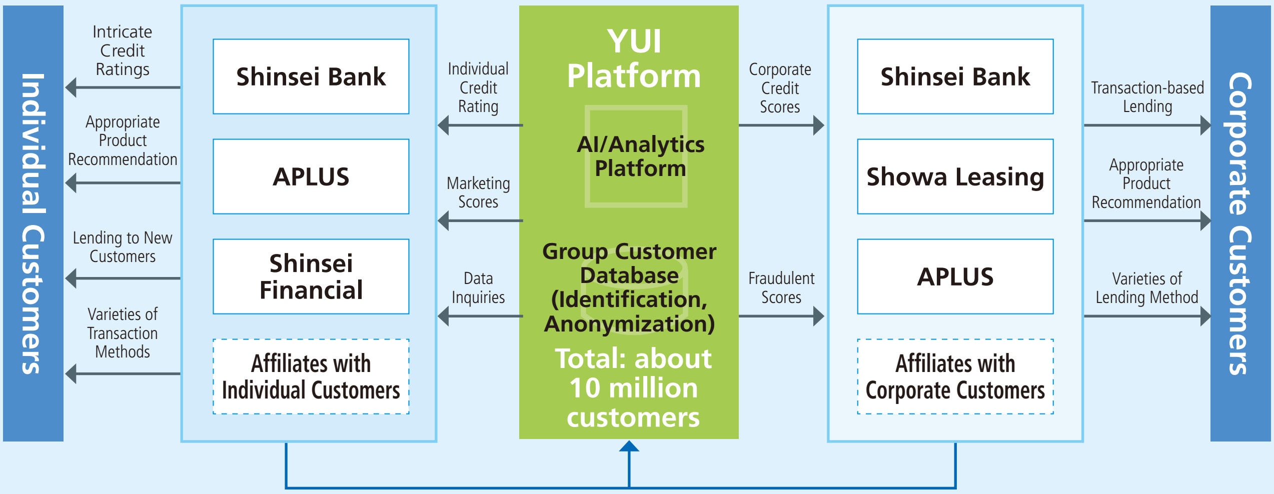


- Aggregated number of dedicated freelancers and workers who have side jobs while affiliated with a company is expected to grow from the current 11.2 million to 20.9 million in 2030.
- To capture opportunities in that growing freelancer market, the Shinsei Bank Group announced a business alliance partnership with Lancers, Inc., the largest crowdsourcing company in Japan, in December 2017.
- Usage of Lancers member data to provide financial products and services. Explore possibilities of developing a framework to evaluate individual freelancers with AI technology.

Special Feature: To Maintain Its Role as a Financial Innovator

Group Data Strategies

Built the YUI Platform that features both a database that integrates the Shinsei Bank Group's customer data and an AI/analytics platform

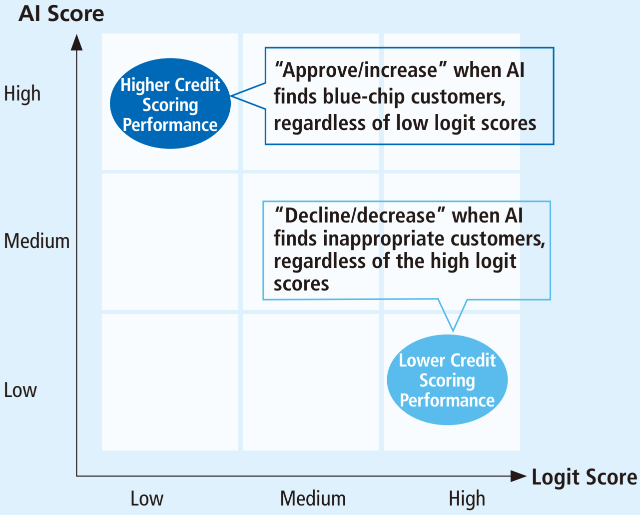


AI keeps learning through continuous utilization and acquisition of the new data.

Having generated an AI score derived from the AI/analytics platform on the YUI Platform, score is utilized for more-sophisticated Lake ALSA credit rating/collection for providing unsecured loans to individual customers

- Expecting better performance through the application of sophisticated hybrid of AI and logit scores to the various financial products of the Group.
- Expecting higher accuracy of prediction by combining the Big Data and AI's deep learning technology.
- Expecting better credit scoring performance by utilizing AI analysis of the credit position in the fund collection area.

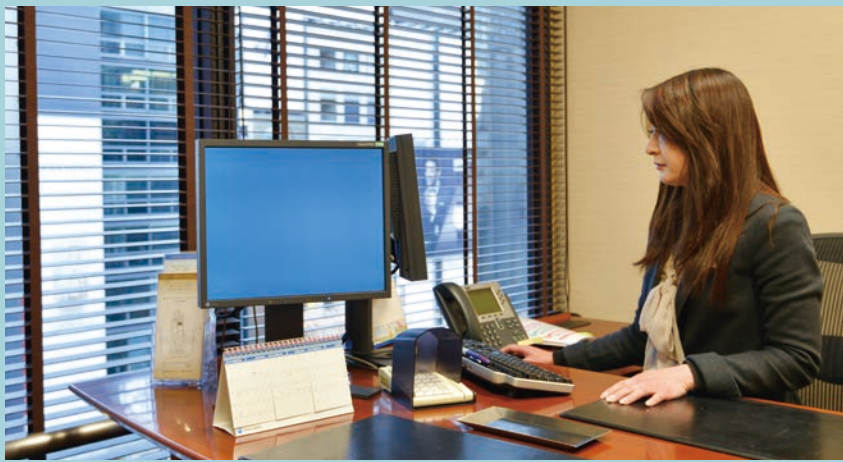
Hybrid Credit Ratings Utilizing AI and Logit Scores



AI Scoring the Group Is Working On

Data	Integrate and utilize not only credit and attribute information, but also all structured, non-structured and open data within the Group for scoring
Algorithm	Maximize the impact of the Big Data by hiring the high-end mechanical learning models such as deep learning and ensemble learning
Area of Application	Utilize AI for the credit ratings as well as for the fund collection area, upon evaluation of the credit position (as they are two sides of the same coin)

How Are We Now?



At a Glance—Segment Data

Major Businesses | **Contribution**

Individual Business

Individual Business

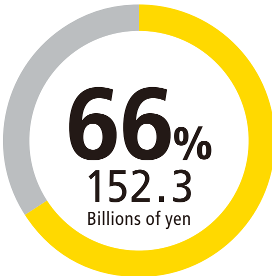
Retail Banking
Yen/foreign currency deposits, structured deposits, investment trusts, brokerage service (through a partner institution), life and nonlife insurance (through partner institutions), housing loans, provision of financial transactions and services for individuals

Shinsei Financial
Consumer finance and credit guarantees (Lake, NO-LOAN)

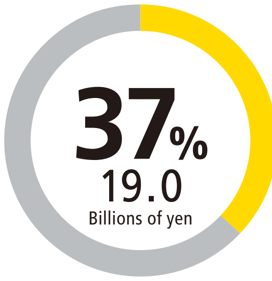
APLUS FINANCIAL
Shopping credit and settlements, credit cards; credit guarantees; finance and collection services

Other Business
Profits and losses of other subsidiaries

Total Revenue



Ordinary Business Profit after Net Credit Costs



Institutional Business

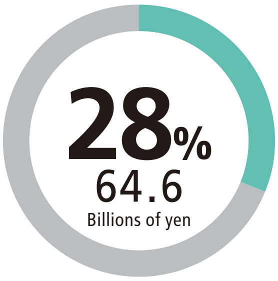
Institutional Business

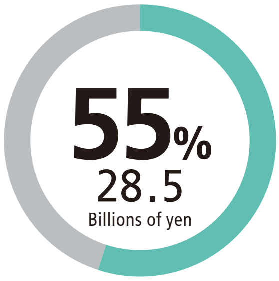
Corporate Business
Provision of financial products, services and advisory services for corporations, public-sector entities and financial institutions; healthcare finance business, trust banking business

Structured Finance
Real estate related nonrecourse finance and corporate finance; project finance; M&A-related finance, etc.; specialty finance

Principal Transactions
Credit trading, private equity, business succession finance, corporate restructuring, asset-backed investment, etc.

Showa Leasing
Financial products and services focused around lease finance

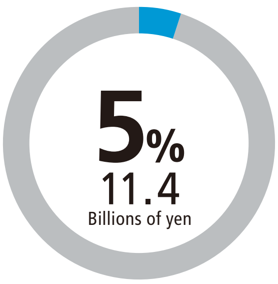


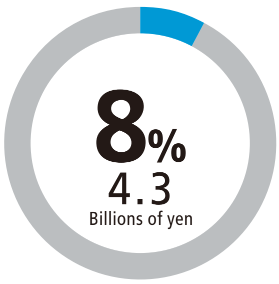


Global Markets Business

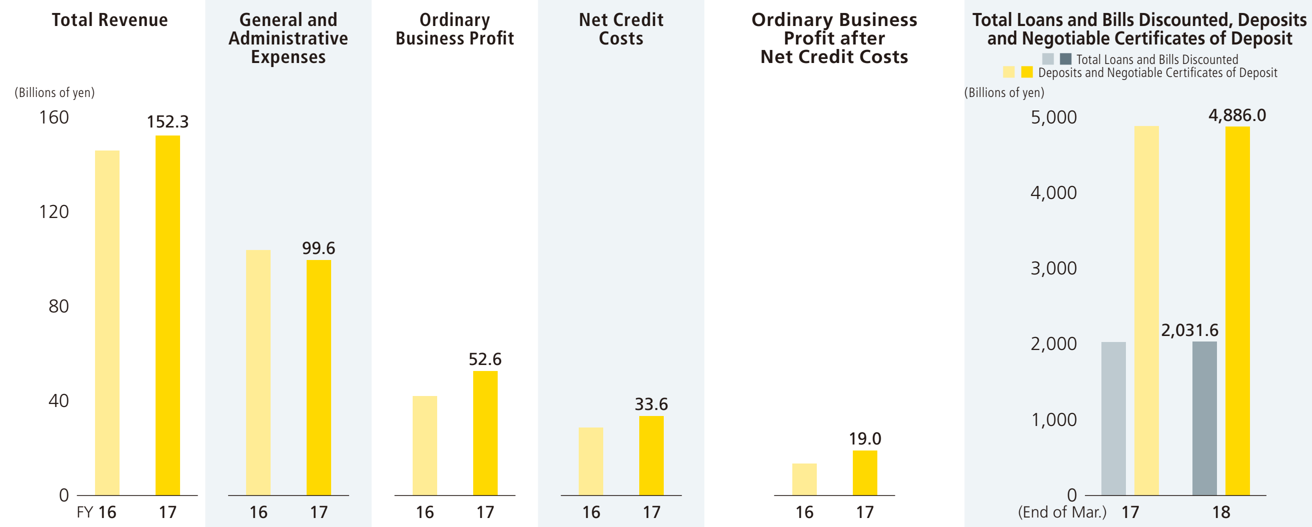
Markets Business
Foreign exchange, derivatives, equity-related and other capital markets business

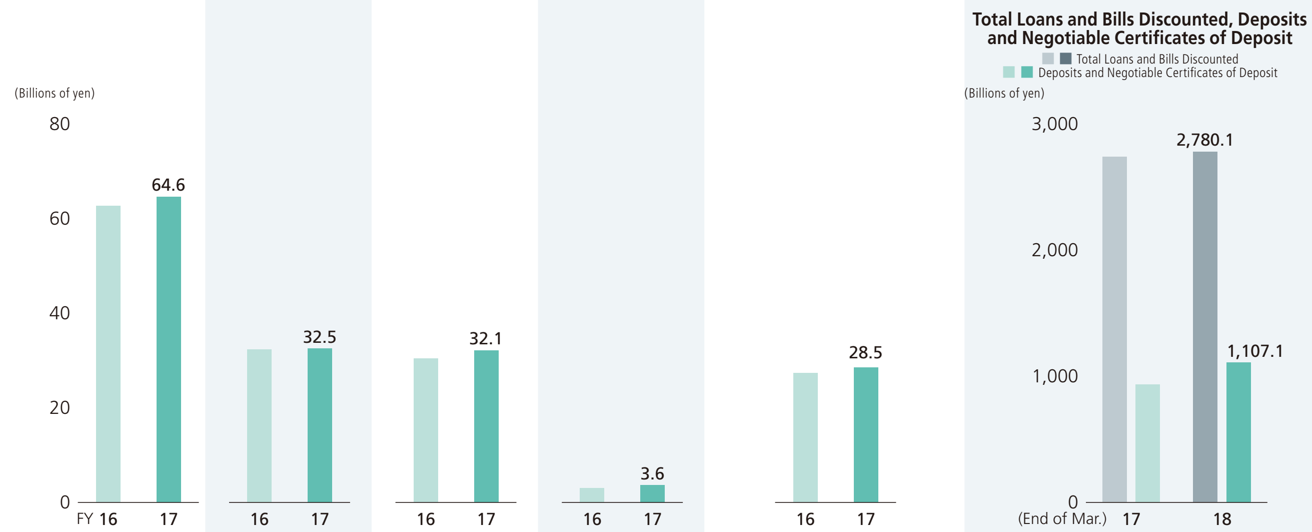
Other Markets Businesses
Shinsei Securities, asset management business, wealth management business

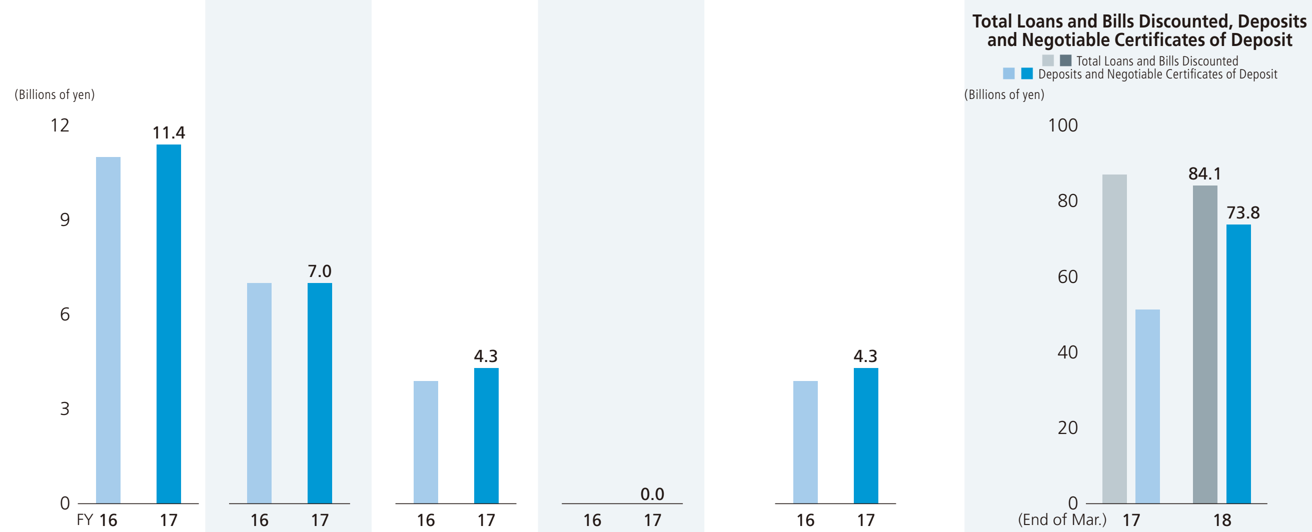




The percentage figures do not add up to 100% due to the contribution of Corporate/Other.


Total Revenue
General and Administrative Expenses
Ordinary Business Profit
Net Credit Costs
Ordinary Business Profit after Net Credit Costs
Total Loans and Bills Discounted, Deposits and Negotiable Certificates of Deposit
Total Loans and Bills Discounted
Deposits and Negotiable Certificates of Deposit
(Billions of yen)
160
120
80
40
0
152.3
99.6
52.6
33.6
19.0
FY 16
17
5,000
4,000
3,000
2,000
1,000
4,886.0
2,031.6
(End of Mar.)
18


Total Loans and Bills Discounted, Deposits and Negotiable Certificates of Deposit
Total Loans and Bills Discounted
Deposits and Negotiable Certificates of Deposit
(Billions of yen)
80
60
40
20
0
64.6
32.5
32.1
3.6
28.5
FY 16
17
3,000
2,000
1,000
2,780.1
1,107.1
(End of Mar.)
18


Total Loans and Bills Discounted, Deposits and Negotiable Certificates of Deposit
Total Loans and Bills Discounted
Deposits and Negotiable Certificates of Deposit
(Billions of yen)
12
9
6
3
0
11.4
7.0
4.3
0.0
4.3
FY 16
17
100
80
60
40
20
84.1
73.8
(End of Mar.)
18

Individual Business

Tetsuro Shimizu
Managing Executive Officer,
Head of Individual Business

The Individual Business is composed of retail banking, which accepts deposits and handles asset management products and housing loans, and consumer finance, which handles unsecured personal loans, credit cards, shopping credit, settlements and sales of financial products to individuals and related services.

Business Environment

The Retail Banking business is working to deliver products and services that correspond to the needs and lifestyles of individual customers within the continued large-scale financial easing established by the negative interest rate policy of the Bank of Japan. By delivering products and services that help our customers' asset formation over the medium and long terms, as well as by accumulating assets under management (AUM), we are taking initiatives to build a reliable earnings base that is not affected by the external environment.

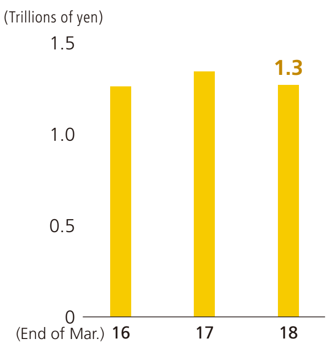
The Housing Loans business is delivering unique PowerSmart Home Mortgages with high-value-added marketability that places them in a different category altogether than interest-rate competition. Two examples include PowerSmart Home Mortgage Anshin Pack W, which includes coupons that can be used for housekeeping services, housecleaning and sick-child care services given the accelerating entry of women into the workplace and other changes in the social structure, and PowerSmart Home Mortgage Anshin Pack S, which includes a special policy for debt relief during times of natural disaster.

The Unsecured Loans business is seizing the opportunity for both reliable income growth in Japan and inorganic growth overseas based on changes in the business environment and the evolution of digital technology.

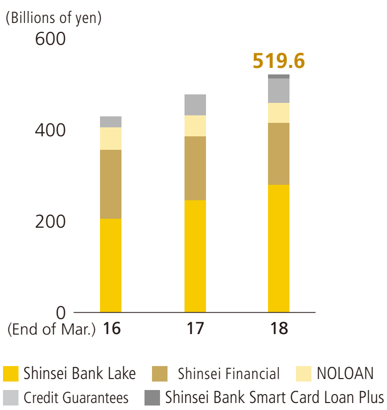
The APLUS FINANCIAL business is seeing growth in credit card spending as a result of steady expansion in the shopping credit market and of expansion in the e-commerce market. On the other hand, the diversification of settlement methods as a result of technological innovation is expected to further accelerate competition from outside of the banking sector. Utilizing the financial functions and customer data held by the Shinsei Bank Group, the APLUS FINANCIAL business will deliver products and services that meet the various needs of our customers.

Operating Assets

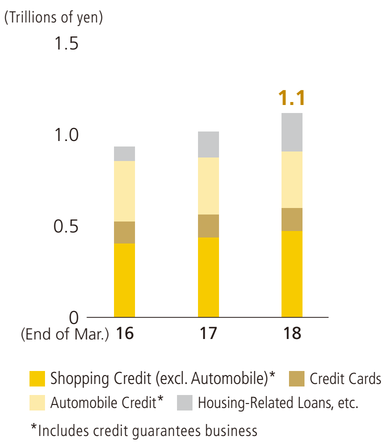
Housing Loans



Unsecured Loans



APLUS FINANCIAL



Medium-Term Management Plan Progress

Growth Areas

Unsecured loans: We improved the convenience of application procedures using smartphones in line with our customers' lifestyles. In addition, after reviewing the Shinsei Bank Group's unsecured loan business strategy, in April 2018 we adopted Lake ALSA as a product under the Money Lending Business Law.

Strategy Initiative Areas

Settlements: In 2016, APLUS began offering a settlement agent service in Japan for WeChat Pay, a Chinese mobile settlement service provided by Tenpay Payment Technology Co., Ltd. as part of the Tencent Group. Since this time, we have worked to expand the number of merchants accepting WeChat Pay in Japan and to build a merchant network. In fiscal 2017, the number of merchants accepting WeChat Pay continued to increase, with the number of merchants and companies accepting WeChat Pay totaling 7,973 and 996, respectively, as of the end of March 2018.

Stable Revenue Areas

Asset management consulting: In November 2017, we began operations of THEO Plus Shinsei Bank, a discretionary investment service utilizing the robo-advisor developed by MONEY DESIGN. In December 2017, we also began accepting applications for Shinsei Power Trust (cash in trust), an achievement dividend style cash in trust designed to invest and manage the assets of those customers that expect a stable return on investment while prioritizing safety. Shinsei Trust & Banking Co., Ltd. is the trustee for this service.

Credit cards and shopping credit: The Credit Card business is seeing an increase in the value of credit card shopping as well as a strong trend in revolving credit balance accumulation. Utilizing Showa Leasing's leasing functions and APLUS's credit functions, the Shopping Credit business launched an auto-leasing business targeted at individual customers.

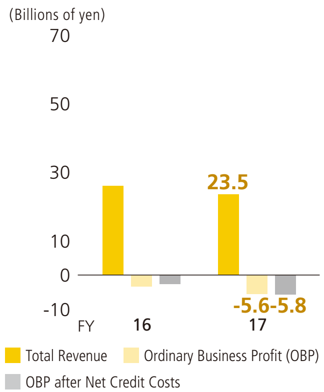
Topics

Prepaid card GAICA

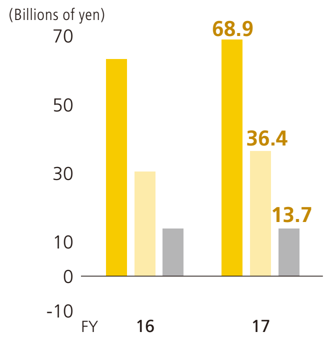
In aiming to enrich our foreign currency services in the Retail Banking business and to establish new credit card business within APLUS, the Shinsei Bank Group and APLUS now issue a prepaid card called GAICA under the partnership between APLUS and Visa Worldwide Japan K.K. GAICA delivers several highly convenient foreign currency services, including enabling GAICA cardholders to use their PowerFlex comprehensive account to charge their GAICA with Japanese yen or a foreign currency for credit card shopping in Japan and overseas, and to withdraw local currency at overseas ATMs.

Data on Major Operations

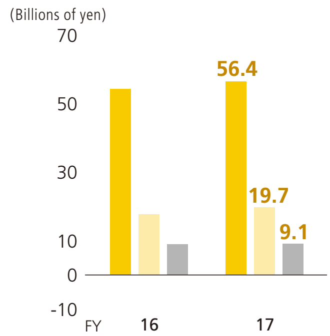
Retail Banking



Shinsei Financial, Shinsei Bank Lake



APLUS FINANCIAL



Retail Banking (Asset Management Consulting)

Opportunities

- Introduce systems and policies that reinforce the flow of cash from savings to investment
- Improve the efficiency of asset management consulting through the incorporation of FinTech and other new technologies
- Deliver consulting services in line with customer needs by utilizing customer data

Risk and Challenges

- Enter the asset management business for non-financial businesses
- Improve operational efficiency to maximize contact points with our customers
- Increase opportunities to make proposals to our customers by increasing the number of customer contacts per consultant
- Convert to a stock-based business that focuses on income from AUM

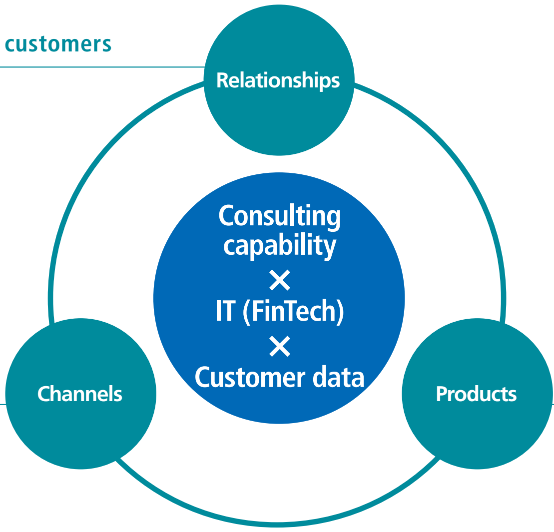
Strategies and Future Initiatives

Stance Aimed for by Retail Banking (Asset Management Consulting)

By using AI and robotics technologies to handle customer data, the Retail Banking business aims to rationalize and improve the efficiency of consulting, and aims to deliver high-quality consulting services by which we propose the optimal products based on the needs and risk attributes of individual customers through various channels in addition to branches.

Relationship between the Bank and customers

Increase interaction with customers to cultivate deeper relationships with more customers



Contact point between the Bank and customers

Provide contact points to accept all customers with needs for asset management consulting

Products we offer to customers

Products to be recommended considering needs of each customer

We believe the challenges faced by this business are the fact that delivery channels for consulting services are limited to manned branches and the fact that the time that individual staff members have to work with our customers is finite. Therefore, by improving upon the three points listed as follows, we aim to deliver high-quality consulting services to more customers at a greater frequency.

- Relationships: By applying AI and other technologies to customer data, we will increase communication and deepen relationships with our customers.
- Channels: By utilizing videophones, chat and other remote channels, we will increase the number of contact points with our customers.
- Products: We will deliver products based on the needs and risk attributes of individual customers.

Unsecured Loan Service

The Difference between an Unsecured Loan Service and Cash Advances

Unsecured loans are loans to individual consumers providing finance that is appropriate to the needs and timing of customers. The loans are available, even to customers who do not possess a credit card, through the use of smartphones and a dedicated card that can access ATMs at convenience stores and unstaffed branches.

Credit Card

- **Shopping Credit**
- **Cash Advance and Others**

A cash advance is an additional service for a credit card (shopping credit).

Major credit cards/consumer finance companies
- **JACCS**
- **Orico**
- **APLUS**

and others

Unsecured Loan

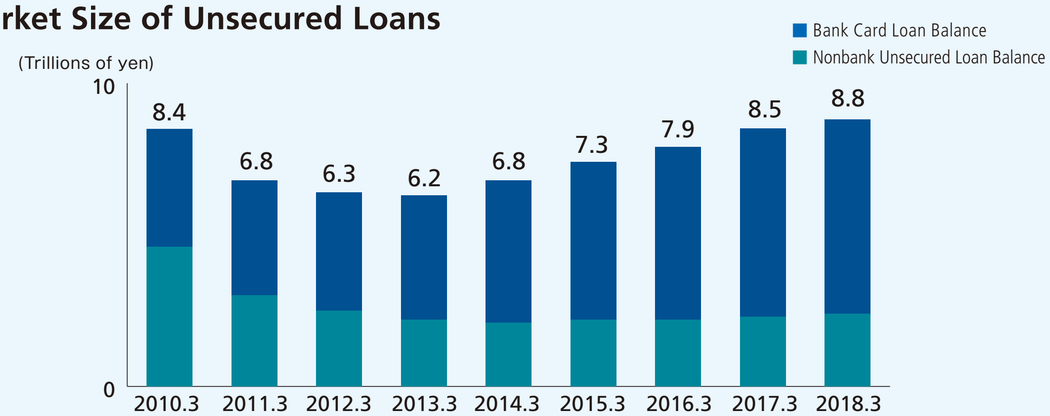
- **Unsecured Loan**

Comparison with cashing:
1. Annual membership fee is not required
2. Upper limit of loan is relatively high
3. Installment repayment plan

Major unsecured consumer loan companies
- **ACOM**
- **PROMISE (SMBC Consumer Finance Co., Ltd.)**
- **AIFUL**

and others

Market Size of Unsecured Loans



Source: Bank of Japan, Japan Financial Service Association

Lake ALSA Strengths and Strategies

- Development of customer base and customer data by major consumer finance brand Lake
- Use of conventional scoring models derived from non-bank credit-risk control methods, plus use of AI to enhance credit assessment/collection
- Optimization of operation costs using digital technology
- Fixed-term, noninterest loans for new customers
  1. Customers with a contract amount under ¥2 million, no interest for 180 days for loans up to ¥50,000, or
  2. 30-day no-interest loan
- Customers' smartphones can act as a substitute for a branch, enabling them to receive services without any time restrictions. Smartphones can also be used to make repayments, increase credit limits and receive other services.
- Loan disbursement and loan repayments are also possible using a card issued especially for this purpose. Beginning in May 2018, customers can make "cardless" transactions at Seven Bank ATMs.

70% of Lake's customers apply on smartphones

Application	Credit Screening	Contract	Loan
Can apply on smartphones 24 hours/day	Results of screening shown on upper part of smartphone screen	Forms submitted by e-mail	No need to visit a branch. Loan deposited in customer's account

Institutional Business and Global Markets Business

Managing Executive Officer, Head of Institutional Business

Takahisa Komoda

The Institutional Business is composed of the corporate business, which provides solutions to our corporate and financial institution customers; structured finance, which provides services such as real estate finance and project finance; services that provide private equity investments and business succession finance; and the leasing business. The Global Markets Business delivers market services that provide market solutions for foreign exchange and interest rate derivatives, among others.

Business Environment

Corporate Business: The profitability of the traditional lending business continues to trend at a low level against the backdrop of a stable interest environment and an improvement in the financial structure of corporations. Meanwhile, new financial needs are emerging in line with the challenges being faced by society, including IoT and other aspects of the advancing digitalization of society, the life cycle in Small and Medium-sized Enterprises (SMEs) coinciding with the aging of the management class and strong inbound demand. Within this environment, we are leveraging the full strength of the Group with the aims of delivering high-value-added financial solutions to the new needs of our customers.

Structured Finance: Although the renewable energy market is expected to expand over the medium-to-long term from the perspective of energy mix, national energy policies are also anticipated to affect specific financing demand trends. In terms of project finance, we are driving the accumulation of knowledge with focus on continued growth by undertaking a mix of projects both in Japan and overseas.

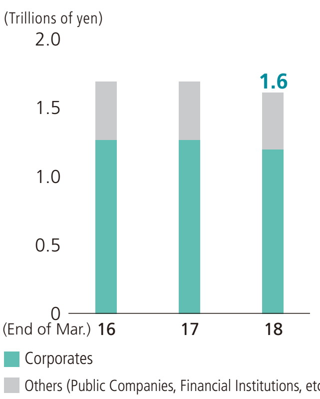
Domestic real estate conditions still appear to be overheating in some areas, but there continues to be an inflow of investment financing given the outlook for relatively good returns in Japan compared with the global real estate market. In terms of real estate finance, we are advancing ongoing project initiatives for which we have comprehensively and carefully judged the risk-return and the market conditions.

Showa Leasing: Given that domestic lease markets have peaked, there is greater movement toward searching for new outlets in the lease sector by diversifying income sources into new fields, such as overseas business, aircraft, real estate and infrastructure. Similarly, Showa Leasing is promoting an auto leasing business aimed at individual customers and other innovative initiatives by integrating the functions of the Group and strengthening solutions aimed at SMEs and small-scale business operators.

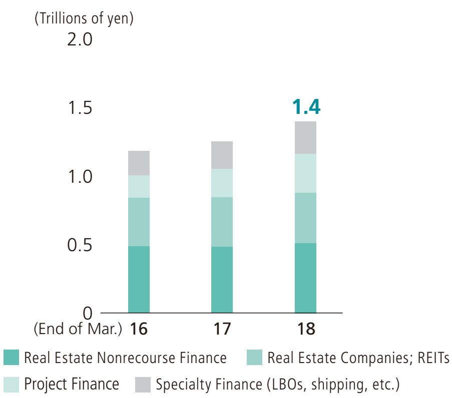
Market Business: With the continued low-volatility environment in fiscal 2017 during which both Japanese yen interest rates and the U.S. dollar to Japanese yen exchange rate trended within a narrow range on the global markets, the Market Business is forging ahead with an expansion of business with new and existing customers by responding to specific needs in the derivatives business aimed at corporate clients.

Operating Assets

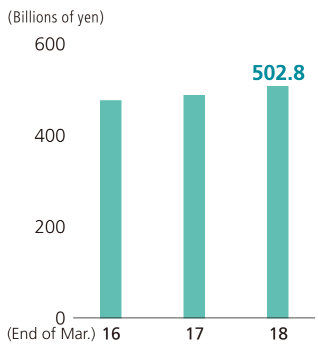
Corporate Business



Structured Finance



Showa Leasing



Medium-Term Management Plan Progress

Growth Areas

Project finance: Domestically, we are advancing deployment to wind power, biomass and other power sources in addition to the megasolar facilities we have financed in the past in order to further diversify the projects that we have undertaken. Overseas, we leveraged our network with Japan-affiliated sponsors, especially in Asia and Europe, to tackle infrastructure projects that are unlikely to be affected by market price fluctuations, including offshore wind power and desalination plants.

Real estate finance: Given the domestic real estate market conditions in which some areas appear to be overheating, we executed risk-return focused initiatives in hotels, logistics warehouses and commercial facilities, particularly in large urban areas, as a means of compiling a lending asset portfolio designed to diversify risk.

Strategy Initiative Areas

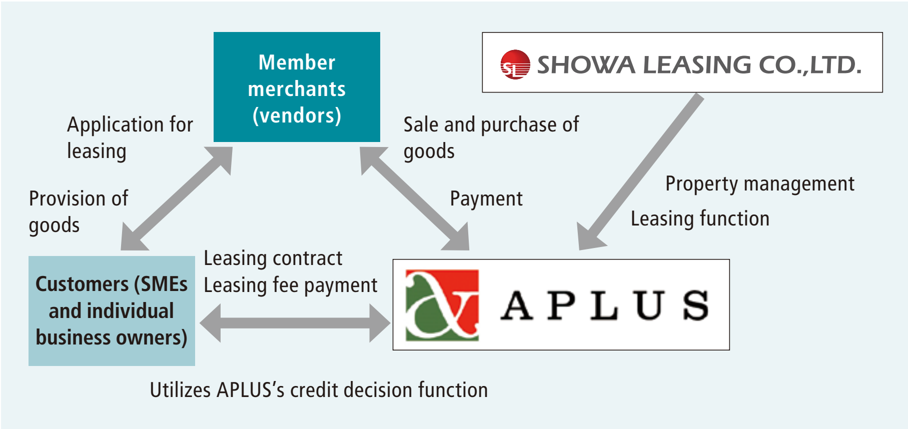
Collaboration and alliances with regional financial institutions: Under the current negative interest rate environment, the arrangement of syndicated loans and sale of loans is trending healthily against a backdrop of growth in the investment needs of regional financial institution customers. Collaborations with regional financial institution customers have been advancing through the syndication of renewable energy project financing that contributes to regional economic revitalization.

Business-succession finance: We provide buyout investment and joint investments and loans together with business firms under the explicit aim of management improvement and business restructuring when delivering business-succession support. In response to the underlying concerns of managers regarding changes to or discontinuation of business, we provide the one-off finance loans required to support restructuring and discontinuance of business, thereby supporting the "amiable closure of business."

Topics

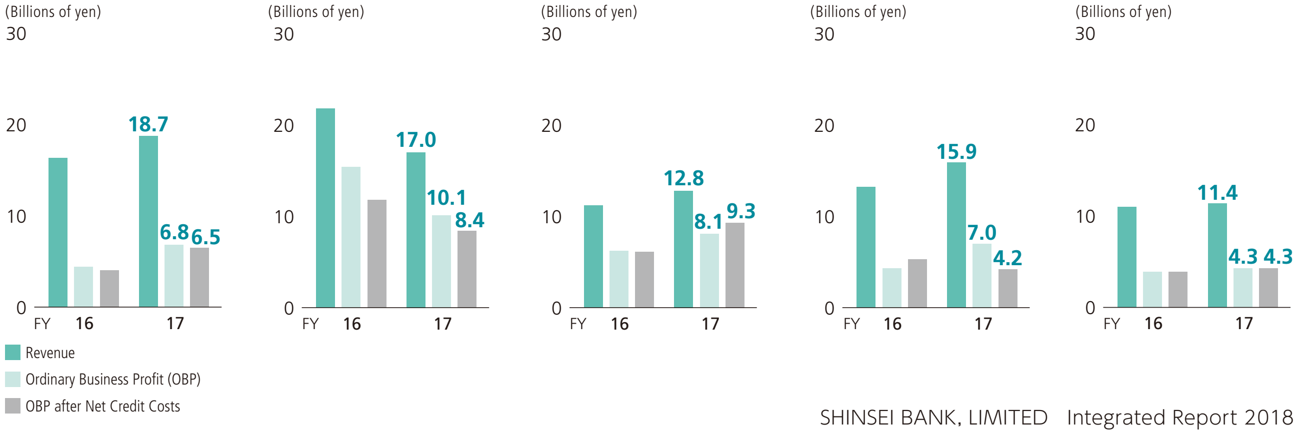
Vendor Leasing Business Collaboration between APLUS and Showa Leasing

From the perspective of property management and cost management, through APLUS member merchants (vendors), this business delivers lease properties to individual business operator customers looking to lease. This financial service is unique to the Shinesei Bank Group with its ability to integrate the credit decision functions of APLUS and the leasing functions of Showa Leasing.



Data on Major Operations

Corporate Business | **Structured Finance** | **Principal Transactions** | **Showa Leasing** | **Global Markets Business**



Structured Finance Business

Opportunities

- Broader project finance market as a result of the spread of and growth in renewable energy
- More opportunities to capture large-scale projects as a result of growth in the syndication business
- Greater expertise, analytical skill and risk management skill as a result of diversification in the projects being undertaken

Risk and Challenges

- Concentration in specific assets, such as real estate and megasolar facilities
- Intensifying competition as a result of market entry by other financial institutions
- More partner financiers in the syndication business

Strategies and Future Initiatives

Our Strengths and Our Value Chain of the Syndication Business

As neither a megabank nor a regional financial institution, the Shinsei Bank maintains a unique position with the following strengths.

- We are better able to tackle projects with a focus on flexibility and speed than megabanks.
- We have more expertise and greater analytical skill given our extensive experience than regional financial institutions.
- We are able to do business from an independent standpoint with a broad range of customers because we do not belong to a specific capital group.

In this way, our niche position as neither megabank nor regional financial institution enables us to avoid excessive competition while ensuring income. Moreover, in the syndication business, we manage the distribution of loans arranged by the Shinsei Bank that meet the investment needs of regional financial institution customers and are building a collaborative relationship, not a competitive relationship, with regional financial institutions.

Japan Project Finance League Table

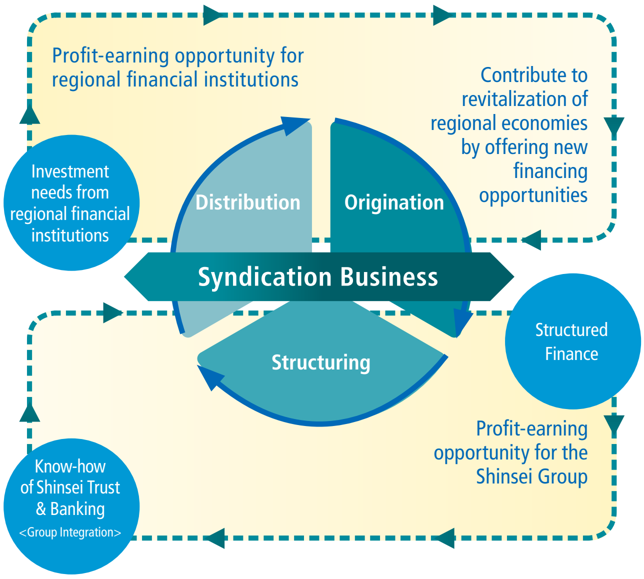
The Shinsei Bank captured the number three position in terms of value in the Japan Project Finance Ranking for fiscal 2017.

(Billions of yen)

Rank	Mandated Arranger	Total Value	No. of Projects	Share Percent (value basis)
1	Mizuho	117.6	4	21.9
2	Development Bank of Japan	115.5	5	21.5
3	**Shinsei Bank**	**105.7**	**11**	**19.7**
4	Mitsubishi UFJ Financial Group	102.4	6	19.1
5	Sumitomo Mitsui Financial Group	82.4	10	15.3
6	Sumitomo Mitsui Trust Holdings	9.2	1	1.7
7	Nippon Life Insurance	2.8	1	0.5
8	Aozora Bank	2.0	1	0.4

Source: Dealogic

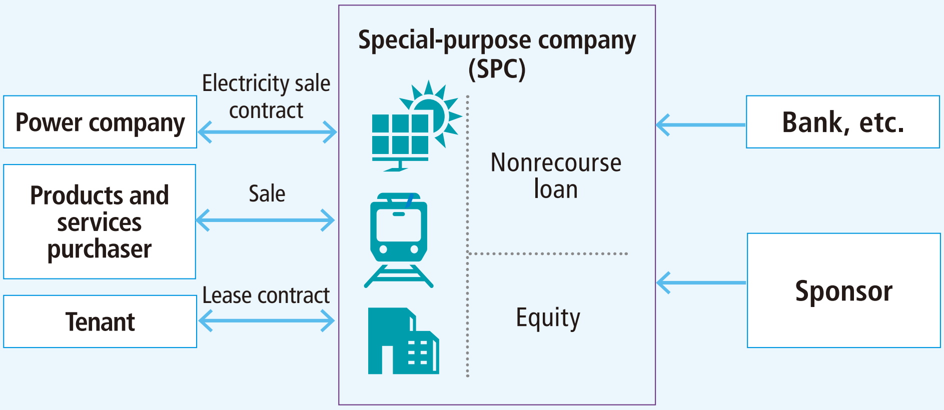
Building a Collaborative Relationship with Regional Financial Institutions



Structured Finance Business

Product Structure

The Structured Finance Business primarily delivers project finance for renewable energy power generation facilities and infrastructure facilities, and provides real estate finance for commercial real estate.

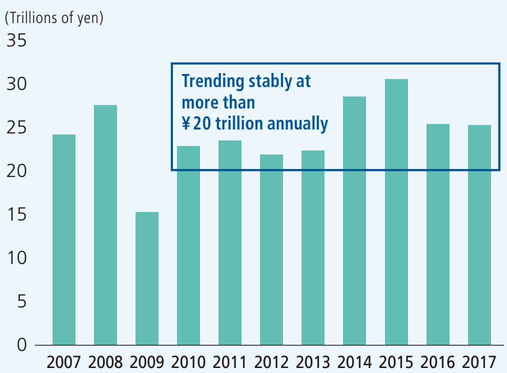


Product Features

- Extensive expertise and know-how: Expert know-how and system availability are required to assess the value of the target asset, to screen the project in terms of its structure and financing conditions and to monitor the project after providing financing.
- Nonrecourse: Because the source of repayment relies entirely on the cash flow generated from the underlying asset and the value of the assets in this mechanism, the lender can offer financing conditions that do not depend on the financier's creditworthiness.
- Interest rate: Structured finance requires the lender to have a high level of expertise and know-how to assess the target asset cash flow and value of the collateral, so the interest rate is relatively higher than standard corporate finance.

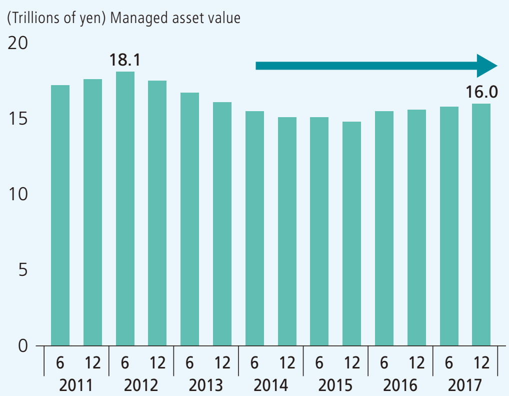
Market Scale

Global project finance origination volumes



Source: Graph prepared by Shinsei Bank based on data from Project Finance International
(US$1 = ¥110)

Privately funded real estate market scale trends (domestic)



Source: Graph prepared by Shinsei Bank based on survey results from Sumitomo Mitsui Trust Research Institute

Status of Regional Revitalization and SME Management Improvement Initiatives

To improve the management of Small and Medium-sized Enterprises (SMEs) and contribute to regional revitalization, Shinsei Bank engages in initiatives such as those described below, providing our expertise and, depending on the initiative, cooperating with regional financial institutions and the SME Business Support Cooperative. With respect to supporting SMEs and local businesses that have technologies or business models with unrealized growth potential as well as new business fields or business domains that contribute to regional economic revitalization, the Bank goes beyond merely satisfying funding needs to provide financing that emphasizes cash flows and multifaceted solutions to such management issues as business strategy planning and implementation support and other complementary functions. Through such efforts, the Bank aims to expand the operations of growth-stage SME clients and contribute to the development of new business opportunities that accompany innovation.

Examples of Shinsei Bank Initiatives

■ Supporting regional revitalization through business succession

A regional liquor wholesaling company: For approximately half a century, the company had held a position as a major regional liquor wholesaler, but current management had become elderly and lacked a successor, confronting it with the pressing issue of business succession. In a business environment in which every year escalating cost competition with major rivals in the industry became increasingly intense, recruiting external sponsors was seen as the most-promising option. Given this, having received a request from a regional financial institution, which was a main bank for the company, Shinsei Bank agreed to collaborate in searching for a sponsor company. Because this was a sector in which reorganization was for the most part complete, recruiting strong candidates was seen to be a long-term endeavor. However, leveraging the Bank's insights based on a wealth of M&A experience and our nationwide-scale customer base, we fielded a sponsor that showed promise for synergies in the areas of sales and distribution. Consequently, we contributed to maintaining the employment of all employees and improving the vitality of the local economy.

■ Supporting management improvement and business succession

An advertising agency: Given its solid business foundation, revenues for this advertising agency's main business were stable, however, eliminating the burden of excessive debt associated with investments in its non-core business had become a management issue. Shinsei Bank moved forward to stabilize the company's cash flows by easing the payment conditions for the debt it had received from other creditors to a level commensurate with that of its business income and outlays, and furthermore, by underwriting an equity fund it was able to substantially contribute to the company's balance sheet. Moreover, in addressing a new need as requested by the company, namely, business succession, it consulted on how to go about strengthening its internal control structure, and also introduced a reputable consulting agency. Going forward, Shinsei Bank is continuing to support the company in carrying out smooth business succession.

■ Supporting business rehabilitation

A regional Japanese confectionery store: This confectionery store had opened up a number of branches based on its high name recognition in a regional area, however, excessive debt seemed to be hindering its ability to make repayments. Working together with a major bank, the company continued its endeavors to rebuild under its own power, but it was compelled to aim for business rehabilitation in line with legal procedures. Shinsei Bank was therefore appointed as a financial advisor with regard to the selection of a sponsor, and was successful in recruiting a major sponsor in collaborating to maintain the employment of all employees and sustain the existing business structure. While retaining the landmark name of the store, the company was able to start anew in a way that satisfied local stakeholders.

■ Business succession support

A regional steel framework construction company: Well known for long years of corporate history and its reputation for top-class construction technology, this steel framework construction company wins numerous public works projects and is one of the primary contractors on construction sites. The owner and manager, however, was becoming elderly and there was an ongoing situation where no one was available to take over the business. In light of this, the company obtained the cooperation of a local financial institution it had a relationship with to search for a business succession sponsor. Despite these efforts, they were unable to recruit a valid candidate from the local area. Shinsei Bank, having received a request for support to take another try at conducting a nationwide search for a sponsor, was successful in arranging a cross-border steel processing company that had the aim of expanding its business area beyond what it had previously, and with support for condition negotiations, due diligence and acquisition capital, was able to contribute, in a short time, to realizing a business succession that met the needs of both parties.

What Is Our Platform?

ESG Highlights

Corporate Governance

Governance

Main Initiatives

- The Board of Directors holds strategy sessions to have focused discussions on a strategically important topic.
- Performed self-assessment of the effectiveness of the Board of Directors with the aim of having the Board of Directors function better
- Revised compensation system to strive for the sustainable enhancement of the Bank's corporate value

Social

Social

Main Initiatives

- Implementing Group HR strategies, work style reforms, and diversity promotion on a Group-wide basis
- Formulated IR/SR Policy of Shinsei Bank Group to proactively encourage constructive dialogue with investors, analysts, shareholders and other market participants
- Established policies and an action plan related to customer-oriented business operations

Environment

Environment

Main Initiatives

- Helping to resolve environmental challenges by providing financing for renewable energy projects
- Working to reduce environmental impact by promoting the reuse of used construction equipment
- Helping to resolve the vacant home problem by offering loans to facilitate the purchase and resale of existing homes

ESG Data

(Nonconsolidated)		FY2015	FY2016	FY2017
Corporate Governance	Ratio of Outside Directors	71%	71%	71%
	Attendance Rate for the Board of Directors	98%	100%	95%
Employees	Number of Employees	2,210	2,207	2,188
	Male	1,272	1,272	1,265
	Ratio	58%	58%	58%
	Female	938	935	923
	Ratio	42%	42%	42%
	Average Age	40 years 6 months	40 years 9 months	41 years 3 months
	Male	40 years 1 month	40 years 4 months	40 years 7 months
	Female	41 years 3 months	41 years 7 months	42 years 1 month
	Number of Female Managers			
	Above the Level of Section Leader	85	87	89
	Above the Level of Section Manager	372	383	390
	Number of Employed Persons with Disabilities	27	29	29
	Number of University Graduates Hired	65	54	53
	Number of Female University Graduates Hired	22	20	20
	Ratio of Female University Graduates Hired	34%	37%	38%
	Number of Employees Taking Childcare Leave	32	32	33
	Number of Employees Taking Life Support Leave	0	4	6
	Number of Mid-Career Hires	108	82	32

(Note) Number of Employees Taking Life Support Leave means the Number of Employees Taking Childcare Leave before January 1, 2018.

		FY2015	FY2016	FY2017
Environment Impact Data	CO_2 Emissions (t)	2,806	2,746	2,602
	Electricity Usage (kWh)	5,163,522	5,093,523	5,069,080
	Gas Usage (m^3)	90,000	90,000	90,000
	Clean Water Usage (t)	1,569	1,796	1,758
Amount of Waste Generated/ Recycling Rate	Waste Generated (t)	215	233	206
	Amount Recycled (t)	126	154	123
	Amount of Waste Disposal (t)	89	79	83
	Recycling Rate	59%	66%	60%

(Note 1) Data are for all Shinsei Bank headquarters (does not include affiliated companies) and the Meguro Production Center.
(Note 2) CO_2 emissions data have been calculated according to "Guidelines for Calculating Specified Greenhouse Gas Emissions Volume under the Total Emissions Obligations and the Emissions Trading Framework."
(Note 3) Waste generation data have been calculated according to data provided by building maintenance companies.

Major Policies

Please see Shinsei Bank Corporate/IR site **(http://www.shinseibank.com/corporate/en/)** for details.

- Basic Policy Concerning Protection of Personal Information
- Basic Policy against Antisocial Forces
- Anti-Money Laundering and Countering the Financing of Terrorism
- Global Tax Policy
- Foreign Exchange Transaction Policy
- Policies for Initiatives Concerning the "Corporate Governance Code"
- IR/SR Policy of Shinsei Bank Group
- Social Media Policy

Special Feature: To Maintain Its Role as a Financial Innovator

Shinsei Bank Group's Promotion of Active Participation of Women

Takahisa Komoda (right)
Managing Executive Officer, Head of Institutional Business, Shinsei Bank
Chairperson, Group Committee to Promote the Active Participation of Women

Tadashi Wachi (left)
Executive Officer, Head of Strategic Planning & Execution Division, Chief Strategy Officer, Shinsei Financial

Tamane Nishi (center)
Head of Diversity Promotion Department, Group Human Resources Division, Shinsei Bank

Background Behind Promoting the Active Participation of Women in the Group

Komoda: In February 2018, the Shinsei Bank Group established the Group Committee to Promote the Active Participation of Women (hereinafter, the "Committee"). Amid the era of falling birthrates and the aging of society, and as the working population shrinks and structural changes in society take place, this Committee was established with the belief that in order to sustainably create corporate value, senior management must take the lead in quickly establishing an environment that fully leverages the potential of all employees of Group companies, regardless of their gender, and allows them to fully demonstrate their abilities. I was concerned that failing to do so would make it tough for us to maintain our ability as a group to survive the intense competition. Up until now, we have focused on expanding HR-related systems in order to support the life events of female employees, instead we should have prioritized this initiative initially. In retrospect, I regret that employees were not sufficiently educated about the significance and need to promote the active participation of women, which is what was really needed to be promoted. We should have been working on changing employees' mindset and the corporate culture at the same time as we were enhancing our HR systems. The Committee's activities will first focus on the active participation of women, but in the future the Committee will work to further promote diversity, not limited to the active participation of women. Specifically, the Committee will engage in activities to contribute to fostering a corporate culture that allows all Group employees, regardless of gender, age, nationality, or the existence of a disability, to leverage their individual strengths and to actively participate and thrive in the workplace.

Nishi: The Group Human Resources Division is working to create a supportive environment by providing work style options that allows women to participate even more. We just recently launched systems to allow employees to engage in side jobs or work from home. We will be watching the impacts and outcomes of these systems, and plan to make them even easier for employees to take advantage of these systems.

Wachi: I think that having a workplace environment that is easy for women to work in is helpful for having active, diverse personnel, and is also important for improving productivity. The systems that have been established so far have not yet translated into more active participation by women, but their impact will likely emerge as we move forward. At Shinsei Financial, the reality is that women have not been developed

In order to survive in a globalized society, the perspective and sense of women are needed.

Tadashi Wachi

and groomed to become management decision-makers, and thus positive outcomes have yet to be seen.

Active Promotion of Female Employees to Higher Positions

Komoda: Although society has changed to a certain extent, many people still feel that men receive preferential treatment, and I get the sense that the so-called male-centered society remains deeply rooted. We must change our suppositions and mindset underlying this male-centered society. Supervisors need to be mindful of equal opportunity, and give women the chance to participate more in business talks and important meetings. In doing so, it is important to communicate in a supportive way. Instead of saying, "Do you want to try this?," supervisors should say, "Let's do this. I'll support you." Not just in the institutional businesses, but in all areas, if women are given the opportunity to handle a variety of work, and offered the chance to proactively gain experience, they will be able to actively participate and thrive in a wider range of areas going forward. To begin with, I think it is important to remove misunderstandings and assumptions caused by "unconscious bias," and completely change the mindset of managers. If we can do this, women should have more opportunities to be promoted to higher positions, as there is no ability gap between the genders.

Nishi: In our executive development program, we must make people value diversity, regardless of the participant's gender. We need to create a culture in which people understand and appreciate not only the differences between the genders, but differences in values, and we must have a leadership program to develop the people who will be responsible for creating this culture.

Providing Motivation for the Active Participation of Women

Wachi: In order to survive in a globalized society, it goes without saying that the perspective and sense of women are needed in areas that have been handled exclusively by men in the past. The active participation of women is essential, but the issue is providing motivation to them. Delivering this support is the responsibility of supervisors, so we must enhance the communication and management abilities of supervisors, most of whom are men, along with raising the awareness of women with respect to proactively building their own careers.

We need to create opportunities to develop personnel so that each employee can fully showcase his or her abilities and be more effective.

Takahisa Komoda

Nishi: From my own experience, I think that taking a first step allows you to see a larger world. I worked in finance for a long time, but then I switched to a career in organizational development and human resources. Initially, I was perplexed by organizational development, but the more I thought about what the organization should be like through my work and discussions with people, and about what happiness is for employees working in an organization, and the more I learned about the employees, I was able to imagine a good future state of the company. This whole process was very rewarding. I also realized things about myself for the first time, such as how I actually like people and how I enjoy getting to know them. I would like for more women to be able to have this kind of opportunity. By drawing up the courage to take the first step, you can learn new things about yourself and discover new possibilities within yourself.

As a Group, I would like us to formulate an 'Action Declaration' to promote the active participation of women.

Tamane Nishi

Komoda: We need to create opportunities to develop personnel so that each employee can fully showcase his or her abilities and be more effective. We also need a mechanism to qualitatively evaluate supervisors, who are also men, who practice these actions. There are a range of issues, and we cannot solve all of them immediately. To begin with, the senior management team will convey to employees its desire to promote the active participation of women as a management strategy. We will provide opportunities for employees to fully demonstrate their abilities, and engage in rewarding work. The senior management team must remove all obstacles to the active participation of women in order for both individuals and the organization to grow.

Nishi: As a concrete first step, Committee members themselves will learn about the female talent in the Group and gather their honest opinions. We will visit each center and ask women about what they are currently thinking, what they want right now, their thoughts about promoting the active participation of women, and other matters. If there are discrepancies between what the Committee thinks should be done and what women actually want, nothing we do will matter, so Committee members are going to study this issue. As a Group, I would like us to formulate an "Action Declaration" to promote the active participation of women.

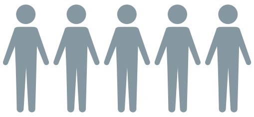
Corporate Governance

Four Features of Shinsei Bank's Corporate Governance

1 Ratio of Outside Directors on the Board of Directors

(Five directors)

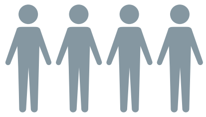
71%



- Five of the seven directors at Shinsei Bank are outside directors and comprise a majority of the Board of Directors.
- The Bank has maintained a Board structure where outside directors comprise a majority since Shinsei Bank started.
- The Bank has submitted the names of seven individuals, including outside Audit & Supervisory Board members as independent officers to the Tokyo Stock Exchange.

2 Ratio of Outside Directors with Corporate Executive Experience

(Four directors)

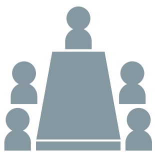


80%

- The mix of outside directors on our Board is well balanced with deep expertise and extensive experience relating to finance in Japan and overseas, businesses aimed at consumers, risk management areas and information systems.
- Four of the five outside directors on our Board are or have worked as corporate executives.

3 Attendance Rate for the Board of Directors

(All Six Meetings)



95%

- Our directors, including outside directors, attended each meeting of the Board of Directors and engaged in active debate about the Bank's management and operational execution.
- This attendance rate is the average for our directors for six meetings of the Board of Directors since the June 2017 general meeting of shareholders.

4 Number of IR Meetings /Companies where the CEO Met with Shareholders, Investors and Analysts

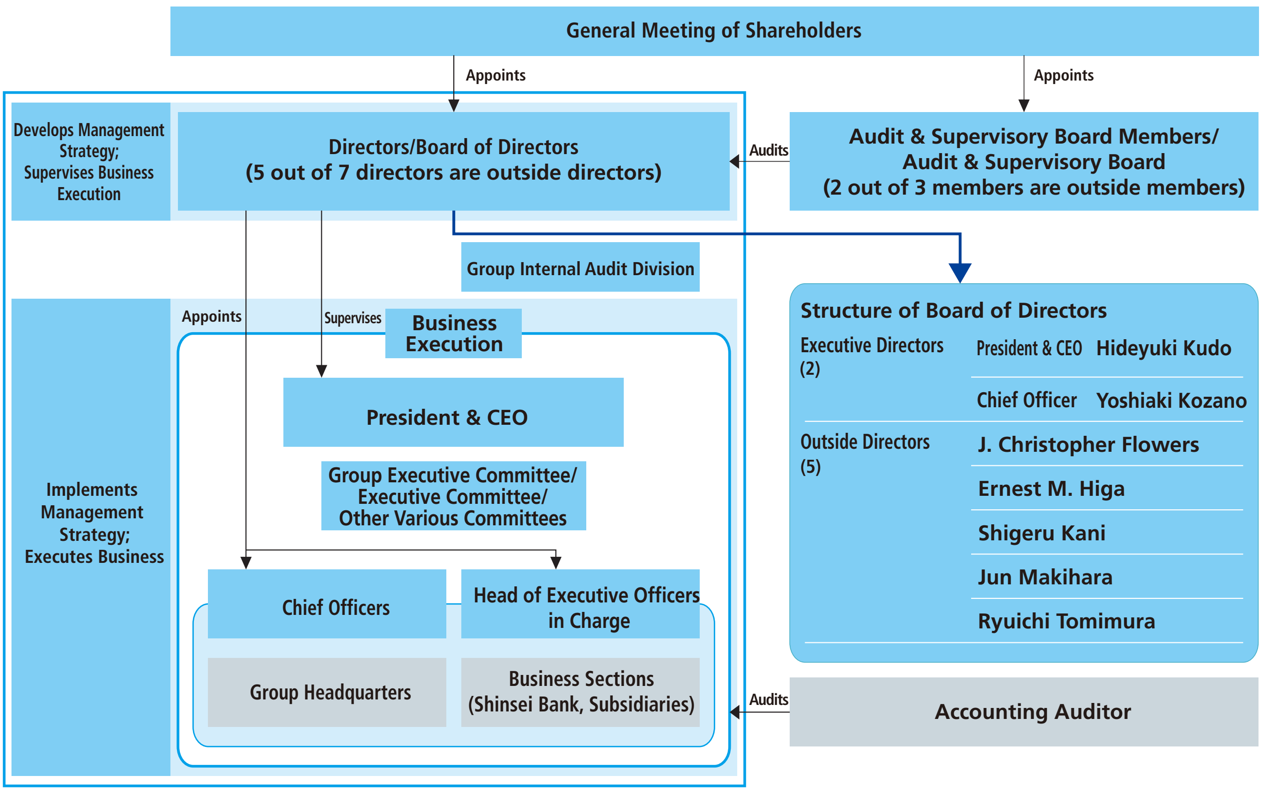
110 meetings/
122 companies

- The CEO has been assigned ultimate responsibility for investor relations (IR) activities and performs the core role in our strategic IR execution.
- As a result of increased focus on meetings with new investors, the number of investors the CEO met during fiscal 2017 was up 40% compared to fiscal 2016.

Corporate Governance of Shinsei Bank

Shinsei Bank's Board of Directors—the Bank's decision-making body for its business management—consists of seven directors—two full-time directors who are directly responsible for the execution of the Bank's businesses and five outside directors who primarily supervise the Bank's business execution. The current outside directors are a balanced group of executives that bring to the Bank their extensive experience and expertise in a range of fields, including domestic and overseas financial businesses, consumer-related businesses and the fields of risk management and information systems. Regarding transactions with parties such as directors and major shareholders, the Bank conducts checks to avoid conflicts of interest and to maintain the fairness of transactions, and, when necessary, it uses established frameworks for deliberating on such transactions in Board of Directors meetings and conducting any necessary follow-ups. Through the auditing of the Bank's Board of Directors and business execution by the Audit & Supervisory Board and its members, which are independent from the Board of Directors, the Bank seeks to create a strict corporate governance framework which will encourage the adoption of optimal and balanced management policies reflecting the benefit of stakeholders such as shareholders and customers, through which the Bank seeks to enhance its corporate value.

Corporate Governance Structure Chart (as of June 20, 2018)



Board of Directors, Audit & Supervisory Board Members

Outside Audit & Supervisory Board Member	Outside Director	Outside Director	Outside Director	President and Chief Executive Officer
Michio Shibuya	Ryuichi Tomimura	Shigeru Kani	J. Christopher Flowers	Hideyuki Kudo

Directors' Skill Matrixes

	Management	Finance	Risk Management	Consumer Business	IT
Hideyuki Kudo	○	○	○		
Yoshiaki Kozano	○	○			
J. Christopher Flowers	○	○			
Ernest M. Higa	○			○	
Shigeru Kani		○	○		
Jun Makihara	○	○			
Ryuichi Tomimura	○				○

Outside Director	Outside Director	Audit & Supervisory Board Member	Director	Outside Audit & Supervisory Board Member
Ernest M. Higa	Jun Makihara	Shinya Nagata	Yoshiaki Kozano	Shiho Konno

Audit & Supervisory Board Members' Skill Matrixes

	Finance	Financial Accounting	Legal Affairs
Shinya Nagata	○	○	
Shiho Konno			○
Michio Shibuya	○	○	

Representative Director

Hideyuki Kudo

Representative Director, President

Attendance rate: 100%

Self-Assessment of Effectiveness of Board of Directors

As institutionally designed, the Shinsei Bank takes the form of a company with an Audit & Supervisory Board, with five of its seven directors being outside directors, and we manage the Board of Directors with greater emphasis on oversight functions. Under this framework, management by our business executives constantly falls under the scrutiny of stringent checks made by the outside directors, who maintain an awareness of the existence of our various stakeholders, and management receives frank opinions from a broad perspective. In addition, members of the Board of Directors are always thinking about what would be the best thing to do to improve effectiveness and whether there are any points being overlooked, while debating and working on improvements.

Jun. 2015	Representative Director, President, Shinsei Bank, Limited (Current)
Apr. 2015	Managing Executive Officer, Shinsei Bank, Limited
Apr. 2013	Managing Executive Officer, Chief Risk Officer, Head of Risk Management Group, Shinsei Bank, Limited
Apr. 2011	Managing Executive Officer, Head of Structured Finance Sub-Group, Shinsei Bank, Limited
Sep. 2010	Managing Executive Officer, Deputy Head of Institutional Group, Shinsei Bank, Limited
Jun. 2007	Managing Director, Investments Division, Aetos Japan, LLC
Jan. 2007	Vice Chairman, MID Urban Development Co., Ltd. (Predecessor of Kanden Realty & Development Co., Ltd.)
Jun. 2006	Representative Director, President, MID Urban Development Co., Ltd. (Predecessor of Kanden Realty & Development Co., Ltd.)
May 2005	Managing Director, Aetos Japan, LLC
Aug. 2003	Director, Acquisition Group, Aetos Japan, LLC
May 2001	General Manager, Advisory Department No. II, Investment Banking Division, Mizuho Securities Co., Ltd.
Apr. 1987	Joined The Dai-Ichi Kangyo Bank, Ltd. (Predecessor of Mizuho Bank, Ltd.)

Outside Directors

Self-Assessment of Effectiveness of Board of Directors

I believe that Shinsei's Board is very effective. The Board is balanced, with representation from management, large shareholders, experienced business people (including both in Japan and internationally) and former regulators. The Board has a majority of independent, outside directors. The Board has about the right number of members to be effective: not too large, not too small. The Board operates cohesively and has continued to improve its focus on the most-important strategic and management issues.

The Board's challenges include finding new, high-quality directors who will bring experience and diversity to the Board over time, and to spend the majority of its time on the most-important issues rather than less-significant details.

J. Christopher Flowers

Director

Managing Director and Chief Executive Officer, J.C. Flowers & Co. LLC

Attendance rate: 83%

Reasons for Nomination

Mr. J. Christopher Flowers is asked to stand as an Outside Director in order to reflect in the Bank's management, his experience and expertise in banking, finance and the financial services industry as a whole.

May 2012	Member of the Supervisory Board, NIBC Holding N.V. (Current)
Nov. 2002	Managing Director and Chief Executive Officer, J.C. Flowers & Co. LLC (Current)
Mar. 2000	Director, Shinsei Bank, Limited (Current)
Dec. 1988	Partner, Goldman, Sachs & Co.
Mar. 1979	Joined Goldman, Sachs & Co.

Outside Directors

Ernest M. Higa

Director
Chairman, President & Chief Executive Officer,
Higa Industries Co., Ltd.

Attendance rate: 83%

Self-Assessment of Effectiveness of Board of Directors

The Shinsei Board of Directors consists of five outside and only two internal directors, which allows discussions to be considered from different points of views due to the diverse backgrounds of the Board members. We also have two non-Japanese board members, so "global best practices" are considered when evaluating the performance of Shinsei. As IT and AI continue to be "key" drivers of both "value creation," as well as disruption, we need to keep up with the quick pace of changes that it brings. Another challenge is further empowering women in the workforce so that they can achieve their full potential at Shinsei.

Reasons for Nomination

Mr. Ernest M. Higa is asked to stand as an Outside Director in order to reflect in the Bank's management, his experience and deep insight of business for consumers.

Apr. 2017	Board of Trustees, Showa Women's University (Current)
Sep. 2016	Chairman & Representative Director, Wendy's Japan K.K. (Current)
Apr. 2015	Chairman, President & Chief Executive Officer, Higa Industries Co., Ltd. (Current)
Jun. 2013	Director, Shinsei Bank, Limited (Current)
Mar. 2011	Chief Executive Officer, Wendy's Japan LLC
Jun. 2010	Director, JC Comsa Corporation (Current)
May 2009	Board of Overseers, Columbia Business School (Current)
Apr. 2008	Board Member, The Tokyo New Business Conference (Current)
Apr. 1983	President and Chief Executive Officer, Higa Industries Co., Ltd.
Apr. 1976	Joined Higa Industries Co., Ltd.

Shigeru Kani

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

Attendance rate: 100%

Self-Assessment of Effectiveness of Board of Directors

At Shinsei Bank Board of Directors' meetings, all members actively and unrestrainedly discuss the Bank's sustainable growth, the enhancement of profitability and improvements in corporate value over the medium and long terms. Furthermore, not only does the executive team provide explanations in response to questions from outside directors, but also the outside directors themselves express their opinions and lively debates ensue on the basis of those opinions. In this way, in the case of Shinsei Bank Board of Directors' meetings, I feel that debates are conducted that are completely different in form from mere so-called rubber stamping. I also feel that creating an atmosphere that facilitates free debate at Board of Directors' meetings is crucial for outside directors, who play a role in management decision making, management oversight and also in the offering of advice to management.

Going forward, in order to be able to focus on and carefully debate matters that are of particular importance, our policy will be to devise a range of methods geared toward conducting management as efficiently as possible.

All of us intend to focus on improving stable performance by strengthening the management foundation with a strong sense of tension, in grateful anticipation of everyone's encouragement and ongoing support for Shinsei Bank.

Reasons for Nomination

Mr. Shigeru Kani is asked to stand as an Outside Director in order to reflect in the Bank's management, his discernment in the risk management area and his wide range of knowledge concerning banking operations.

Apr. 2014	Specially Appointed Professor, Yokohama College of Commerce
Apr. 2006	Professor, Yokohama College of Commerce
Jun. 2004	Director, Shinsei Bank, Limited (Current)
Apr. 2002	Advisor, NEC Corporation
May 1999	Executive Managing Director, Tokyo Stock Exchange, Inc.
May 1996	Director, Administration Department, The Bank of Japan
May 1992	Executive Auditor and Senior Advisor to the Chairman, The Tokyo International Financial Futures Exchange (Predecessor of Tokyo Financial Exchange Inc.)
Apr. 1966	Joined The Bank of Japan

Outside Directors

Self-Assessment of Effectiveness of Board of Directors

Shinsei Bank has one of the most active and involved boards that I have been involved in. We receive a significant amount of material prior to each meeting, and the meetings themselves run half a day with the directors asking many, detailed questions. Often, we do not immediately accept management's explanation or recommendation but push for more information, or a further consideration of alternatives. The varied backgrounds and experiences of the directors are very helpful here. Having a director who is also the largest shareholder serves to keep the conversation very focused on what makes the most sense for shareholders. This is rarely comfortable for business executives, but I believe it produces the best outcome.

However, because the Bank is a regulated entity, and financial services pose many risks, the Board has tended to focus on the downside and preventing mishaps. Going forward, if we are to materially improve share price performance, we must also concentrate on improving the top line.

Reasons for Nomination

Mr. Jun Makihara is asked to stand as an Outside Director in order to reflect in the Bank's management, his extensive knowledge of finance and his domestic and international experience.

Sep.	2014	Director, Philip Morris International Inc. (Current)
Jun.	2011	Director, Shinsei Bank, Limited (Current)
Jun.	2006	Director, Monex Group, Inc. (Current)
Jul.	2000	Chairman of the Board, Neoteny Co., Ltd.
Nov.	1996	Co-Branch Manager, Goldman Sachs Japan, Ltd.
Nov.	1992	Partner, Goldman, Sachs & Co.
Sep.	1981	Joined Goldman, Sachs & Co.

Jun Makihara

Director
Director, Monex Group, Inc.
Director, Philip Morris International Inc.

Attendance rate: 100%

Ryuichi Tomimura

Director
President,
Representative Director,
SIGMAXYZ Inc.

Attendance rate: 100%

Self-Assessment of Effectiveness of Board of Directors

Possessing diverse knowledge and experience, each director makes decisions on business execution and conducts risk management based on having actively exchanged opinions and sufficient debate. We hope to further deepen the debate on the changes in the business environment brought about by the dramatic ways technology in the finance industry is evolving, such as FinTech and AI, and decide on a course for Shinsei Bank to take.

Reasons for Nomination

Mr. Ryuichi Tomimura is asked to stand as an Outside Director in order to reflect in the Bank's management, his extensive experience and wide range of knowledge including information systems as a management executive and a consultant.

Jun.	2018	President, Representative Director, SIGMAXYZ Inc. (Current)
Jun.	2016	Executive Vice President, Representative Director, SIGMAXYZ Inc.
Jun.	2015	Director, Shinsei Bank, Limited (Current)
Jun.	2014	Audit & Supervisory Board Member, Shinsei Bank, Limited
Aug.	2012	Director, Plan.Do.See Inc. (Current)
Apr.	2010	Executive Vice President, Director, SIGMAXYZ Inc.
Dec.	2007	Representative Director, Managing Director, RHJ International Japan, Inc.
Feb.	2004	Representative Director, Senior Executive Vice President, JAPAN TELECOM CO., LTD. (Predecessor of Softbank Corp.)
Oct.	2002	Managing Director, IBM Business Consulting Service KK, Vice President, IBM Corporation Business Consulting Service, Asia Pacific
Jan.	1994	Managing Partner, Pricewaterhouse Consultant
Oct.	1991	General Manager, Network Integration Division, Recruit Co. Ltd. (Predecessor of Recruit Holdings Co., Ltd.)
Oct.	1983	Joined IBM Japan, Ltd.

Audit & Supervisory Board Members

Effectiveness of Board of Directors

Five of Shinsei Bank's seven directors are independent outside directors. At Board of Directors' meetings, active and fervent debate takes place in which those outside directors play pivotal roles, and the current situation is one in which the executive side of management responds sincerely to and is also highly appreciative of their inputs from the perspective of global corporate governance.

I would like to take this opportunity to again emphasize to our stakeholders that we are adopting a governance system of which they can be proud wherever they go.

Naturally, I feel that there is room for progress to be made, such as in diversity and the recognition of a broader range of stakeholders. As a full-time Audit & Supervisory Board member who attends Board of Directors' meetings, I would like to watch over and encourage that progress.

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

Shinya Nagata

Audit & Supervisory Board Member

Attendance rate: 100%

Outside Audit & Supervisory Board Members

Michio Shibuya

Audit & Supervisory Board Member

Certified Public Accountant

Attendance rate: 100%

Effectiveness of Board of Directors

With regard to the Board of Directors' effectiveness, on this occasion, it is how we Audit & Supervisory Board members see it, but the number of Shinsei Bank directors totals seven, five of whom are outside directors. Many austere opinions are gathered from outside directors at each Board of Directors' meeting. On the other hand, opinions and counterarguments are also expressed from the executive side, and, as a result of the debates there, some conclusions are made and some involve homework. Looking at such a Board of Directors, I believe that the Bank's Board of Directors is one in which governance is sufficiently effective. For that reason, however, it takes time to debate items with each and every one of us, and each time the Board of Directors' meetings are by no means easy to bring to a close. As you would expect, there is much to discuss when debating, and I think it is important to undertake unambiguous Board of Directors' meeting management that as far as possible simplifies areas that can be simply brought to a conclusion.

Reasons for Nomination

Reflect in the Bank's audit operations his expertise and extensive experience as a certified public accountant, and knowledge based on experience as an Audit & Supervisory Board Member at a listed company

Jun. 2015	Audit & Supervisory Board Member, Shinsei Bank, Limited (Current)
May 2011	Audit & Supervisory Board Member, Ryohin Keikaku Co., Ltd.
Jun. 2010	Audit & Supervisory Board Member (full time), Business Brain Showa-Ota Inc.
Aug. 2008	Board of Councilors and Global Advisory Council, Ernst & Young ShinNihon LLC
May 2000	Executive Director, Ernst & Young ShinNihon (Predecessor of Ernst & Young ShinNihon LLC)
May 1991	Senior Partner, Showa Ota & Co. (Predecessor of Ernst & Young ShinNihon LLC)
Jul. 1977	Peat Marwick Mitchell (Predecessor of KPMG) LA office
Apr. 1974	Joined Showa Audit Corporation (Predecessor of Ernst & Young ShinNihon LLC)
Apr. 1971	Joined Arthur Andersen LLP

Newly Appointed Executive Director

Yoshiaki Kozano

Director

Newly appointed

The growth in rapidly evolving technologies, in the means of mobile communication and in communication networks in recent years—coupled with the dramatic improvements in digital and Big Data analysis as well as processing improvements that are utilized in FinTech, robots and AI—is bringing about a major reform of financial services.

To respond quickly to the diverse needs of our customers, we at the Shinsei Bank Group actively form partnerships with Japanese and foreign companies in different industries that have an understanding of, for example, technological development capabilities and attractive markets, customer networks and information, communications and SNS in logistics as well as online mail order and distribution. We will continue to provide our customers with inexpensive, quick, simple, secure and convenient financial services that incorporate the latest technologies and information.

Jun. 2018	Director, Chief Officer, Group Business Strategy, Shinsei Bank, Limited (Equivalent to Senior Managing Executive Officer), Shinsei Bank, Limited (Current)
Apr. 2018	Chief Officer, Group Business Strategy (Equivalent to Senior Managing Executive Officer) (Current)
Apr. 2017	Chief Officer, Group Business Strategy, Managing Executive Officer, Special Assignment, Shinsei Bank, Limited
Jun. 2016	Director, APLUS FINANCIAL Co., Ltd. (Current)
Apr. 2016	Managing Executive Officer, Special Assignment (Head of Group Business Strategy, Shinsei Bank, Limited)
Apr. 2015	Managing Executive Officer, Deputy Head of Institutional Group, Shinsei Bank, Limited
Jun. 2011	Managing Executive Officer, Head of Principal Transactions Sub-Group, Shinsei Bank, Limited
Dec. 2007	Head of Principal Transactions Sub-Group, Shinsei Bank, Limited
Jul. 2006	Head of Corporate Business Solutions Sub-Group, Shinsei Bank, Limited
Nov. 2003	General Manager, Credit Trading Division, Shinsei Bank, Limited
Apr. 1986	Joined The Long-Term Credit Bank of Japan, Ltd. (Predecessor of Shinsei Bank, Limited)

Newly Appointed Outside Audit & Supervisory Board Member

Shiho Konno

Audit & Supervisory Board Member

Lawyer

Newly appointed

On this occasion, I have been appointed as an outside member of Shinsei Bank's Audit & Supervisory Board.

Previously, I have served as outside director and outside audit and supervisory board member for several companies and been involved in corporate management on numerous occasions through my work as a lawyer, but this marks my first appointment as a bank director. I feel immensely honored but at the same time I am keenly aware of the steepness of the learning curve and the seriousness of my responsibilities. On the other hand, as an independent Audit & Supervisory Board member, while studying the industry in depth, I think that it will be essential for me to continuously maintain a constant sense of distance and the objectivity of someone who is not fully rooted in the industry, and I consider the maintaining of that balance to be one of my assignments.

Mainly focusing on the law, which is my area of specialty, and corporate governance, as an outside member of the Bank's Audit & Supervisory Board, I will be hoping to contribute to an improvement in the Bank's medium- to long-term corporate value—and to contribute to all the Bank's stakeholders as well—by conducting audits and providing oversight to ensure that the executive branch of management takes appropriate levels of risk.

Reasons for Nomination

Reflect the Bank's audit operations her expertise and extensive experience as a lawyer, and experience based on the outside director at listed companies

Jun. 2018	Director, Monex Group Inc. (Current)
Jun. 2018	Audit & Supervisory Board Member, Shinsei Bank, Limited (Current)
Jun. 2017	Director, Alfresa Holdings Corporation (Current)
Jun. 2016	Director, Kakaku.com, Inc. (Current)
Jun. 2015	Director, Watami Co., Ltd.
Mar. 2015	Established Shiho Konno Habataki Law Office (Current)
Aug. 2014	Auditor, Japan Corporate Governance Network (Current)
Apr. 2014	Member, Committee on Realization of a Gender-Equal Society of Japan Federation of Bar Associations (Current)
Apr. 2009	Professor, Waseda Law School, Waseda University
Mar. 2008	Audit & Supervisory Board Member, Advanced Softmaterials Inc.
Jun. 2005	Audit & Supervisory Board Member, Yahoo Japan Corporation
Apr. 1991	Registered Daiichi Tokyo Bar Association

Directors and Executive Officers Compensation Scheme

Policy for Determining Compensation

- Appropriate incentives are provided in order to advance the Group's business and realize the mid- to long-term Group management principles.
- Reflecting the roles and responsibilities of each director and executive officer, directors and executive officers share common shareholder value by holding the Company's shares over the long term.
- The scheme will curb excessive risk-taking and contribute to ongoing sound management as a financial institution.
- The plan incorporates a compensation system that provides incentive to further increase corporate value and avoid the risk of share price declines.

Composition of Compensation for Full-Time Directors*

- Basic compensation
  Fixed compensation (Annual fixed amount)
- Mid- to long-term incentive compensation
  1) Restricted stock compensation (Introduced from fiscal 2018)
  2) Equity remuneration type stock options

*There is no short-term incentive compensation to reward full-time directors for performance in a single fiscal year.

Total Maximum Amount of Compensation for Directors

(1) Total maximum amount of compensation for directors (including outside directors): Up to ¥180 million per year (of this amount, ¥60 million for outside directors)
(2) Maximum amount of allotment of restricted stock for full-time directors: Up to ¥20 million per year, within the total maximum amount in (1) above (introduced from fiscal 2018)
(3) Maximum amount of allotment of equity remuneration type stock options for full-time directors: Up to ¥50 million per year, separate from the total maximum amount in (1) above

The allocation of compensation for full-time directors on an individual basis is determined by the Board of Directors. Based on a proper evaluation of each director's duties and level of contribution to performance for their respective areas of responsibility, and in light of the Bank's performance, market conditions and other factors, the Board of Directors determines compensation amounts following sufficient discussions.

Types and Total Payment Amounts of Compensation for Full-Time Directors and Full-Time Audit & Supervisory Board Members (from April 1, 2017 to March 31, 2018)

	Number of people	Total amount of compensation (in millions of yen)										
			Total amount of fixed compensation				Total amount of variable compensation				Retirement allowance	Other
				Basic compensation	Stock option	Other		Basic compensation	Bonus	Other		
Applicable officers (excl. outside directors)	3	124	124	95	29	0	0	0	0	0	0	0

● Applicable officers include two full-time directors and one full-time Audit & Supervisory Board member, for a total of three people.
● For details, please refer to "Disclosure Items Concerning Remuneration, etc." in the Data Section.

Compensation for executive officers as well as chief officers and senior officers in the Group Headquarters is comprised of a fixed compensation component as basic compensation and a bonus component based on the single year's performance as short-term incentive compensation. In addition, similarly to full-time directors, consideration is being given to the introduction of restricted stock compensation.

Operation of the Board of Directors

The Bank holds strategy sessions to discuss medium- to long-term strategic issues intensively in addition to the six periodic Board of Directors' meetings. Moreover, in order to ensure the sharing of their independent viewpoints as well as to share detailed information regarding business execution with each of the outside directors, the Bank holds regular meetings attended only by themselves.

Timetable for Day of Regularly Scheduled Board Meetings

8:00	Meeting composed of outside directors only
9:00	Meeting of Board of Directors commences Report from President Report from Audit & Supervisory Board Report from Group Internal Audit Division Finance-related report Individual agenda items to be resolved
	Lunch
	Report and deliberate on specific agenda items Risk-related report
13:00	Conclude meeting

Strategy Session

9:00	Strategic initiatives at each business (1)
12:00	Lunch
13:00	Strategic initiatives at each business (2)
15:00	Summary
16:00	Conclude meeting

Annual Schedule for the Board of Directors

May	Regularly scheduled Board meeting (on financial results)
Jun.	Regularly scheduled Board meeting (held after AGM* ends)
Sep.	Regularly scheduled Board meeting
Nov.	Regularly scheduled Board meeting (on interim financial results)
Jan.	Regularly scheduled Board meeting
Mar.	Regularly scheduled Board meeting (fiscal year budget and plan)

*AGM: annual general meeting of shareholders

Corporate Governance

Board of Directors Effectiveness Evaluations

The Bank periodically conducts an evaluation/analysis of the effectiveness of the Board as a whole in order to improve the Board's functionality.

An overview of the FY2017 self-evaluation is as follows.

(1) Objective

To improve the function of the Board of Directors by having the Board perform a self-evaluation of whether it is fulfilling the roles and duties required of it and then implement the PDCA cycle.

(2) Subjects of analysis/evaluation

The Board's activities, and the operation and support systems for efficiently and effectively carrying out such activities.

(3) Evaluators

Evaluation by all members attending Board meetings (Directors, Audit & Supervisory Board members and others – totaling 11 people). Certain questions are only asked to Audit & Supervisory Board members in order to receive an evaluation of the Board by Audit & Supervisory Board members.

(4) Analyzed/evaluated matters

The contents of discussions at Board meetings, the operation of the Board by the executives, the composition of members of the Board, the provision of information to the Board by the executives, the content of discussions at strategy sessions, the management of strategy sessions by executives, communication, the necessity of third-party evaluations of the Board's effectiveness, evaluations by Audit & Supervisory Board members, etc.

(5) Means of analysis/evaluation

Questionnaire survey (questions in which responses are selected including free-response questions) prepared by the secretariat for the Board of Directors based on instructions from the Board Chairman.

(6) Results feedback

The selected results and responses to free-response questions are reported to the Board.

The following is an overview of the key results of the survey.

(a) Contents of Board meeting and strategy session discussions

To a certain extent, survey respondents feel that discussions for the medium- to long-term business vision, as well as discussions for a business model aimed at increasing corporate value and achieving sustainable growth have been constructive and are contributing to an increase in corporate value and sustainable growth.

(b) Effectiveness of strategy sessions

In the previous year's evaluation, participants agreed that they should continue to confirm this matter, and this year's evaluation revealed that participants felt that strategy sessions continued to be effective for studying business strategy.

(c) Board composition/members

It was confirmed that further consideration should be given to diversity and member balance, etc.

(d) Management of Board and strategy sessions by executives

Respondents thought that there was generally good selection of agenda items and time allocation for deliberations was appropriate. While there was improvement from the previous year, some felt that the deliberation time was long, and we reconfirmed that it is necessary to work on having a more efficient and dynamic operation by working even harder on selecting agenda items where explanations are omitted and on providing brief explanations. This has been an issue for some time now.

(e) Provision of information to the Board by executives

We received generally positive replies, including on the contents of materials, but also learned that continued improvement in explanations at Board meetings is necessary.

(f) Necessity of third-party evaluation of effectiveness

The utilization of evaluations and their necessity are matters that we should study going forward based on the Board's intentions.

(g) Questions for Audit & Supervisory Board members

We confirmed that, as a whole, Audit & Supervisory Board members feel that directors are properly executing the duties expected of them.

The Bank will strive to improve and maintain the aspects that were evaluated as appropriate or improved from the previous year, and work to further improve the Board's effectiveness and functioning by examining and making improvements to issues raised in the survey.

Audit & Supervisory Board Members/Audit & Supervisory Board

Shinsei Bank's Audit & Supervisory Board is composed of one full-time member who has extensive business experience at the Bank and is knowledgeable in finance and accounting and two outside members, one of whom is an attorney and the other who is a certified public accountant. By applying the expertise from their respective fields of specialization and their knowledge of corporate governance, the Audit & Supervisory Board, which is fully independent from the Board of Directors, engages in appropriate audits of the Bank's businesses. In addition, both outside Audit & Supervisory Board members are experienced as external directors of other companies, and, by drawing upon their experience, they are able to provide views with greater objectivity from a position of greater independence, resulting in enhanced effectiveness of the Audit & Supervisory Board's auditing activities.

Audit & Supervisory Board members, in addition to personally conducting audit activities such as attending key meetings, such as Executive Committee meetings, in addition to Board of Directors' meetings, review key documents and conduct interviews with directors, executive officers and accounting auditors, engage with internal control sections such as the Group Internal Audit Division and utilize staff of the Office of Audit & Supervisory Board Members to systematically and efficiently audit the state of the business execution of the entire Shinsei Bank Group, including the Bank as well as its subsidiaries.

Activities of Audit & Supervisory Board Members since Fiscal 2017 AGM[1]

	Board of Directors meetings	Audit & Supervisory Board meetings
Number of meetings held[2]	6 times	12 times
Attendance rate	100%	100%

[1] AGM refers to the annual general meeting of shareholders.
[2] The total number of meetings held after the AGM in fiscal 2017

Group Headquarters, Chief Officers/Senior Officers and Executive Officers

To strongly promote Group integration in keeping with our Medium- to Long-Term Vision, we established in April 2017 the Group Headquarters, effectively combining head-office functions such as human resources, finance and general services that had been located at each Group company at the head office. In concert with this, we assigned a chief officer to be in charge of each head-office function and a senior officer to serve as a deputy to each chief officer in an effort to concentrate relevant authorities within the Banking Act, the Companies Law and other acts.

As far as Group headquarters executive officers including executive directors appointed by the Board of Directors are concerned, there were 34 chief officers and senior officers engaged in the execution of business operations as of June 20, 2018. All were appointed by the Board of Directors to carry out operational execution. Under the direction of executive directors including the President, executive officers, chief officers and senior officers, who are delegated by the Board, are building systems to efficiently execute operations in their respective domains of responsibility centering on executive officers who are the head of a domain and chief officers.

Overview of Group Executive Committee, Executive Committee and Other Important Committees

Name	Main Purpose
Group Executive Committee	The President's decision-making body for day-to-day business execution at the Group level
Executive Committee	The President's decision-making body for day-to-day business execution for Shinsei Bank, Limited
Group ALM Committee	Negotiate, policy formulation and make decisions concerning medium- and long-term Asset and Liability Management
Group Compliance Committee	Communicate, coordinate and make decisions on the Group's compliance posture and on matters relating to compliance
Group Risk Policy Committee	Discuss the risk operation policy and management framework for the Group's portfolios, and the Group's approach to major portfolios, sectors, products and so forth
Group IT Committee	Discuss, coordinate and make decisions on matters concerning the Group's information technology systems
Group Business Continuity Management Committee	Discuss, coordinate and make decisions across divisions to advance reforms to the Group's business continuity structure

Name	Main Purpose
Group Basel Committee	Discuss, coordinate and make resolutions on matters concerning regulatory capital, with a focus on Basel regulations
Group Management Development Committee	Discuss, coordinate and make decisions about the Group's HR system and related measures, etc.
Group New Business/ Product Committee	Conduct due diligence on each new business and service proposal across the Group and make decisions, and conduct due diligence on strategic investment proposals
Doubtful Debt Committee	Promptly inform top management about significant bad debt exposure, and make decisions on write-offs and other matters concerning sale of debts, debt forgiveness and so forth
SME Loan Committee	Through discussions on the business policy and challenges for the entire institutional banking business, take initiative in bank-wide efforts to achieve SME loan goals set in the Revitalization Plan

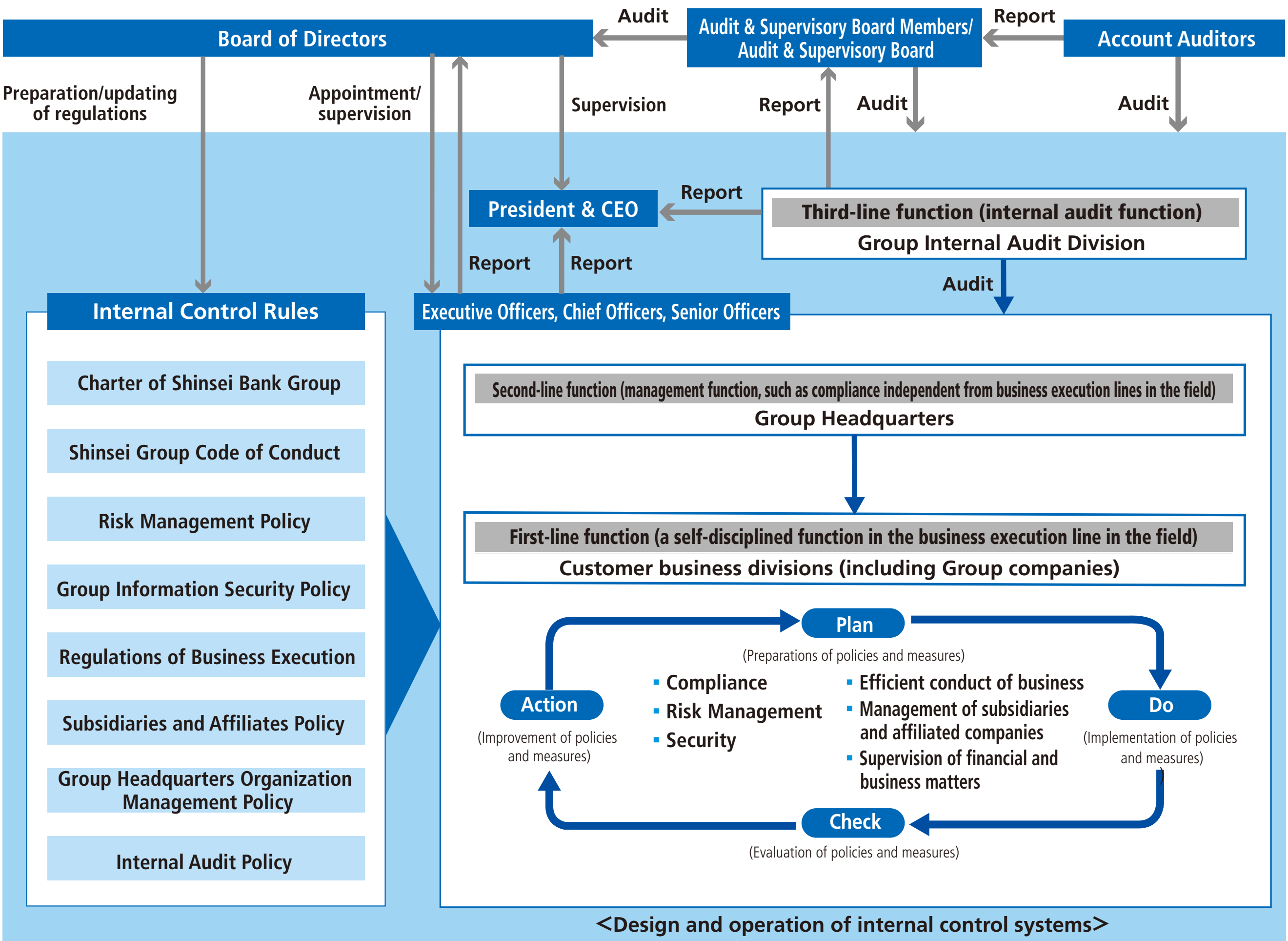
Corporate Governance

Internal Control

In order for corporate governance to function effectively, in addition to creating business execution oversight and decision-making frameworks around the Board of Directors, putting into place frameworks which facilitate the proper functioning of functions such as internal audits and compliance is also necessary. Additionally, the creation of internal control systems as required by the Corporation Act or internal controls that ensure the accuracy of financial reports as required by the Financial Instruments and Exchange Act is also a crucial element in a properly functioning corporate governance structure. While management is responsible for ensuring the implementation of such internal controls, the proper function of overall internal controls can be ensured by installing detailed internal control frameworks within the divisions executing business operations.

Shinsei Bank's basic policy governing its internal control systems has been put in place in order to ensure the propriety and efficiency of day-to-day operations and is defined in the "Internal Control Rules" determined by the Board of Directors, and, furthermore, the adequacy of its internal control systems is reviewed annually by the Board of Directors. The Internal Control Rules clearly state that (1) the internal control system has a self-disciplined function in the business execution line in the field (first-line); a management function, such as compliance independent from business execution lines (second-line); and an internal audit function independent from these functions (third-line); (2) the Board of Directors shall receive timely and appropriate reports from the second-line and third-line functions in order to grasp and deal with serious risks and problems appropriately, and shall periodically review the key policies and controls. Under this regulation, the Shinsei Bank Group Code of Conduct, Risk Management Policy, Group Information Security Policy, Regulations of Business

Internal Control Framework

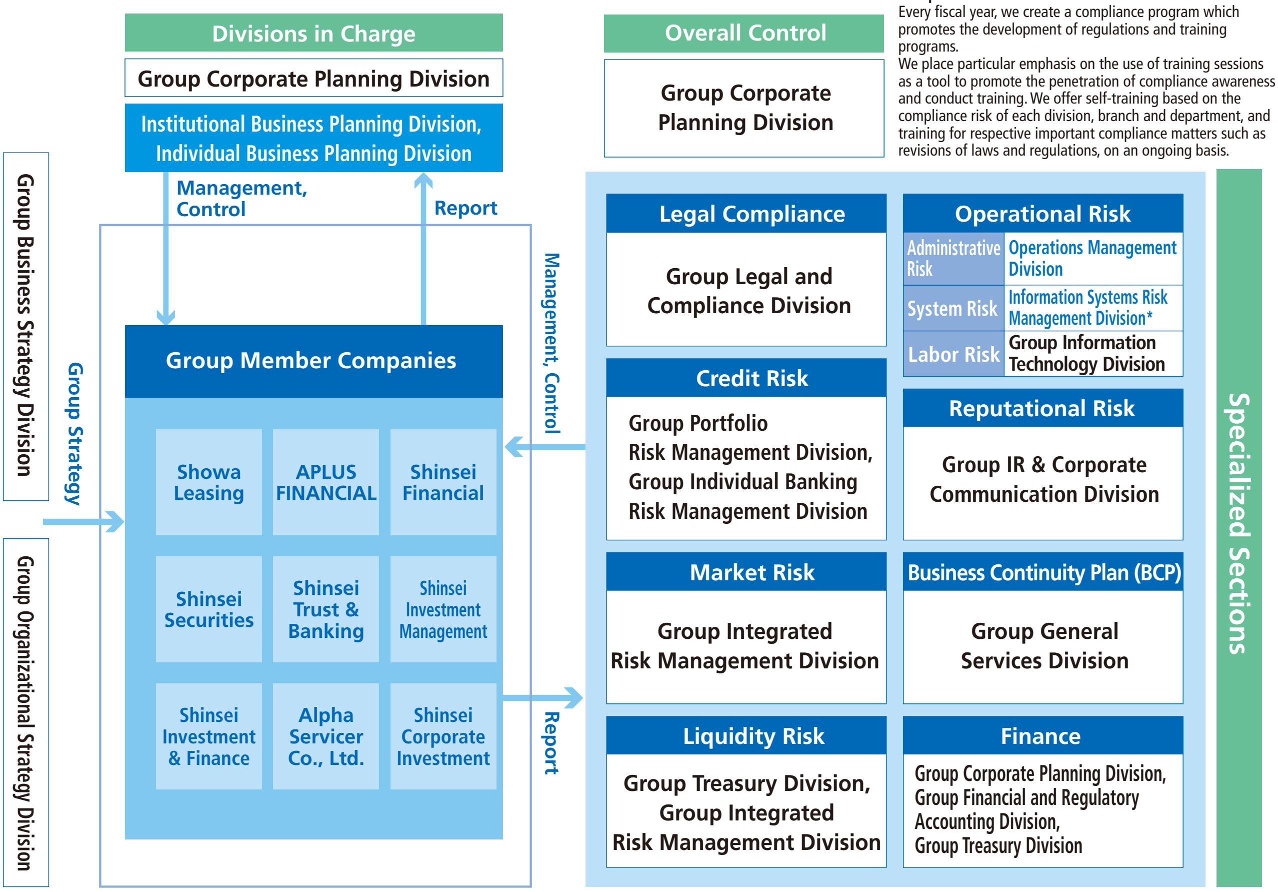


Execution, Subsidiaries and Affiliates Policy, Group Headquarters Organization Management Policy and Internal Audit Policy are established as the underlying rules. In addition, by improving the system for ensuring the effectiveness of the audits by Audit & Supervisory Board members, we are striving to ensure the propriety, transparency and efficiency of operations throughout the entire Group, including subsidiaries. Furthermore, we are striving to create systems to sever relationships with anti-social forces and ensure the propriety of operations, including establishing the Charter of Shinsei Bank Group Corporate Behavior to cut off relationships with anti-social forces.

Concerning Group governance, based on the May 2015 amendment of the Companies Act, as well as the Third Medium-Term Management Plan and the philosophy of Group integration as found in the Medium- to Long-Term Vision that started in April 2016, from April 2017, in line with the Banking Act and the Companies Act, as well as other laws and regulations, to the extent possible, indirect functions of Group companies are being consolidated and integrated into the Group Headquarters established within Shinsei Bank. At the same time, the division in charge and the specialized sections of the Group Headquarters are cooperating to establish a system to manage subsidiaries and affiliates. Under this structure, matters related to the business activities and governance of subsidiaries and affiliates are periodically reported to the Group Executive Committee, and important matters concerning the management of subsidiaries and affiliates are referred and reported to the Group Executive Committee. Through such a framework, we are strengthening Group governance and improving management efficiency by further enhancing corporate management and the internal management system for the entire Group, including subsidiaries and affiliates, as well as working to provide high value-added that will lead to better customer service and optimizing the Group as a whole.

Group Internal Control Support Framework

Compliance Activities
Every fiscal year, we create a compliance program which promotes the development of regulations and training programs.
We place particular emphasis on the use of training sessions as a tool to promote the penetration of compliance awareness and conduct training. We offer self-training based on the compliance risk of each division, branch and department, and training for respective important compliance matters such as revisions of laws and regulations, on an ongoing basis.



Departments and other units spelled in black type belong to the Group Headquarters.
* The specialized sections of each risk area identify and measure the potential risks in cooperation with the controlling division (Group Integrated Risk Management Division).

Corporate Governance

Legal and Compliance Activities

Compliance Framework and Activities

The Bank's Compliance Committee, Group Legal and Compliance Division and compliance supervisors (general managers) and compliance managers assigned to divisions, branches and departments constitute the main elements of our compliance organization.

The Compliance Committee, chaired by the Chief Officer of the Group Legal and Compliance Division, reports on and discusses individual matters that arise at Shinsei Bank and compliance-related issues particular to Shinsei Bank. The Group Legal and Compliance Division has a Financial Crime Information Department that centrally manages countermeasures against anti-social forces, measures to combat bank transfer scams and other financial crimes, as well as efforts to prevent money laundering and the provision of funds to terrorist organizations. The Division also has a Legal Department that specializes in handling legal matters.

In fiscal 2017, the Group Compliance Committee, chaired by the Chief Officer of the Group Legal and Compliance Division, was newly established to discuss the basic policy for the Group-wide compliance platform and compliance-related matters. Also, the Group Compliance Guidelines were formulated, and in addition to appointed compliance supervisors and compliance managers in divisions, branches and departments of key subsidiaries, the Group Legal and Compliance Division is building a platform to directly oversee them, and is otherwise working to integrate and strengthen the compliance function on a Group-wide basis.

Legal Supervision

Violations of any of these laws can have severe repercussions not only to our credibility and reputation as a financial institution, but to that of the overall banking system itself. In the case of individual transactions, there exists a risk that we may face unexpected claims for damages. Prevention and proper management of these legal risks are a crucial function within the day-to-day operations of today's banks. Shinsei Bank has established the Legal Department within its Group Legal and Compliance Division that presides over such legal affairs, including compliance with corporate and transactional laws, legal documentation and litigation supervision, and, through this specialized support, we aim to prevent and manage any legal risk and support from a legal standpoint our compliance posture.

Internal Audit

The Group Internal Audit Division (GIAD) of the Bank regularly makes direct reports regarding the results of audits and the status of GIAD activities to the President and the Audit & Supervisory Board. The GIAD supports the President in his responsibility for controlling business execution, in particular for establishing an effective system of internal controls, and also supports the Audit & Supervisory Board in their responsibilities for audit and supervisory activities, in particular for monitoring the system governing internal controls and its operation. The GIAD provides independent and objective assessments of the effectiveness of risk management, control and governance processes, the reliability of information and information technology systems and compliance with statutory, legal and regulatory requirements as well as internal policy and procedure requirements of the Bank, and provides solutions to management.

The GIAD is independent of all organizations subject to internal audits, as well as being independent of day-to-day operational activities and control processes, including regular preventive and detective controls. The GIAD utilizes a risk-based audit approach and creates a comprehensive risk assessment by combining a macro-risk assessment, assessing risk from the perspective of the Banking Group as a whole, together with a micro-risk assessment, assessing risk from an individual business level. Audit resources are prioritized to businesses or processes perceived to have relatively higher risk.

The GIAD has enhanced its off-site monitoring activities by attending key management meetings, reviewing internal control documents and holding regular meetings with senior management.

The GIAD also takes the initiative in developing our internal auditors' expertise, in particular, strongly encouraging them to obtain professional certifications such as the Certified Internal Auditor and Certified Information Systems Auditor qualifications.

While the GIAD pursues the development and introduction of new audit techniques, it also recognizes the importance of maintaining fundamental skills necessary to performing its governance-related duties. By receiving regular quality assessments of the GIAD's internal audit activities carried out by a third-party organization, we are enabled to identify opportunities for improvement across the Group from an objective viewpoint.

For Shareholders and Investors

Fiscal 2017 IR Strategy

1. Strategically plan opportunities for the CEO to have constructive dialogue in Japan, North America, Europe and Asia
2. Fair information disclosure eyeing the introduction of fair disclosure (FD) rules
3. Improve and enhance information disclosure and IR activities being conscious of ESG investment
4. Multi-layered feedback of investors' and analysts' opinions to internal parties

Top Management's Commitment to IR (Number of IR Meetings in Fiscal 2017)

CEO	Executive Officers	IR Officers	Total
110	84	117	311
35%	27%	38%	100%

IR Activities (Fiscal 2017 Results)

Individual meetings (Including individual meetings at conferences)	311 (195 companies)
Participation in conferences held by securities companies (Total of domestic and overseas)	8 times
Shinsei IR Day (Total in-person and live-streaming attendance)	142 attendees
Financial results briefings and telephone conferences	9 times
Dialogue with directors and executive officers by bank analysts	2 times
IR activity reporting at Board of Directors' meetings, Group Executive Committee meetings and General Manager meetings	5 times

Formulation of IR/SR Policy

The Company established the IR/SR Policy of the Shinsei Bank Group, with the objective of using investor relations (IR) and shareholder relations (SR) as important management tools for sustainably increasing corporate value over the medium-to-long term, and proactively encouraging constructive dialogue with investors, analysts, shareholders and other market participants.

URL: http://www.shinseibank.com/corporate/en/irsr/

Feature: Shinsei IR Day

Shinsei IR Day was held in February 2018. In addition to the Shinsei Bank Group's business and organizational strategies, executive officers discussed strategically important topics directly with attendees, with a focus on innovation of customer experience value in retail banking and the unsecured loan business as the Shinsei Bank Group's digital strategy. To ensure that all investors both in Japan and overseas had fair access to the information, the presentation videos, summaries of presentations, as well as summaries of Q&A sessions were uploaded to the website in both Japanese and English.

URL: http://www.shinseibank.com/corporate/en/ir/presentation/irday/

Initiatives for Employees

Group HR Strategies to Realize Our Management Principles

While the environment surrounding the financial industry is rapidly changing and major changes in values such as working style reforms are taking place, the Shinsei Bank Group regards HR-related matters as one of the most important tasks for the growth of the organization, and we implement ongoing reviews of our existing systems and initiatives. The entire Group is working to develop and utilize personnel and foster an organizational culture in which personnel with a high level of expertise are able to provide distinctive financial solutions as well as with ability to work together across departments and groups to provide optimal value to our customers.

Work Style Reforms

Work-Life Management

As society changes drastically, companies are being asked to alter the way people work. Concerning working hours in particular, curbing long working hours and encouraging employees to take paid time off are important issues, in terms of keeping employees healthy, helping employees keep a balance between work and private life, and promoting women in the workplace. By reducing overtime work and introducing a self-directed flex-time system of staggered working hours, along with half-day and hourly paid time-off systems, the Shinsei Bank Group is striving to create a healthy working environment for employees.

>> Fiscal 2017 Achievements

Overtime work hours: 19.9 hours/month
Paid vacation days taken: 16.3 days/year

(Note 1) Data include only regular Bank employees.
(Note 2) Data include only regular Bank employees. Number of days includes special paid vacation days.

Balance with Childcare and Family Care

In Japan, where the declining birthrate and the aging of the population are both progressing, employees increasingly face situations in which childcare or providing care for family members can temporarily disrupt their careers. In order for organizations to grow over the long term, rather than allowing such employees to give up on their careers, it is imperative that they offer a diverse array of working arrangements to allow these employees to contribute to the maximum extent possible under their restricted conditions, and ensure that such working styles are fully accepted by everyone in the organization. The Shinsei Bank Group has established a childcare leave system, a family care leave system and a life support leave of absence system as measures to allow employees to flexibly shape their careers.

>> Fiscal 2017 Achievements

Number of employees who took childcare leave: 33
Number of people who took family care leave: 4
Number of employees who took life support leave of absence: 6

System	Details
Self-Directed Flex-Time	Allows employees to start or finish work 30 minutes or one hour earlier or later than the normal starting or ending times
Work from Home	Allows employees to work from their home or a relative's (within two degrees of kinship) home, up to a maximum of two days per week
Side Work/Concurrent Work	Allows employees to concurrently engage in personal business (outsourcing, business start-up, company executive, etc.) or work concurrently for another company
Half-Day Paid Time Off	Allows employees to take time off in half-day increments during designated hours in the morning or afternoon
Hourly Paid Time Off	Allows employees to take up to four hours off in one-hour increments, up to five days per year
Life Support Leave	Allows employees to take a leave of absence for reasons including childcare, family care, study abroad, fertility treatment, spouse work transfer, etc., not covered by existing frameworks
Maternity Leave	Female employees can take leave from 6 weeks prior to childbirth to 8 weeks after childbirth
Childcare Leave	Employees can take leave up until their child reaches the age of two at a maximum
Family Care Leave	In principle, employees can take up to a total of one year (365 days) off to care for each family member who requires care

(Note) Only employees satisfying certain conditions are eligible to take the systems noted above.

Promoting Diversity

Promoting Inclusion & Diversity

In order to further promote diversity, on February 1, 2018, the Shinsei Bank Group established the Diversity Promotion Office within the Group Human Resources Division. Promoting diverse work styles, promoting women in the workplace, the utilization of seniors, etc. are important themes, and we will further promote measures related to these topics. As an example, to help promote diverse work styles, in April 2018 we introduced a telecommuting system and also started allowing employees to engage in both side work and concurrent work. We will also consider further hiring and promotion of outside talent, including non-Japanese nationals.

Promoting Women in the Workplace

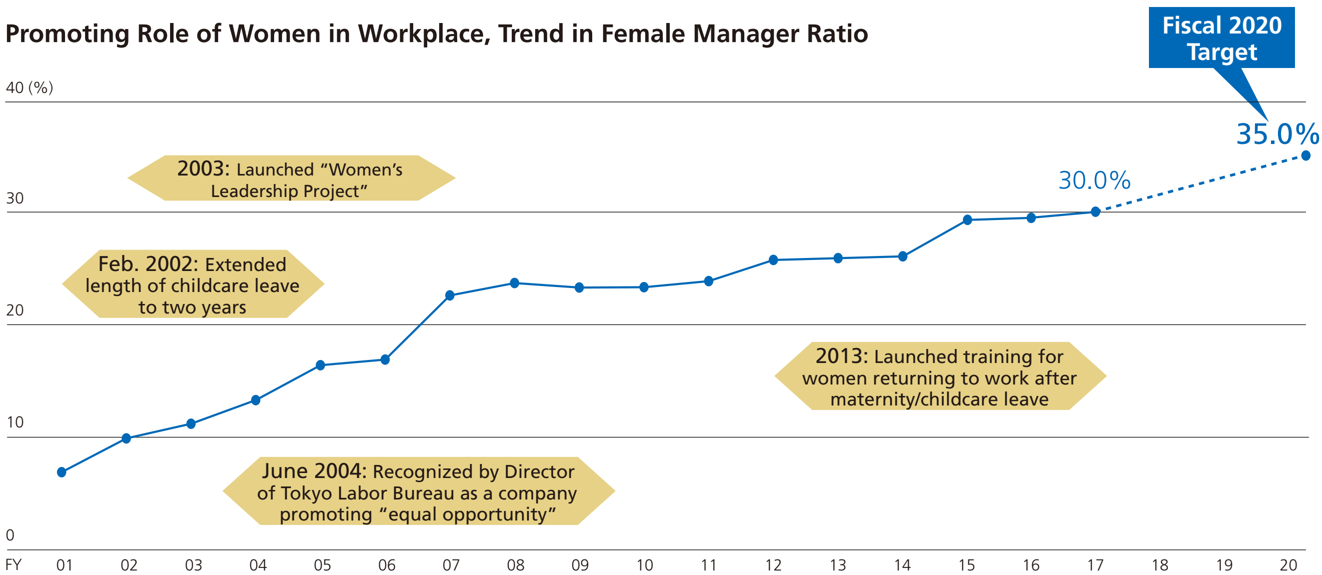
Shinsei Bank President and Chief Executive Officer Hideyuki Kudo supports the "Declaration on Action by a Group of Male Leaders Who Will Create a Society in which Women Shine" advocated by the Cabinet Office. In February 2018, the Bank established the "Committee on Promoting the Role of Group Women in the Workplace," and is developing a variety of career development systems to promote female employees in the workplace. In fiscal 2020, the Bank aims to have a female manager (section leader-level or higher)[1] ratio of 17% (13.8% as of March 31, 2018), and a female manager (section manager-level or higher)[2] ratio of 35% (30.0% as of March 31, 2018).

Career Development System Supporting Women with a Career Orientation

- Leadership education and training
- Female career path training
- Hearing for female employees before they obtain maternity leave
- Support for self-learning during childcare leave
- Training for women returning to work after maternity/childcare leave (for those returning from leave; for managers of the women)
- Shinsei Women's Networking lunch

(Note 1) Ranking of senior manager, deputy senior manager, or above
(Note 2) Ranking of manager or above

Promoting Role of Women in Workplace, Trend in Female Manager Ratio



Initiatives for Customers

Customer-Oriented Business Conduct (Fiduciary Duty)

As a guideline for conducting business operations with top priority on customers' "best interests," the Bank established the "Policy on Customer-Oriented Business Conduct" (hereinafter referred to as the "Policy") and an "Action Plan" to put this Policy into practice. Each Shinsei Bank Group company and all executives and employees of the Group have reaffirmed the importance of "Pursuing customer-oriented business conduct and contributing to our customers' asset formation," and by firmly committing to customer-oriented business operations, we will contribute to the sustainable growth and development of society and the economy.

For additional details, please refer to Shinsei Bank's website.

http://www.shinseibank.com/english/fiduciaryduty.html

Shinsei Bank Group Companies that Have Established and Announced a Policy

The Policy and Status of Initiatives

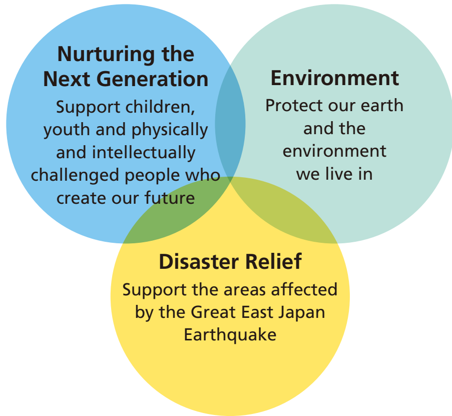
Policy	Actions
Implementation of the Policy on Customer-Oriented Business Conduct	The Bank is regularly checking the status of the implementation of action plans for each Policy.
The Best Interests of the Customers	We have enhanced our products and services, particularly for customers in the asset accumulation segment. One such example is the installment-type NISA.
Appropriate Management of Conflicts of Interest	For newly introduced financial products and services, the committee screens and checks for conflicts of interest. 29 new products were screened and checked.
Transparency of Expense and Fee Structures	Taking feedback from customers into consideration, we are working to make descriptions of fees and expenses for financial products in advertisements easy to understand.
Providing Important Information in Easily Understandable Ways	The Bank is conducting continuous monitoring, and is providing feedback to employees so that they can help customers even more appropriately.
Providing Services Suitable for Each Customer	The Bank is continuously monitoring to see if financial products and services that are good matches for customers are being selected, and to see if these products and services are being explained in an easily understandable manner.
Frameworks for Appropriate Motivation of Employees	The results of customer satisfaction surveys were added as an evaluation item for fiscal 2018, to encourage employees to act in the best interests of customers.

Social Initiatives

Our Approach

As a corporate group that provides financial services to society, the Shinsei Bank Group is aware that the healthy development of society is the foundation for the Group's continued existence. As such, we actively promote Corporate Philanthropic Initiatives as part of our commitment to acting as a responsible corporate citizen and contributing to the development of a sustainable society.

The Shinsei Bank Group promotes employee-driven philanthropic activities, whereby approximately 400 employees throughout the entire Group participated in 31 activities in fiscal 2017 (ended March 31, 2018).



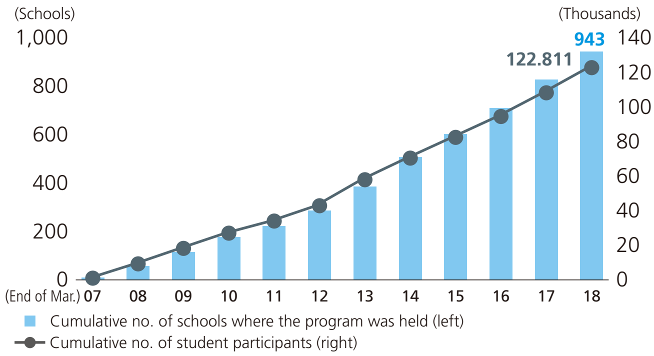
"MoneyConnection®" Financial Literacy Program

In cooperation with Sodateage.net, an authorized specified non-profit organization, the Shinsei Bank Group holds "MoneyConnection®," a financial literacy program that aims to help more young people avoid being not in employment, education or training (NEET).

This program was developed under the understanding that "a lack of accurate knowledge regarding money and a lack of monetary sense" is one of the reasons that people lapse into a NEET situation. We offer this program with the goal of providing opportunities for high school students, primarily, to consider working, money and the future.

Over the 11 years through March 31, 2018, since the program was launched, the course has been held at 943 schools in 35 prefectures, with the cumulative number of participating students reaching 122,811. As an initiative that is characterized by its local ties, the program has also attracted strong interest from regional financial institutions and has received sponsorship from two local banks.

No. of Schools Where the Program Was Held
No. of Student Participants



Post-quake Recovery Support Activities in the Tohoku Region of Japan

Soon after the Great East Japan Earthquake, Shinsei Bank Group employees began and have continued to provide support to local communities in various ways. These include traveling to the region to provide support, collecting donations within the Bank and opening a company market to sell food and supplies made at businesses that support the employment of handicapped individuals in Miyagi Prefecture, primarily.

Although the ways in which employees have connected with the affected region have continued to change over time, our employees have continued to work to understand the current situation and to place importance on empathy while continuing to provide the support needed today into the future.

Despite having fewer opportunities to directly touch the devastation caused by the disaster in the region, during exchanges with the local residents, volunteer participants often hear about their experiences during the earthquake and about their thoughts for the future, which has served as a valuable opportunity for volunteers to reconsider recovery from the earthquake as if it was for themselves.

A Christmas concert held in Higashi-Matsushima City, Miyagi Prefecture, as a part of the Bank's disaster-relief and support activities.

Environmental Initiatives

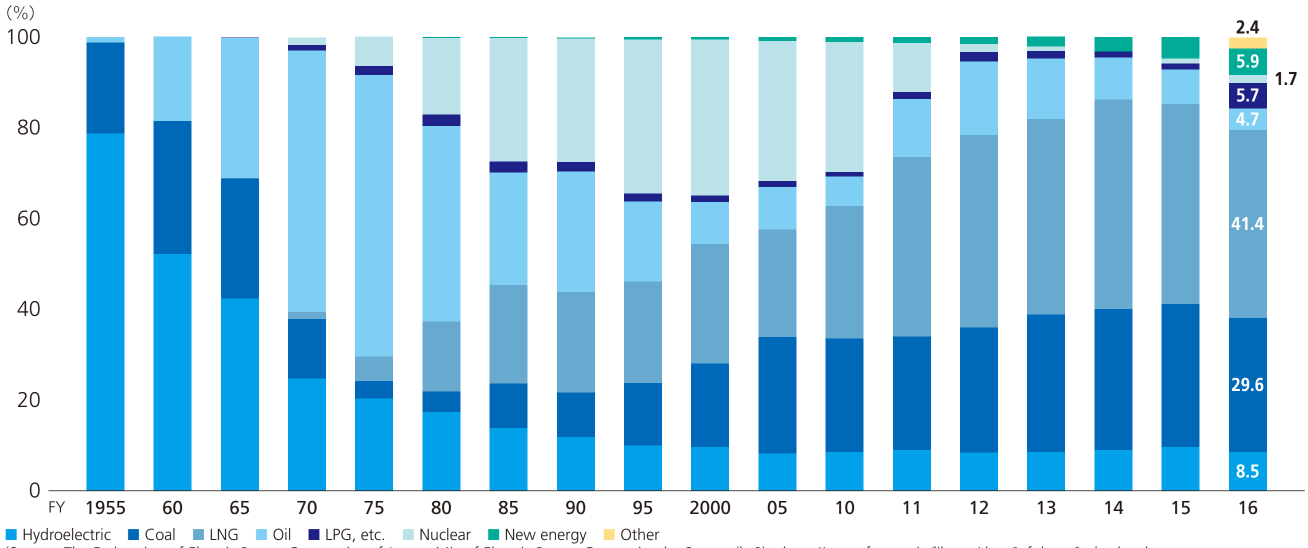
Solving Environmental Issues by Financing Renewable Energy Projects

Japan's Energy Issue

In Japan, fossil fuels such as petroleum, coal and LNG account for a large proportion of the energy supply, and Japan is dependent on overseas sources for most of these fossil fuels. Meanwhile, energy markets are becoming increasingly unstable, as economic growth in emerging markets and other factors are leading to an increase in global energy demand and fluctuating fuel prices. Reducing greenhouse gas emissions that result from fossil fuel-based thermal power generation is also an important issue. Under these circumstances, renewable energy, which has minimal impact on the environment, is becoming increasingly important.

Although the ratio of LNG, coal and petroleum for thermal power generation is still high following the March 2011 Great East Japan Earthquake, renewable energy is gradually increasing, partially due to the introduction of the feed-in tariff system with fixed rates for purchases of renewable energy in July 2012. In fiscal 2016, clean energy (solar, wind and geothermal) accounted for roughly 6% of Japan's energy mix.

Mix of Electric Power Generated by Source (Total for the 10 electric power utilities (including power received))



(Source: The Federation of Electric Power Companies of Japan: Mix of Electric Power Generation by Source (b-9) http://www.fepc.or.jp/library/data/infobase/index.html

(Note 1) Figures for fiscal 1970 and before cover the nine power companies, and figures for fiscal 1975 to fiscal 2015 cover the 10 power companies. Source: Data were prepared by the Federation of Electric Power Companies of Japan and covered 10 areas in fiscal 2016. Source: Agency of Natural Resources, Survey of Electric Power Statistics
(Note 2) LPG, etc.: LPG and other gases

Japan's Energy Strategy

In July 2015, the Ministry of Economy, Trade and Industry announced the Long-term Energy Supply and Demand Outlook ("Energy Mix") based on future energy security, stable supply, improvements to economic efficiency and environmental suitability. According to the Outlook, energy supply and demand in 2030 will be about 10% less than in fiscal 2013 (energy-saving), and the ratio of renewable energy in the supply of electric power will be about 22% to 24% of the total. Due to the fact that there is a significant amount of domestic megasolar power generation facilities that have yet to be installed following the revision of the feed-in tariff system in April 2017, a stable introduction of renewable energy such as megasolar, wind power and biomass is expected over the medium-to-long term, aimed at achieving the energy mix (fiscal 2030).

Trends in the "Energy Mix" (Domestic)

Outlook is for reaching the Energy Mix goal (for fiscal 2030) through introductions of these sources going forward.

MW	Level of introduction (March 2017)	Energy Mix (Fiscal 2030)	Energy mix attainment ratio (%)
Solar (Residential and non-residential)	39,100	64,000	About 61%
Wind power	3,390	10,000	About 34%
Biomass	3,150	6,020~7,280	About 47%

Note: Long-term outlook for energy supply/demand (Ministry of Economy, Trade and Industry (METI), the so-called "Energy Mix" released in July 2015). Graph prepared by the Bank based on materials provided at a METI seminar

The Shinsei Bank Group's Renewable Energy Initiatives

Since 2012, Shinsei Bank has been accumulating know-how about project origination, risk management and other matters through the provision of financing for renewable energy projects involving solar power, wind power, biomass and geothermal energy. In addition, the Bank has expanded the base of domestic project finance investors and promoted syndication with regional financial institutions.

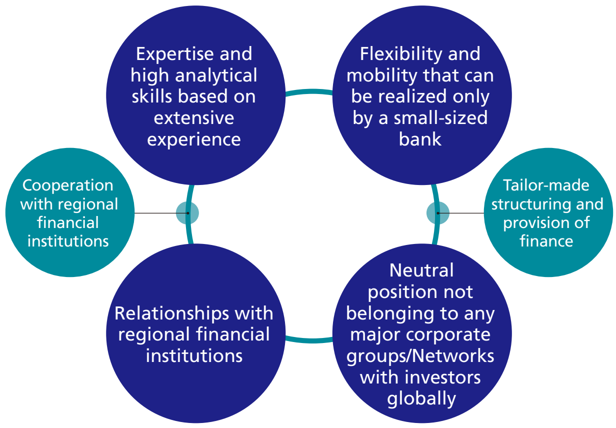
Making full use of advanced analytical capabilities for cash-flow finance and expertise based on its extensive experience, the Shinsei Bank Group provides fine-tuned services both to financial institutions in areas where there are many renewable energy projects, as well as to domestic and overseas sponsors and a diverse range of investors in renewable energy projects in Japan.

As a result, solar power, wind power and biomass power project finance account for 75%, 9% and 7%, respectively, of the total balance of domestic project finance (approximately ¥220 billion, as of March 31, 2018).

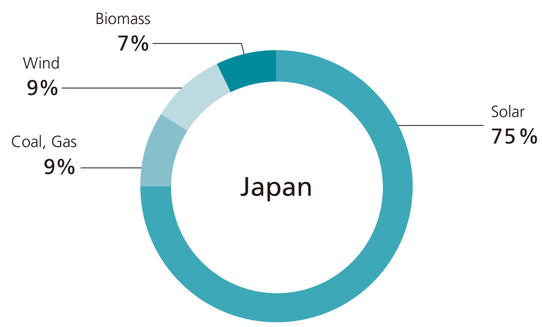
The Shinsei Bank Group will continue to contribute to the development of the renewable energy market in Japan and to solving environmental problems as well as energy issues through the renewable energy business.

Shinsei Bank Group's Strengths

Create added values from our unique positioning that is different from both megabanks and regional financial institutions



Portfolio by Power Type



Feature: The Japan Renewable Energy Project Finance Conference 2018

We invited key project stakeholders in Japan as presenters and held this conference focusing on topics including the prospects for renewable energy and the key points for credit assessment of projects. Recently, investment opportunities in the field of renewable energy have become increasingly important and gained more attention from domestic and overseas financial institutions, as well as people involved in renewable energy and project finance who attended the event.

Conference Objectives

- Solutions to investors' issues as they consider renewable energy projects
- Increase contact with renewable energy project finance investors
- Expand the renewable energy project finance investor base

Since 2012, we have accumulated know-how through our involvement in a large number of renewable energy project finance deals. Going forward, we will continue to work with parties including sponsors, business operators, O&M (Operation & Management) companies, lawyers and lenders, and by sharing knowledge and expertise with one another, and we will contribute to the promotion of the renewable energy business which aims to address Japan's energy problem.

Environmental Initiatives

Case of Renewable Energy Project Financing

Discussion with Canadian Solar Infrastructure Fund, Inc. (partial excerpt)

Mr. Yoshihisa Otake (Center)
Executive Director, Canadian Solar Infrastructure Fund, Inc.
CEO & Representative Director, Canadian Solar Asset Management K.K.

Kazutaka Kiuchi (Left)
Manager, Project Finance Division, Shinsei Bank, Limited

Shinobu Jitsukawa (Right)
Deputy General Manager, Syndicated Finance Division, Shinsei Bank, Limited

Otake: In addition to being a leading bank, you have a strong track record in project finance. I felt that you possess industry knowledge. We asked the Bank to provide financing to a listed infrastructure investment fund to acquire solar power generation facilities as there are few precedents for providing financing to listed infrastructure investment funds, and we truly appreciate your working with us on this first deal of its kind.

Jitsukawa: When you first approached us about this project, I realized that this would not be an easy deal to execute, as not only was it the largest project ever in terms of scale and the amount to be borrowed as it was the first unsecured, unguaranteed financing to an infrastructure investment fund in Japan and would involve a large syndication. However, I sensed your strong desire to start having infrastructure investment funds obtain financing in a similar manner as J-REITs. We also wanted to contribute to the development of the infrastructure investment fund debt market as an arranger, so I thought it would be a rewarding project.

Kiuchi: The facts that the loan would be unsecured and there would be additional asset acquisitions during the financing period were some of the aspects which are not traditionally included in project finance frameworks, and these were particularly important points to think about from our side as well as the lender side. However, I think that in the end the listing was executed in a way that was understood and supported by investors. Going forward, I hope to firmly establish a form of financing that combines the frameworks of J-REITs and project finance, and thereby support the growth of both your investment fund and the infrastructure fund market as a whole.

Canadian Solar power facility in Mashikimachi (Japan)

Otake: **I believe that this investment fund, which aims to increase the generation of renewable energy, is truly an environmentally friendly investment opportunity, and that it contributes to economic development in local communities.** Many solar power stations are located in places that were previously difficult to effectively make use of, so I believe that we are helping to create employment opportunities in such areas, helping to boost tax revenue and also contributing to the rejuvenation of regional economies.

We received a Green Bond rating* from the Japan Credit Rating Agency (JCR) for our borrowing used for the acquisition of 13 assets executed in October 2017, and **we received the highest assessment of "Green 1" as an overall rating.** This was the first time for an infrastructure fund to issue a Green Bond. Looking to the future, I think that in addition to institutional investors, individual investors will also appreciate the ESG elements of this bond, and I hope it will become a benchmark for investment decision making going forward.

* Green bonds are bonds in which the use of proceeds is limited to business activities that have a positive impact on the environment, including efforts to tackle climate change, water issues and biodiversity.

Addressing Societal Needs by Selling Used Construction Machinery to Emerging Countries

Harnessing its expertise and corporate network cultivated through the leasing business, Showa Leasing is focusing on its business as a broker-dealer buying and selling used equipment. The company has particular expertise in construction machinery, and, therefore, made Tozai Boeki a Group company in November 2015. Tozai Boeki holds three parade auctions a year, where participants bid up the price of machines wheeled out autonomously one at a time. Many overseas buyers, especially buyers from China and Southeast Asia, come to these auctions, as Japanese used construction machinery has a solid reputation as being good. By increasing sales of used equipment, the company will not only support the infrastructure of emerging countries, but will also continue to respond to societal needs with respect to the environment, such as expanding the use of Japanese-made construction machinery that meets rigorous standards.

A parade auction

Tozai Boeki Co., Ltd. (Wholly owned subsidiary of Showa Leasing)
7-15-1 Minatojima, Chuo-ku, Kobe, Hyogo 650-0045
https://www.tozaiboeki.co.jp

Tozai Boeki's Brokerage-Dealer Volume

FY2016: **¥4.4** bn → FY2017: **¥6.0** bn **+36**% Y-o-Y

Efforts to Address Unoccupied Housing Issues (Activation of the Pre-Owned Housing Market) through Pre-Owned Housing Purchase/Resale Loans

The number of unoccupied dwellings has been steadily increasing due to the ongoing aging of the population and demographic changes. The effective use of unoccupied dwellings is an urgent issue as their impact on the living environment, such as in terms of disaster prevention, sanitation and the landscape, represents a social problem.

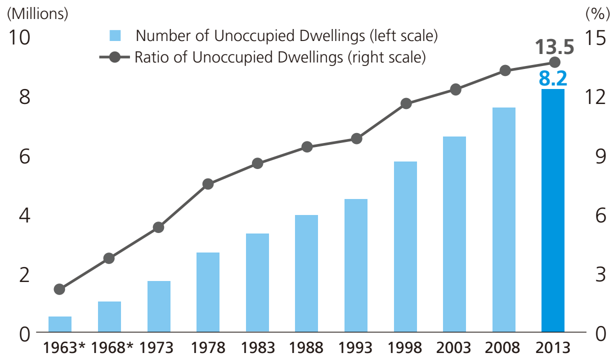
The ratio of existing housing on the market, which makes up Japan's total amount of housing in circulation, is about 14.7% (2013), which remains at a low level of around one-sixth when compared with European countries and the United States.

Under these circumstances, Japan's Ministry of Land, Infrastructure, Transport and Tourism is advocating switching to a housing stock utilization-model market, which will facilitate renovation and placement of existing housing in the market with the aim for the total market to reach ¥20 trillion. On the other hand, financial support was indispensable for the purchase and resale of rapidly marketable pre-owned housing for those real estate companies that remodel or renovate and that are thus able to improve the value of pre-owned housing.

As a way to solve the challenges faced by the pre-owned housing market, APLUS Co., Ltd. (hereafter "APLUS"), a subsidiary of APLUS FINANCIAL Co., Ltd., developed a "pre-owned housing purchase/resale loan" product. Having previously dealt with housing loan-related products, APLUS has been building a collaborative relationship with a financial institution specializing in housing loans (hereafter referred to as "the Mortgage Bank") and, while utilizing the Mortgage Bank's sales channels, finances the pre-owned housing purchase funds of real estate operators and their renovation work funds as well as various other expenses.

The Shinsei Bank Group will contribute to the revitalization of the pre-owned housing market in Japan through APLUS's pre-owned purchase/resale loan business.

Unoccupied Housing Conditions



* Numerical values that exclude Okinawa Prefecture
(Source: *Housing and Land Survey,* Statistics Bureau, Ministry of Internal Affairs and Communications) http://www.stat.go.jp/english/data/jyutaku/index.html

Global Tax Policy

Global Tax Policy of Shinsei Bank Group

Compliance and Fair Tax Payments

The Shinsei Bank Group pays its taxes in a timely and appropriate manner in accordance with all applicable laws, including without limitation local and international tax laws, tax treaties and OECD guidelines, following an interpretation compliant with the spirit and purpose thereof. We complete all statutory procedures, including the filing of tax returns and tax payments, within the applicable deadlines.

Tax Planning

The Shinsei Bank Group emphasizes that its decisions related to business planning and/or business operations are made based on commercial purposes. We recognize taxes are a cost, and, therefore, we consider optimizing our tax position. We, however, do not conduct any false or unethical transactions aimed at tax avoidance. We will act on our best efforts to carry out all internal transactions in line with the arms-length principle and do not operate our businesses in perceived tax havens for the purpose of false tax avoidance.

Treatment of Uncertain Tax Positions

The Shinsei Bank Group recognizes that it may face uncertain tax positions arising from the uncertain interpretation of tax laws and relevant rules. In such cases, we, generally, take a most-appropriate position, which means a position that can be regarded as a rational position on the basis of a reasonable interpretation. If the materiality of such an uncertain tax position is regarded as significant and/or such uncertain tax position may have a significant impact to the amount of our tax payments and/or our financial statements, we will endeavor to minimize such uncertainty by obtaining the opinion of external tax advisors, and/or seeking an advance ruling with the tax authorities.

Relationship with Tax Authorities

The Shinsei Bank Group endeavors to establish good relationships with the tax authorities by disclosing all relevant information in a timely and appropriate manner under the limitation of its responsibility for protecting and managing proprietary information in accordance with all relevant laws without limitation to tax laws. If we face a conflict in the interpretation of tax laws with the tax authorities, we aim to settle this by explaining the most-appropriate position based on available decrees, precedent cases, etc.

For further details, please access the following URL on the Bank's website:
http://www.shinseibank.com/corporate/en/tax/

Risk Management

Management Strategy and Risk Capital Allocation

The Bank defines "risk capital" as an integrated control approach to risk that groups risk into categories, namely (1) credit risk, (2) market risk, (3) interest rate risk and (4) operational risk, and measures exposures relating to each risk category.

Risk Capital

An approach to defining the type and total amount of risk (risk appetite) the Bank thinks it should be willing to adopt so it can attain its management plan goals within the limits of the Group's management strength. The Bank measured the risk capital based on a stress test in response to environmental changes, and operated its management plan and risk appetite in an integrated manner, by incorporating the results of the risk capital to the budget compilation process in fiscal 2017.

Monitoring of Allocated Risk Capital

By tracking business performance adjusted for allocated risk capital on a monthly basis, risk capital is effectively put to work as a tool to comprehensively manage progress toward management plan goals from a risk-taking perspective. Moreover, risk capital budgeting is useful for judging business performance when monitoring of this performance adjusted for allocated risk capital is combined with risk-return monitoring as an indicator of whether allocated risk capital has been effectively deployed.

Shinsei Bank Group's Portfolio

The Group's nonperforming loan ratio (nonconsolidated) decreased to 0.17% as of March 31, 2018, because deteriorated credit standing had little negative impact on the Group's corporate loans and real estate-related loans centered on non-recourse loans. Meanwhile, as a result of higher growth of the unsecured personal loan balance at subsidiaries with a higher risk-monitored loan ratio, the Group's risk-monitored loan ratio (consolidated) increased to 1.53% as of March 31, 2018.

Risk Factors and Future Policy

In the Bank's three-year Medium-Term Management Plan that commenced in fiscal 2016, we grouped our businesses into "Growth Areas," "Stable Revenue Areas," "Strategic Initiative Areas" and "Curtailment Areas," and put forward consumer finance and structured finance in particular as growth areas.

While the external environment has continued to improve, we must continue to monitor the downside risks to the global economy from such factors as the future adjustments to U.S. monetary policy, the impact of the U.K.'s exit from the EU, geopolitical risks and the impact of such factors on financial markets. Risk management operations will continue efforts to accurately understand both domestic and overseas environments and develop a recognition that is shared by senior management on risk preferences and comprehension of the risk profile of the Group's portfolio from multiple angles using more-advanced stress tests and other means.

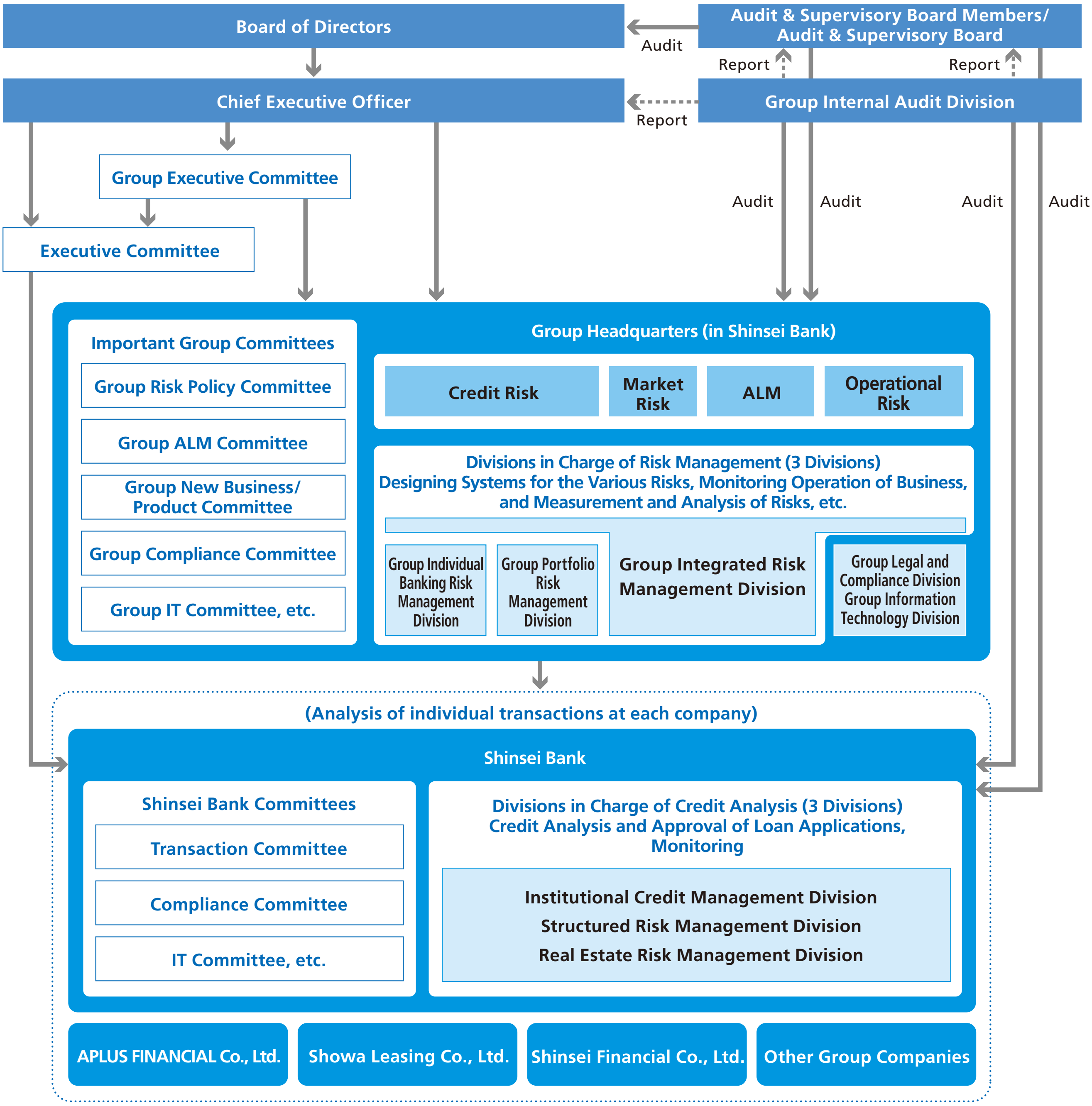
Also, an appropriate system with checks and balances is applied to initiatives in growth areas led by business promotion sections and implementation of business strategies. Through advanced measurement of risk-return and a stronger monitoring function, we are working to bolster and improve our risk management posture through flexibility in reviewing and revising risk strategies as the need arises.

Risk Management

Overview of the Group's Risk Management Systems

To ensure its risk management is effective, the Bank has established various specific committees such as the "Group Risk Policy Committee," "Transaction Committee," "Group Asset and Liability Management (ALM) Committee" and "Market Business Management Committee." All these committees are able to function effectively as bodies responsible for making important risk judgments by constantly improving their composition and functions in response to changes in the operating environment. The Group Risk Policy Committee, whose members include senior management such as the CEO, Chief Officer of the Group head of corporate planning

Risk Management System Chart (as of May 1, 2018)



and finance and the Group head of risk management, performs the crucial role of setting and coordinating the appropriate and optimal level of risk taking by concurrently reviewing the Bank's risk management policies and business strategy. Shinsei Bank has established the "Risk Management Policy" as its fundamental policy on risk management and basic recognition of risk categories based upon its understanding of the totality of risks faced by the entire Shinsei Bank Group and the need to actively manage them.

Basic Concept regarding Risk Management

Financial institutions are exposed to various risks, including credit risk, market risk, interest rate risk, liquidity risk and operational risk. To maintain highly profitable and stable operations, a financial institution must make the control of these risks a management priority. For that purpose, the Bank must be able to ascertain that risks are taken in line with Bank-wide policies as well as individual operational policies, and remain within appropriate limits. To strengthen the required monitoring functions and further develop its risk management framework, the Bank established two risk management groups: 1) credit analysis divisions responsible for credit analysis, loan application approvals and monitoring and 2) divisions responsible for overall risk management, measuring and analyzing credit, market and other risks, and integrating functions for examining and verifying fair value.

Definitions of Risk Categories

Risk Categories	Definition
Credit Risk	Credit risk is the risk of incurring losses due to deterioration in the financial condition of a borrower resulting in an erosion or total loss of asset value (including off-balance assets).
Market Risk	Market risk is the risk of incurring losses due to changes in the value of assets or liabilities through fluctuations of various risk factors such as interest rates, foreign exchange rates, stock prices, etc.
Liquidity Risk	Liquidity risk (fund-raising risk) is the risk of incurring losses due to difficulties in securing necessary funds or the need to raise funds at an interest rate that is substantially higher than normal stemming from mismatches in the maturities of assets and liabilities or an unexpected outflow of funds.
Operational Risk	Operational risk refers to the risk of incurring losses resulting from inadequate or failed internal processes, personnel and systems or from external events.

For the details of each risk management, please see "Capital Adequacy Requirement (Basel Accord) Pillar III (Market Discipline) Disclosure" (pages 195-238).

Risk Management

Credit Risk

Institutional Business Credit Risk Management

The Bank has clearly set out its basic policy for credit provision operations and specific guidelines for credit risk management. Credit risk management processes for institutional customer businesses are broadly grouped into credit risk management for individual transactions and portfolio-based credit risk management.

■ Credit Risk Management for Individual Transactions

(1) Organization and Structure

Regarding credit assessments for institutional business, an effective system of checks and balances on sales promotion divisions is established by veto rights of risk management divisions.

(2) Obligor Rating Systems

Using credit estimation models including a model benchmarking the credit ratings of external credit rating agencies, we calculate model ratings and apply adjustments to these based on qualitative factors, and use this method to determine credit rankings.

■ Portfolio-Based Credit Risk Management

(1) Monitoring Analysis System

At Shinsei Bank, we perform analysis that derives from unique entry points based on the risk profiles of each product and monitor risk diversification status by segments such as industry, ratings, products and regions, to report to the appropriate management layer.

(2) Quantifying Credit Risk

By factoring measured expected losses and unexpected losses into loan spreads, we can harness this data to ensure an appropriate risk-return in each transaction.

(3) Credit Concentration Guideline

Our credit concentration management framework consists of industry concentration guidelines and obligor Group concentration guidelines, and, in the event that credit concentration exceeds the guideline, we conduct reviews and adopt countermeasures.

Individual Business Credit Risk Management

Risk management for our Consumer Finance Businesses encompasses all operations from loan application assessment (entry-point credit) to managing risks after a contract is signed (credit monitoring) and, if needed, loan collection operations.

The Group Individual Banking Risk Management Division is in charge of risk management for products for individual customers, including our Consumer Finance Businesses. The division holds a monthly risk performance review meeting with other risk-related divisions, including the Chief Officer of the Group head of risk management at the Bank as well as risk officers from subsidiaries, in order to share information and promote a shared awareness of risks. The division also provides operational support and advice to relevant units of the Bank and its subsidiaries relating to overall risk management concerning credit administration policies and credit strategies.

Risk-related divisions at Group subsidiaries carry out appropriate risk control through a process that incorporates scoring models into credit administration processes, while using credit-related databases of customer attributes stemming from the nature of their businesses, credit information and transaction history. The scoring models, i.e., initial credit score, score at credit monitoring stages, collection strategy scores, etc., were developed using statistical methodologies, and, to maintain the accuracy of the scoring models in line with the level achieved when it was first developed, model performance is constantly monitored and the model is subject to fine tuning as needed.

The Group Individual Banking Risk Management Division is working to elevate its scoring model development and enhance the entire Group's credit provision capabilities in ways that help maximize earnings of the entire Group in the medium and long terms.

Credit costs are crucial to the management of profitability in the Consumer Finance Business. We, therefore, conduct monitoring while tracking multiple leading indicators and verification metrics at the portfolio level to enable us to quickly grasp any deterioration in the portfolio's overall asset quality and take timely action to improve its profitability.

Credit Risks on Market-Related Transactions

Counterparty credit risk attendant with market transactions such as derivative transactions are managed based on estimations of the fair value and future value fluctuations of relevant transactions.

Self-Assessment

Asset self-assessments are a part of credit risk management. Financial institutions examine and analyze their asset holdings so they can grasp the actual state of their assets as steps in preparing for appropriate asset write-downs and write-offs as well as reserve provisioning.

At Shinsei Bank, sales promotion divisions and credit analysis divisions conduct asset appraisals, and risk management divisions that are independent of sales promotion and credit analysis verify appraisal results.

Measures to Meet Basel Accord Requirements

In order to comply with the credit risk regulations under the Basel Accord, Shinsei Bank has adopted the Foundation Internal Ratings-Based (F-IRB) Approach. Based on this framework, we have secured strict internal controls vis-à-vis our internal ratings system, the foundation of credit risk management, and we conduct estimations of parameters such as the design and operation of our internal rating system and default rates. The benefits of our internal rating system are reflected not only in internal control of credit risk but also in calculations of regulatory capital requirements.

Market Risk

Market Risk Management Policy

In accordance with the "Trading Business Risk Management Policy," market risks in the trading business are managed through a series of processes with the Group Executive Committee determining overall market risk and loss limits. The Group Integrated Risk Management Division monitors on a daily basis the status of compliance with these limits, and the Market Business Management Committee reviews every month trends at individual businesses, the status of profits and losses, market risk conditions and overall business risks, including the risks of products handled.

VaR Data for Fiscal Year-End, Maximum, Minimum and Average during Fiscal 2016 and 2017

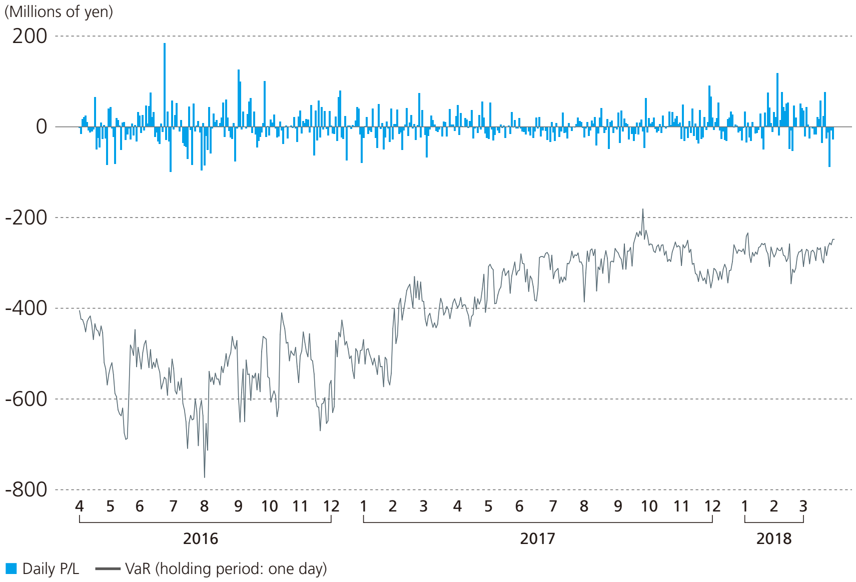
	Millions of yen			
	FY2016		FY2017	
	Consolidated	Nonconsolidated	Consolidated	Nonconsolidated
FY End VaR	1,231	1,155	783	740
FY VaR				
Maximum	2,444	1,998	1,391	1,353
Average	1,627	1,367	956	917
Minimum	1,042	919	572	540

Stressed VaR Data for Fiscal Year-End, Maximum, Minimum and Average during Fiscal 2016 and 2017

	Millions of yen			
	FY2016		FY2017	
	Consolidated	Nonconsolidated	Consolidated	Nonconsolidated
FY End VaR	3,171	2,992	3,915	3,690
FY VaR				
Maximum	4,248	3,604	4,161	4,017
Average	2,923	2,485	2,869	2,728
Minimum	2,050	1,843	1,832	1,755

Risk Management

VaR and Daily Profit and Loss (Backtesting) (FY2017, Consolidated basis)



Backtesting on the VaR Model Applied to the Trading Account

Backtesting involves comparing fixed position virtual losses to estimated VaR to confirm the reliability of the VaR method.

Assumptions of Shinsei's VaR Model

Method: Historical simulation method
Confidence level: 99%
Holding period: 10 days
Observation days: 250 days
Coverage: Trading account

Trading Book

Market risk in the trading book is managed through techniques such as VaR. VaR is the maximum loss amount expected due to future price fluctuations within a given probability range, assuming a specific position is held over a specific time horizon. In addition, we measure multi-faceted risks using sensitivity analysis for various factors. In calculating the amounts equivalent to market risk, the Bank's VaR model is based on a historical simulation method and uses a 99% confidence level, a 10-day holding period and an observation period of 250 days (see the previous page). The effectiveness of the VaR model is verified through backtesting, which examines how frequently actual daily loss exceeds daily VaR for a one-day holding period.

Interest Rate Risk

Interest rate risk is the risk of eroding profits or incurring losses due to market interest rate fluctuations amid mismatches in the interest rate or maturities of assets and liabilities. To measure interest rate risk exposure, we calculate the decrease in the economic value of the banking book from an unexpected 1% interest rate increase [a 1% parallel upward shift in interest rates for loan originations (bank assets) and core deposits (bank liabilities)]. This calculated exposure is used for internal controls. As interest rate risk exposure is significantly impacted by the recognition of asset and liability maturities and loan prepayments, we are endeavoring to appropriately capture interest rate risk.

Risk relating to Marketable Credit Instruments

Investments in structured bonds, funds, securitized instruments, etc., are generally held until maturity, although some instruments can be traded on the market. Such instruments have a complex risk profile that includes market risk and liquidity risk in addition to credit risk related to their underlying assets and counterparties. The Bank has established a system to ensure appropriate management of these risks, and regularly reviews its investment policies based on the investment environment. The Transaction Committee, Market Business Management Committee and the Group Risk Policy Committee strive to promote appropriate management of risks through regular reviews of risk exposure.

Liquidity Risk Management

Liquidity Risk Management Policy

As for funding liquidity risk, pursuant to the "Liquidity Risk Management Policy," the Group Treasury Division, a fund-raising management unit, and the Group Integrated Risk Management Division, a funding liquidity risk management unit, have been put in place, and the Group ALM Committee receives reports on the following designated liquidity risk management indicators: "funding gap limit," "minimum liquidity reserves," "liquidity stress tests" and "liquidity coverage ratio." The levels of funding liquidity risk consist of "Normal," "Need for Concern," "Crisis" and "Risk Administration Mode," with the Group ALM Committee determining the current mode. The response framework for each specific mode is set forth in the "Funding Liquidity Contingency Plan," and regular training is provided.

Operational Risk

Operational Risk Management Policy

To ensure comprehensive management of operational risks, the Bank has established an operational risk management policy that defines risks and sets forth its basic policy and organizational structures for risk management as well as procedures for identifying, evaluating, monitoring, reporting and controlling/mitigating risk. The Group Integrated Risk Management Division, a unit responsible for Group-wide operational risk management, evaluates, analyzes and reports on operational risk to management. Moreover, for each domain of operational risk such as administrative risk and systems risk, specialized risk management divisions that are independent from business divisions implement measures to manage operational risks according to the attributes of each category.

Risk Management Frameworks for Administrative Risks

Administrative and systems risks refer to the risk of "incurring losses from inaccuracies in clerical tasks due to the carelessness of executives or employees, or errors or misconduct in their performance of work duties." As for administrative risks, we recognize appropriate management of them is extremely important to our ability to offer services that our customers trust. We strive to improve the level of our administrative work performance by clarifying the content of procedures through efforts to revise terminology, hold training seminars, provide guidance on administrative work and improve administrative workflows. Specifically, our efforts to improve administrative risk management include establishing a system of branch self-audits where autonomous checks are performed at the work-task level and creating a database documenting past errors that enables analysis of the causal factors behind errors that will help prevent reoccurrence in the future.

Risk Management Frameworks for Systems Risks

Systems risks includes the risk of companies or individuals incurring losses from the disappearance of valuable data of customers as a result of information systems shutting off and software or hardware failures. Through consecutive reviews of systems risks, we are identifying and evaluating the risks, and working to improve quality in systems development and prevent systems failures and ensure rapid recoveries when problems occur by improving our systems operating capabilities. In fiscal 2018, we are planning to renew our core operational systems, and will manage risks for safe operations of new systems. We have endeavored to improve the level of systems risk management and information security for the entire Group, including subsidiaries. Moreover, we have taken appropriate steps based on the latest trends in technology to respond to cyber-security problems that have recently come to be seen as a social threat; so, we are working to ensure the safety of customer information and assets.

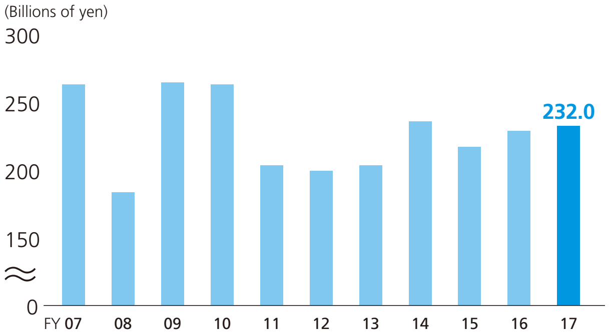
Financial Summary

Shinsei Bank, Limited, and Consolidated Subsidiaries
For the fiscal years ended March 31, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2018[1]

	FY2007	FY2008	FY2009	FY2010
For the fiscal year (Billions of yen)[1]:				
Total revenue	¥ 262.6	¥ 183.1	¥ 264.2	¥ 262.6
General and administrative expenses	158.7	182.0	170.8	145.3
Net credit costs	73.5	129.0	112.2	68.3
Profit attributable to owners of the parent	60.1	(143.0)	(140.1)	42.6
Balances at fiscal year-end (Billions of yen):				
Total assets	¥11,525.7	¥11,949.1	¥11,376.7	¥10,231.5
Total liabilities	10,560.5	11,181.7	10,741.8	9,620.3
Total equity	965.2	767.4	634.9	611.1
Per share data (Yen):				
Common equity	¥ 364.35	¥ 284.95	¥ 232.72	¥ 205.83
Basic profit	38.98	(72.85)	(71.36)	21.36
Dividends	2.94	—	—	1.00
Ratios (%):				
Return on assets[2]	0.5	(1.2)	(1.2)	0.4
Return on equity (fully diluted)[3]	8.8	(22.4)	(27.6)	8.5
Expenses-to-revenue ratio	60.4	99.4	64.6	55.3
Total capital adequacy ratio (Basel II, Domestic Standard)	11.74	8.35	8.35	9.76
Capital ratio (Basel III, Domestic Standard)	—	—	—	—
Ratio of nonperforming claims classified under the Financial Revitalization Law to total claims	0.95	2.51	6.70	6.78

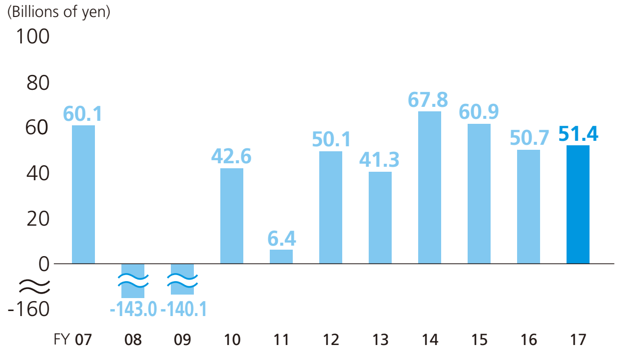
1 Since all yen figures have been truncated rather than rounded, the totals do not necessarily equal the sum of the individual amounts.
2 Return on assets is calculated by dividing profit (loss) attributable to owners of the parent by the average of total assets at the beginning and end of the period presented.
3 Return on equity (fully diluted) is calculated by dividing profit (loss) attributable to owners of the parent by the average amount of (total equity – share warrants – noncontrolling interests) at the beginning and end of the period presented.
4 Shinsei Bank consolidated its shares with a rate of ten shares of common stock into one share on October 1, 2017. Common equity per share and basic profit per share are calculated as if the consolidation of shares had occurred at the beginning of FY2016.

Total revenue



- Total revenue is composed of "Net interest income" such as interest from loans and "Noninterest income" such as fee income, as indicated by gross profit from core business operations.
- While earnings have been lifted since fiscal 2010 on factors such as gains from repurchasing preferred securities and items such as gains on the sale of assets on which loss disposals had been recorded in the prior years, total revenue has steadily grown since fiscal 2012 when such one-off gains dropped out of the picture. From fiscal 2016 onward, we applied "selection and concentration" tests to our businesses in accordance with the Group's strengths and the growth potential of each business to identify growth areas, and we have actively invested management resources into them.

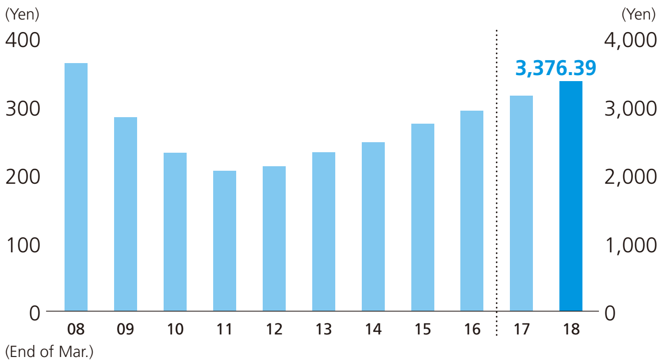
Profit attributable to owners of the parent



- Profit attributable to owners of the parent indicates the final profit over a twelve-month fiscal term in accounting terms.
- The Shinsei Bank Group recorded losses in fiscal 2008-2009 on the effects of the global financial crisis sparked by the collapse of Lehman Brothers but the Group has continued to book profits every year since fiscal 2010. The Group is working to improve the quality of earnings by adding more heft to core profits and limiting profits from non-recurring and high-volatility sources.

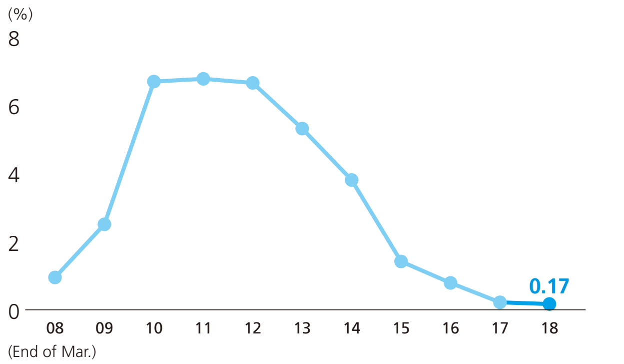
FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	**FY2017**
¥ 202.9	¥ 199.0	¥ 203.0	¥ 235.3	¥ 216.6	¥ 228.5	**¥ 232.0**
130.3	130.9	135	144.2	141.3	144.2	**142.9**
12.2	5.5	0.2	11.8	3.7	31.8	**37.2**
6.4	51	41.3	67.8	60.9	50.7	**51.4**
¥8,609.6	¥9,029.3	¥9,321.1	¥8,889.8	¥8,928.7	¥ 9,258.3	**¥ 9,456.6**
7,982.0	8,345.6	8,598.5	8,136.0	8,135.6	8,437.5	**8,600.6**
627.6	683.6	722.5	753.7	793.1	820.7	**856.0**
¥ 212.67	¥ 233.65	¥ 247.82	¥ 275.45	¥ 294.41	¥3,163.89[4]	**¥3,376.39[4]**
2.42	19.24	15.59	25.57	22.96	194.65[4]	**199.01[4]**
1.00	1.00	1.00	1.00	1.00	1.00	**10.00[4]**
0.1	0.6	0.5	0.7	0.7	0.6	**0.5**
1.2	8.6	6.5	9.8	8.1	6.3	**6.1**
64.2	65.8	66.5	61.3	65.3	63.1	**61.6**
10.27	12.24	—	—	—	—	**—**
—	—	13.58	14.86	14.20	13.06	**12.83**
6.66	5.32	3.81	1.42	0.79	0.22	**0.17**

Common equity per share



- Common equity per share is calculated by dividing common equity by the total number of common shares outstanding at the end of the term.
- Common equity per share has continued to increase on a steady buildup of profits.

Nonperforming loan ratio under the Financial Revitalization Law (Nonconsolidated)



- Nonperforming loan ratio is the ratio of nonperforming claims under the Financial Revitalization Law to total claims.
- As we have sharply reduced claims classified as nonperforming loans stemming from the global financial crisis sparked by the collapse of Lehman Brothers, the nonperforming loan ratio under the Financial Revitalization Law has fallen to the lowest level in the past ten years, and our asset quality has improved.

Review of Fiscal 2017

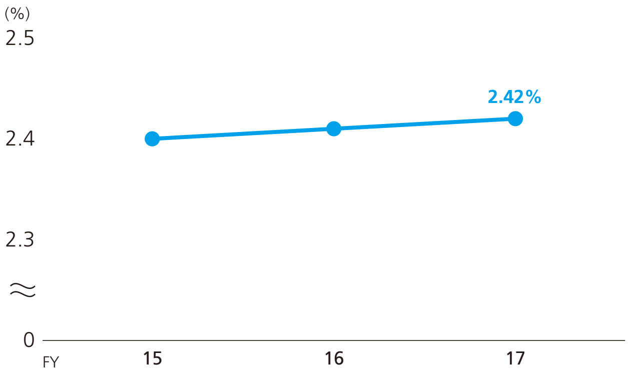
Summary of Profits and Losses

(Billions of yen)

FY	2016	2017	Change
Consolidated			
Total revenue	228.5	232.0	+2%
Net interest income	122.2	128.7	+5%
Noninterest income	106.2	103.2	-3%
Total expenses	(142.4)	(142.5)	-0%
Ordinary business profit (OBP)	86.0	89.4	+4%
Net credit costs	(31.8)	(37.2)	-17%
OBP after net credit costs	54.1	52.1	-4%
Others	(3.3)	(0.7)	+79%
Profit attributable to owners of the parent	50.7	51.4	+1%

- **Net Interest Income:** Increased 5% compared to FY2016, reflecting asset growth in unsecured loans despite incorporating the full-year impact of the negative interest rate policy (NIRP).
- **Noninterest Income:** Decreased 3% compared to FY2016. Increases in the Institutional businesses were offset by lower noninterest income in retail banking. A decrease in noninterest income is largely in line with a decline in gains on bonds.
- **Total Expenses:** Remained flat at ¥142.5 billion compared to FY2016.
- **Net Credit Costs:** Increased 17% compared to FY2016. This is due mainly to a one-off additional provisioning to a single transaction made in Showa Leasing. The one-off provisioning does not imply deterioration of overall credit quality.
- For the **grey zone reserves,** we examined the adequacy of the reserve level for our subsidiaries. Accordingly, while we released reserves in Shinsei Financial, we made additional provisions in APLUS FINANCIAL and Shinsei Personal Loan.
- **Profit Attributable to Owners of the Parent:** Totaled ¥51.4 billion, increasing compared to FY2016.
- **Net Interest Margin (NIM):** Increased to 2.42%.The yield on interest-earning assets increased due to the increase in the unsecured loan balance in the Consumer Finance Business and the improvement in the yield on securities while the yield on interest-bearing liabilities increased due to the increase in interest payments of the swap transactions.

Net Interest Margin (NIM)



Summary of Balance Sheet

End of Mar.	2017	2018	Change
	(Billions of yen)		
Loans and bills discounted	4,833.4	4,895.9	+1%
Securities	1,014.6	1,123.5	+11%
Lease receivables/leased investment assets	191.4	171.4	-10%
Installment receivables	541.4	558.8	+3%
Reserve for credit losses	(100.1)	(100.8)	+1%
Deferred tax assets	15.5	14.7	-5%
Total assets	9,258.3	9,456.6	+2%
Deposits including negotiable certificates of deposit	5,862.9	6,067.0	+3%
Borrowed money	789.6	739.5	-6%
Corporate bonds	112.6	85.0	-25%
Grey zone reserves	101.8	74.6	-27%
Total liabilities	8,437.5	8,600.6	+2%
Shareholders' equity	823.7	862.5	+5%
Total net assets	820.7	856.0	+4%

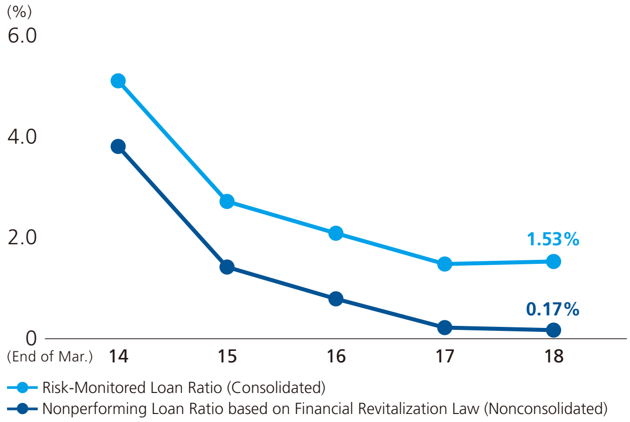
Balance Sheet

- **Total Assets** increased ¥198.3 billion from March 31, 2017, to ¥9,456.6 billion at March 31, 2018, reflecting the increase in operating assets, including securities and loans and bills discounted.
- **Loans and Bills Discounted** increased ¥62.5 billion from March 31, 2017, to ¥4,895.9 billion at March 31, 2018. The loan balance in the Structured Finance Business and the Consumer Finance Business increased while the loan balance in the Corporate Business and housing loans decreased.
- **Deposits including Negotiable Certificates of Deposit** increased ¥204.1 billion from March 31, 2017, to ¥6,067.0 billion.

Asset Quality

- **Risk-Monitored Loan Ratio (Consolidated):** At 1.53% reflecting a reduction in the Bank's nonperforming loans and growth in the balance of unsecured personal loans at subsidiaries with a relatively high risk-monitored loan ratio.
- **Nonperforming Loan (NPL) Ratio based on Financial Revitalization Law (Nonconsolidated):** Remained low at 0.17%.

Risk-Monitored Loan Ratio
NPL Ratio based on Financial Revitalization Law



Review of Fiscal 2017

Summary in Business Segments: Business Portfolio

1. Operating Assets and ALM Assets Balance in Business Segments

Operating assets and ALM assets stood at ¥7.4 trillion.

Corporate Business constitutes businesses for corporate clients, financial institutions and public companies. The business is focused on profitability in its lending business, which resulted in ¥1.6 trillion of the outstanding balance.

Structured Finance includes project finance and real estate finance. Strategic allocation of management resources to growth areas resulted in ¥1.4 trillion of the outstanding balance.

Retail Banking's balance stood at ¥1.3 trillion in housing loan business.

APLUS FINANCIAL is composed of credit card, shopping credit and housing-related loans, etc. The asset balance increased to ¥1.0 trillion.

Unsecured Loans, etc., constitute loan origination by the Shinsei Bank Group and credit guarantee business of regional financial institutions. Strategic allocation of management resources to growth areas resulted in ¥0.5 trillion of the asset balance.

Showa Leasing is composed of leasing assets and loans, etc., and increased to ¥0.5 trillion of the operating assets.

ALM Assets mainly include Japanese government bonds.

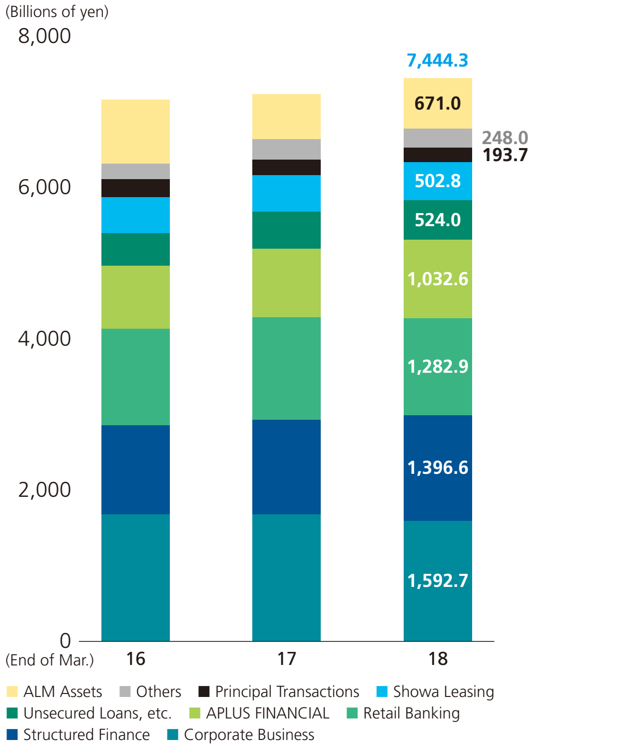
2. Segment Profits (Ordinary Business Profits after Net Credit Costs)

Unsecured Loans increased 38% compared to FY2016, reflecting loan growth.

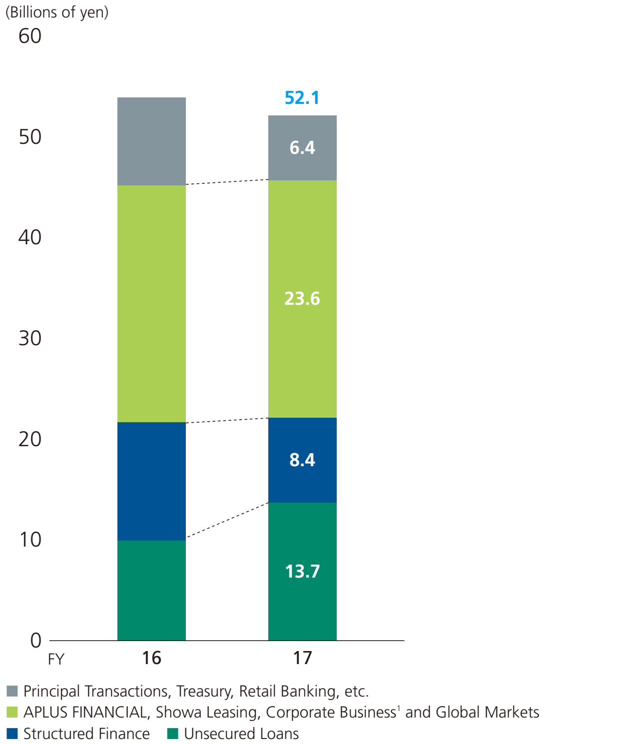
Structured Finance decreased due to an absence of a large gain on sales of securities as recorded in FY2016.

APLUS FINANCIAL, Showa Leasing, Corporate Business and Global Markets recorded stable profits similar to profits recorded in FY2016.

Operating Assets + ALM Assets



Segment Profits (Ordinary Business Profits after Net Credit Costs)

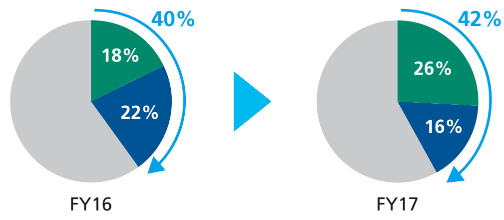


[1] Excluding Corporate Headquarters Account, etc.

3. Growth Areas

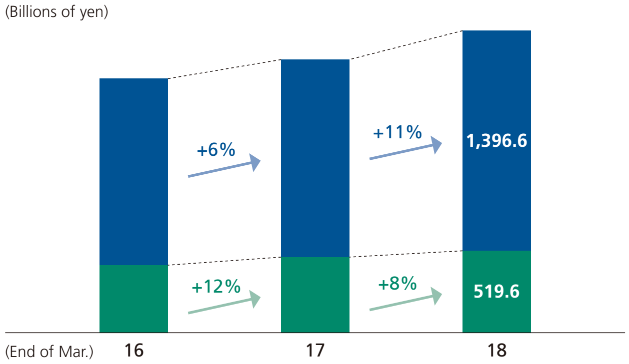
In the growth areas, the unsecured loan balance increased 8%, to ¥519.6 billion at March 31, 2018, and structured finance also grew 11%, to ¥1,396.6 billion at March 31, 2018. These growth areas consist of more than 42% of total profits in fiscal 2017 compared to 40% in FY2016.

Profit Share of Growth Areas



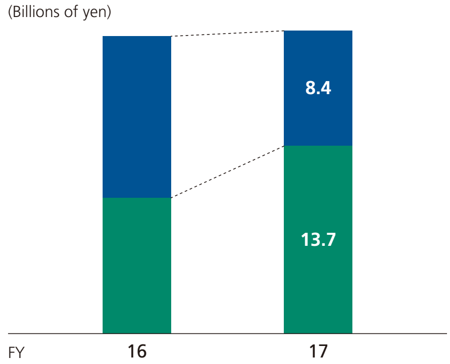
Operating Assets

(Billions of yen)



Profit (Ordinary Business Profit after Net Credit Costs)

(Billions of yen)



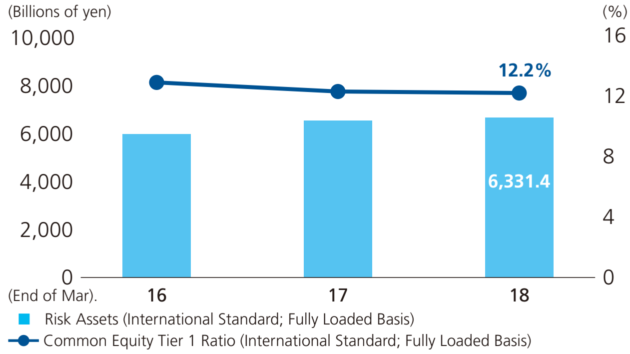
■ **Structured Finance** (Real Estate Finance, Project Finance, Specialty Finance)
■ **Unsecured Loans** (Shinsei Bank Lake, Shinsei Financial, NOLOAN, Credit Guarantees, Shinsei Bank Smart Card Loan Plus)

Capital

The Common Equity Tier 1 Ratio on a fully loaded international standard was 12.2%.

Risk-weighted assets increased due to an increase in operating assets mainly in growth business areas. The capital ratio remains at an ample level.

Common Equity Tier 1 Ratio



Shareholder Return

A total of ¥10 billion in acquisition of treasury shares was executed in 2017, aiming to improve per share value, considering conditions of capital and earnings.

The year-end dividend for FY2017 was ¥10 per share.

In May 2018, a share buyback program up to ¥13 billion or 13 million shares was approved by the Board of Directors. Shareholder return initiatives will result in a total payout ratio of 30% based on the profit attributable to owners of the parent recorded in FY2017.

Total Payout Ratio

(Billions of yen)

FY	14	15	16	17
Total payout (A)	2.6	12.6[1]	12.5	15.5
Profit attributable to owners of the parent (B)	67.8	60.9	50.7	51.4
Total payout ratio (A)/(B)	4%	21%	25%	30%

[1] Excluding ¥2 billion relating to acquisition of treasury shares in order to attain full ownership of Showa Leasing

Glossary

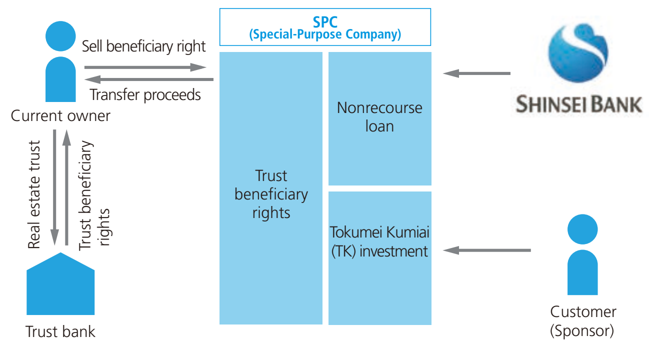
Management/Finance

ESG	An acronym for Environment, Social and Corporate Governance, which refers to perspectives important to the long-term growth and development of a company
Excess Interest Repayment (Kabarai)	Prior to the interest rate reduction implemented as part of the revisions to the Money Lending Business Law, the interest rates on some consumer finance products offered by the Shinsei Bank Group's subsidiaries exceeded the upper limit stipulated by the Investment Law. Following a ruling by the Supreme Court in January 2006, customers who paid more than the upper limit stipulated by the Investment Law have been allowed to request a refund of the extra interest paid. Accordingly, consumer finance companies have recorded reserves in order to cover losses on (grey zone) excess interest repayments.
Net Credit Costs	Net Credit Costs are the sum of reserves for loan losses set aside (credit costs) according to the credit standing of borrowers, write-off (losses), reversal (gains) of reserves for loan losses and recoveries of written-off claims resulting from their disposal.
Ordinary Business Profit (Loss)	Ordinary Business Profit (Loss)—the indicator of profit (loss) from core business after expenses—is calculated by subtracting "expenses" from "total revenue." "Net credit costs" are excluded from this calculation.
RORA	Return on Risk-Weighted Assets—the indicator which shows a profitability based on Risk-Weighted Assets. RORA is calculated as the ratio of its profit attributable to owners of the parent to the total Risk-Weighted Assets at the end of the term.
Tax Haven	Countries or regions where various tax rates such as the corporate tax rate are reduced or completely exempted
Total Return Ratio	The Total Return Ratio shows the magnitude of a company's shareholder returns.
Total Revenue	Total Revenue is composed of "Net interest income" such as interest from loans and "Noninterest income" such as fee income, as indicated by gross profit from core business operations.

Business

Advisory	Shinsei Bank's advisory business proposes solutions to meet customers' diverse needs in areas such as M&A, corporate restructuring and fundraising in Japan and overseas.
Asset Management	In a broad sense, Asset Management refers to Shinsei Bank's overall asset management business, but in a narrower sense it refers to the investment trust business and investment advisory business. Shinsei Bank offers a variety of unique financial products and services for both institutional and individual (including high-net-worth) customers, primarily through the Global Markets Business and the Individual Business (Retail Banking Business).
Business Succession Support	The provision of investments and loans to meet capital requirements for the transfer of shares, etc. to customers considering family members or employees as business successors in order to facilitate the smooth handover of business ownership.

Credit Trading	Credit Trading offers balance sheet optimization solutions, including the purchase of loan receivables from current creditors or an investment in (purchase of) monetary claims held by the customer. Shinsei Bank also invests in monetary claims such as loans and leases sold in the secondary market for non-performing loans, aiming to make profits by securing a greater return than the initial investment through servicing or resale of the receivables.
Derivative	Derivative is a collective term referring to transactions that are derived from or linked to other underlying transactions such as interest rate, bond, foreign exchange and equity transactions. They are also called "financial derivatives" since most of the transactions originate from financial products.
Distribution	Distribution (in the context of the origination-to-distribution model) refers to the business of creating financial instruments out of loans from partners and selling them to investors and regional financial institutions.
Economic Ecosystem	The Economic Ecosystem refers to the entire industry environment and all of its constituent moving parts and their interactions, much like the ecosystems of the natural world.
Fiduciary Duty	The responsibility held by a trustee towards their beneficiary. In finance, this refers to the responsibility that financial institutions have towards their customers and their entrusted assets.
Nonrecourse Loan	Nonrecourse Loans are finances for which repayment is made solely from the cash flows generated from specific businesses or assets (typically, but not always real estate), with no recourse to the sponsor.

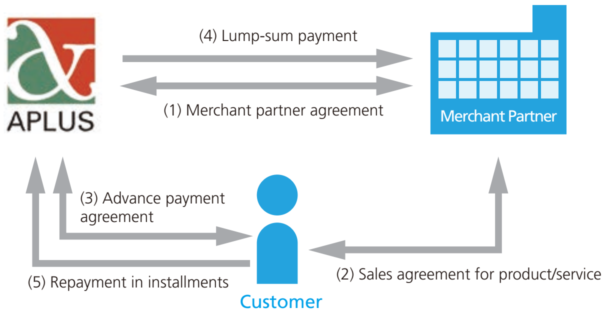


Principal Transactions	Principal Transactions generally refer to a bank's proprietary investments. Shinsei Bank proactively makes proprietary investments in the Credit Trading and Private Equity businesses in order to meet customers' needs for corporate restructuring, business succession and growth funds.
Private Equity	In general, Private Equity refers to privately placed shares and shares that are not traded in stock exchanges or over-the-counter markets. Private equity investments can be classified into venture capital, which are investments in growing companies, and investments to acquire control of mature companies in order to implement restructuring. Shinsei Bank is proactively engaged in venture capital investments, investing in up to 5% of total shares with representative rights of customers planning a public share offering as well as making buyout investments related to business divestments from mature companies.
Project Finance	Project Finance refers to loans to finance specific projects for which the principal source of repayment is the cash flow generated from the project itself. Project Finance is often used for medium-to-long term projects in energy, natural resources and infrastructure.

Glossary

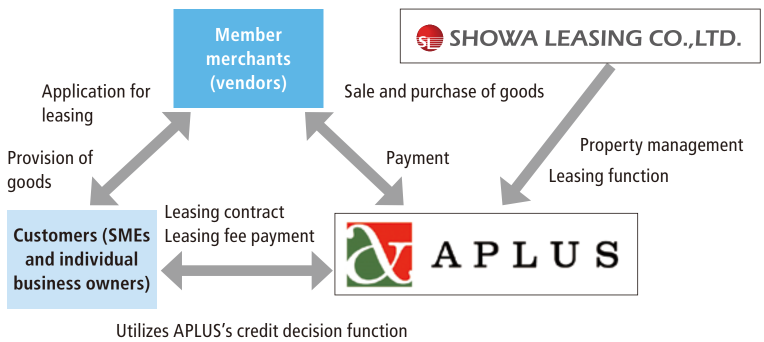
RPA (Robotic Process Automation)	RPA refers to technology that allows for the streamlining and automation of the simple tasks of mainly white-collar labor.
Shopping Credit	Shopping Credit is a service that allows customers to pay for goods or services in installments without using a credit card. The Shinsei Bank Group offers this service primarily through APLUS.

Shopping Credit System



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

Specialty Finance	Specialty Finance at Shinsei Bank refers to M&A finance, LBO finance and other types of finance that focus on the cash flows and value generated by businesses and assets. It is a type of structured finance.
Structured Finance	Structured Finance refers to finance requiring special structures. In general, it takes the form of project finance or non-recourse finance which focuses on the cash flows or value generated by a specific project or asset. Shinsei Bank is primarily active in real estate finance, project finance, M&A finance and corporate restructuring finance.
Syndicated Loan	Syndicated Loans are loans provided jointly by a syndication of multiple financial institutions (lender group) based on a single loan agreement.
Unsecured Loan	A type of loan/product offered by financial institutions such as banks and consumer finance companies that enables a consumer to borrow without security.
Vendor Lease	Vendor Lease refers to providing leased properties to SME and individual business owners through APLUS member merchants (vendors).



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

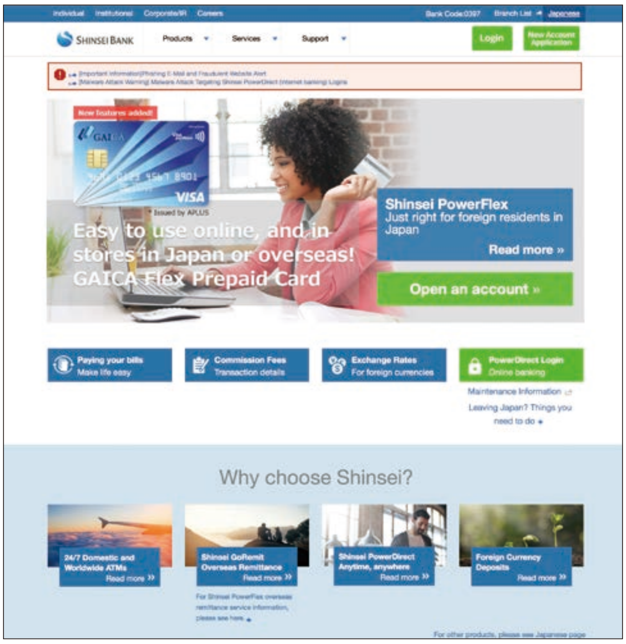
Risk

ALM (Asset Liability Management)	ALM refers to the comprehensive management of the market and liquidity risks that exist in the Bank's balance sheet (i.e., assets and liabilities) as a result of its business operations. ALM aims to optimize interest rate income from the Bank's balance sheet and economic value by monitoring interest rate conditions and asset/liability duration, including off-balance items such as derivatives on the Bank's account, and adjusting for risks in assets/liabilities and derivatives transactions in consideration of the change in value of assets, liabilities and periodic profits or losses due to market fluctuations.
Backtest	It is the process of verifying the trading performance based on an historical rate or a fixed condition for share trading and currency trading.
Basel Regulations	Basel Regulations are regulations based on an international agreement in relation to such areas as the capital adequacy ratio of banks. Shinsei Bank calculates the capital adequacy ratio in accordance with the Japanese standards outlined by the Financial Services Agency.
Expected Loss	It is the average amount of loss expected in relation to portfolio loans and is used as a provision for unrecoverable debt over a fixed period of time.
Exposure	Exposure refers to an amount of assets or an amount of money that is exposed to foreign exchange, price fluctuations or other risks as a result of loans and investments.
Portfolio	A Portfolio refers to a group of various components. An asset portfolio, for example, refers to a collection of various assets such as real estate, cash deposits and equities.
Risk Appetite	The type and amount of risk that must be taken on to achieve management plans.
Risk Profile	The Risk Profile describes the characteristics of risks taken on.
Risk-Weighted Assets	Risk-Weighted Assets are calculations to regulate the volume of "credit risk" and "market risk" of the Bank's assets/transactions and "operational risk" involving operational errors.
Stress Testing	As preparation for unforeseen circumstances in financial markets, Stress Testing employs a statistical approach to simulate economic and other losses. Stress Testing is used in such instances as the verification of business plans based on unique scenarios projected by the Bank.
Trading Book	The Trading Book facilitates trade that takes advantage of short-term fluctuations in such areas as interest rates, foreign exchange rates and share prices.
Treasury	Treasury is normally the function in a company which is responsible for ALM (asset and liability management). At Shinsei Bank, Treasury basically refers to the function responsible for cash flow management including collateral management, transactions through transfer pricing (FTP, the inter-office fund transfer price), issuance or buyback of (subordinated) corporate bonds, liquidity planning, management of overseas subsidiaries that issue capital securities as well as ALM for the entire Group.
Unexpected Loss	It is the difference resulting from subtracting the expected loss from the maximum loss expected to occur based on a set probability across multiple portfolio loans.
Value at Risk (VaR)	The VaR of a held position for a fixed period of time describes the maximum loss expected within a given probability range through normal price fluctuation.

Websites

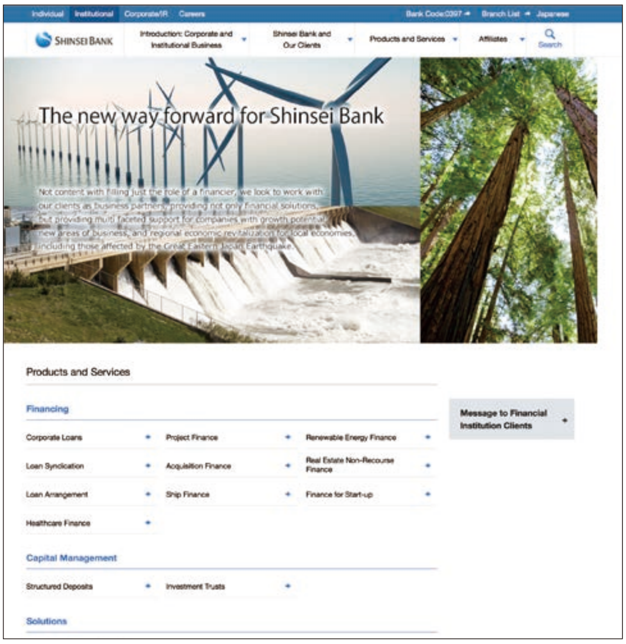
Our English and Japanese websites provide a wide range of corporate data as well as information for individual and institutional customers and investors.

Individual



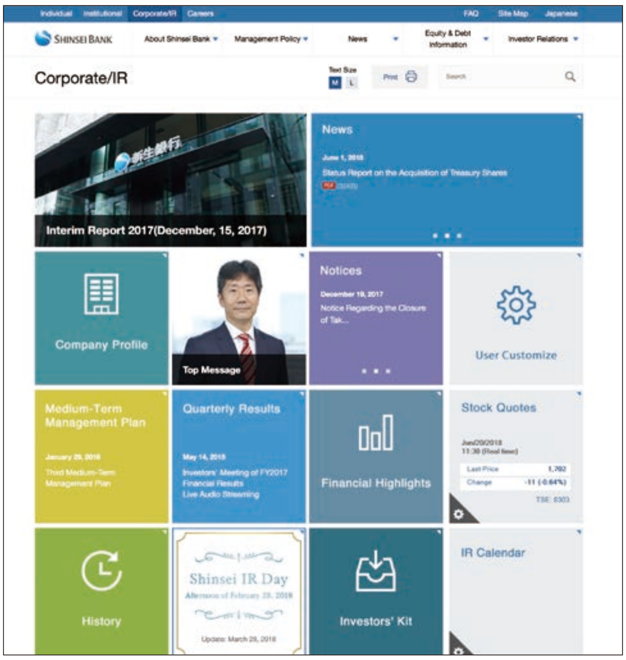
http://www.shinseibank.com/english/

Institutional



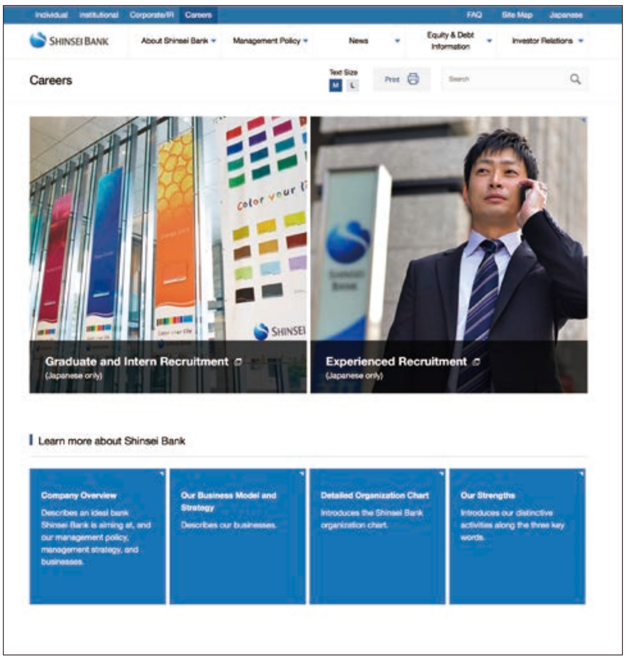
http://www.shinseibank.com/institutional/en/

Corporate/IR



http://www.shinseibank.com/corporate/en/

Career



http://www.shinseibank.com/corporate/en/recruit

Data Section

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

Except for where the context indicates otherwise, words such as "we" or "our" indicates Shinsei Bank, Limited and its subsidiaries and affiliates accounted for by the equity-method, and "Shinsei" or the "Bank" refers to Shinsei Bank, Limited alone.

The following discussion should be read in conjunction with our consolidated and nonconsolidated financial statements prepared in accordance with generally accepted accounting principles in Japan ("Japanese GAAP") for banks, including the notes to those financial statements, included elsewhere in this annual report. Unless otherwise indicated, the financial information in the following discussion is based on our consolidated financial statements.

The following discussion contains forward-looking statements regarding the intent, belief or current expectations of the Bank's management with respect to our financial condition and future results of operations. In many cases, but not all, words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "probability," "risk" and similar expressions are used in relation to the Bank or its management to identify forward-looking statements. These statements reflect our current views with respect to future events and are subject to risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those we currently anticipate or target. We do not intend to update these forward-looking statements.

Regarding financial figures, amounts of less than 0.1 billion yen have been rounded down to the nearest 0.1 billion yen, respectively except for per share data and percentage data. As a result, the totals in yen do not necessarily equal the sum of the individual amounts. In addition, percentages have been rounded to the nearest tenth or hundredth.

Fiscal year 2017 refers to the consolidated accounting period from April 1, 2017 to March 31, 2018 and other fiscal years are also stated in the same manner.

Additionally, "this fiscal year" refers to fiscal year 2017.

OVERVIEW

Shinsei Bank, Limited is a diversified Japanese financial institution providing a range of financial products and services to both institutional and individual customers. Our business is organized around three business groups: the Institutional Business, the Global Markets Business and the Individual Business.

- Regarding businesses serving institutional clients, in order to provide financial products and services that meet the needs of our institutional customers through a strategic and systematic business promotion structure, the Institutional Business engages in the finance and advisory businesses primarily catering to corporations, public corporations and financial institutions, and the Global Markets Business engages in the various financial markets businesses. The Institutional Business consists of these businesses promoted through the Bank and Showa Leasing Co., Ltd. (Showa Leasing).
- The Individual Business consists of the retail banking and the consumer finance businesses. In the retail banking business, the Bank engages in the provision of services to meet the needs of its individual customers. In the consumer finance business, the Bank engages in the provision of unsecured personal loans through the Bank itself, Shinsei Financial Co., Ltd. (Shinsei Financial) and Shinsei Persnal Loan Co., Ltd. (Shinsei Personal Loan) and through APLUS FINANCIAL Co., Ltd. (APLUS FINANCIAL) the Bank engages in the installment sales credit, credit card and settlement businesses.

FINANCIAL SUMMARY FOR THE FISCAL YEAR ENDED MARCH 31, 2018

In the fiscal year ended March 31, 2018, the Shinsei Bank Group recorded consolidated profit attributable to owners of the parent of ¥51.4 billion, increased ¥0.6 billion compared to the ¥50.7 billion recorded in the previous fiscal year. Total revenue increased thanks to strong performances in our major business areas including an increase in loan balances in the unsecured loan and the structured finance businesses, which are growth areas. Net credit costs increased in conjunction with the occurrence of specific loan loss provisions in the Institutional Business and the increase in the loan balance in the consumer finance business. However, consolidated profit attributable to owners of the parent increased from the previous fiscal year as a result of the posting of gains on the reversal of interest repayment loss reserves and other factors.

Total revenue was ¥232.0 billion, a ¥3.5 billion increase compared to fiscal year 2016. Of this amount, net interest income totaled ¥128.7 billion, increased ¥6.4 billion compared to net interest income totaling ¥122.2 billion in fiscal year 2016. This increase was due to loan growth of consumer finance, including unsecured loans. Noninterest income totaled ¥103.2 billion, decreased ¥2.9 billion compared to noninterest income totaling ¥106.2 billion recorded in fiscal year 2016. In fiscal year 2017, despite

OVERVIEW (continued)

the posting of gains on the sale of equities in the Corporate Business and at Showa Leasing, as well as the gain on investment in equity-method affiliates in the Principal Transactions Business and the increase of fee income from Corporate Business, there was a greater impact from the non-recurrence of large gains on the sale of investment securities in structured finance posted in the previous fiscal year, the reduction in gains on sales of bonds in ALM operations as well as the decrease in fee income from the sale of asset management products in the retail banking business, along with other factors.

General and administrative expenses excluding amortization of goodwill and intangible assets was ¥142.9 billion in the fiscal year ended March 31, 2018, decreased from ¥144.2 billion recorded in the previous fiscal year. While there were expense increases for bolstering the business base, including for IT systems and advertising, efforts were made to gradually reduce personnel expenses and other costs in association with the productivity reform project.

Net credit costs totaled ¥37.2 billion in the fiscal year ended March 31, 2018, increased ¥5.3 billion compared to net credit costs of ¥31.8 billion recorded in fiscal year 2016. This was due largely to the provisioning of general reserves for loan losses on specific loans in the Institutional Business and the increase in the overall loan balance of the consumer finance business, including unsecured loans.

Regarding reserves for losses on interest repayments, total additional reserves of ¥5.1 billion were provisioned in fiscal year 2016, while in the fiscal year ended March 31, 2018, ¥6.0 billion of reversal gains were recorded.

The balance of loans and bills discounted as of March 31, 2018 totaled ¥4,895.9 billion, increased ¥62.5 billion compared to ¥4,833.4 billion as of March 31, 2017. While the balance of loans to institutional clients and housing loan has declined, this growth in the overall balance was supported by the increase of the Structured Finance and Consumer Finance Business loan balances.

A net interest margin of 2.42% was recorded for fiscal year 2017, increased from 2.41% recorded for fiscal year 2016. While there was an increase in the yield on interest-bearing liabilities in conjunction with swap interest payments, there was also an increase in the loan balance in the consumer finance business and a rise in the yield on interest-earning assets in conjunction with the increase in the yield on investment securities.

The Basel III domestic standard (grandfathering basis) consolidated core capital adequacy ratio as of March 31, 2018 was 12.83%, compared to 13.06% as of March 31, 2017. This was due to the increase in risk assets due to the increase of loan balance. The Bank's Basel III international standard (fully loaded basis) Common Equity Tier 1 Ratio was at 12.2% as of March 31, 2018, compared to 12.3% at March 31, 2017. Capital adequacy ratios continue to be maintained at adequate levels.

The nonperforming loan balance (nonconsolidated basis) under the Financial Revitalization Law decreased ¥1.9 billion during fiscal year 2017 to ¥8.3 billion as of March 31, 2018. Additionally, the proportion of nonperforming claims to the overall loan balance was 0.17% as of March 31, 2018, compared to 0.22% as of March 31, 2017, and remained at a low level.

SIGNIFICANT EVENTS

REALIGNMENT OF GROUP COMPANIES

Shinsei Bank realigned the Shinsei Principal Investments Group, by merging the Shinsei Bank Group's servicer businesses as well as real estate secured loan businesses. In details, On October 1, 2017, Shinsei Bank merged Alpha Servicer Co., Ltd., which is primarily engaged in the business of servicing small loans to individual borrowers with Shinsei Servicing & Consulting Limited, which focuses on servicing non-performing loans and commercial secured loans. At the same time, on October 1, 2017, Shinsei Investment & Finance Limited and Shinsei Property Finance Co., Ltd., which have high affinity in the real estate-backed loans business, and Shinsei Principal Investments Ltd., which manages the administrative work of the Shinsei Principal Investments Group, were merged, with the legal name of the company becoming Shinsei Investment & Finance Limited after the merger.

BUYBACK OF SHARES

Shinsei Bank purchased shares as below based on buyback resolutions approved at meetings of the Board of Directors. With these purchases, the authorized buybacks have been completed.

- 5,969,700 shares for ¥9,999 million from market at the Tokyo Stock Exchange during a period from February 1, 2018 to March 22, 2018.

SELECTED FINANCIAL DATA (CONSOLIDATED)

Shinsei Bank, Limited and its Consolidated Subsidiaries
As of or for the fiscal years ended March 31, 2018, 2017, 2016, 2015 and 2014

	Billions of yen (except for per share data and percentages)				
	2018	2017	2016	2015	2014
Statements of income data:					
Net interest income	**¥ 128.7**	¥ 122.2	¥ 122.3	¥ 126.4	¥ 110.5
Net fees and commissions	**25.0**	25.5	25.4	24.6	22.4
Net trading income	**8.5**	7.3	8.4	11.5	13.9
Net other business income	**69.6**	73.3	60.3	72.6	56.1
Total revenue	**232.0**	228.5	216.6	235.3	203.0
General and administrative expenses	**142.9**	144.2	141.3	144.2	135.0
Amortization of goodwill and intangible assets acquired in business combinations	**3.9**	5.2	7.4	8.6	9.7
Total general and administrative expenses	**146.9**	149.4	148.7	152.8	144.8
Net credit costs	**37.2**	31.8	3.7	11.8	0.2
Net business profit after net credit costs	**47.7**	47.1	64.0	70.5	57.9
Other gains (losses), net	**7.6**	4.6	(1.2)	2.1	(11.9)
Income before income taxes	**55.4**	51.7	62.8	72.7	46.0
Current income taxes	**1.2**	2.1	1.9	2.4	2.4
Deferred income taxes (benefit)	**2.5**	(0.9)	(0.5)	0.9	(0.7)
Profit (loss) attributable to noncontrolling interests	**0.1**	(0.2)	0.3	1.5	2.9
Profit (loss) attributable to owners of the parent	**¥ 51.4**	¥ 50.7	¥ 60.9	¥ 67.8	¥ 41.3
Balance sheet data:					
Trading assets	**¥ 205.2**	¥ 244.1	¥ 336.3	¥ 317.3	¥ 249.1
Securities	**1,123.5**	1,014.6	1,227.8	1,477.3	1,557.0
Loans and bills discounted	**4,895.9**	4,833.4	4,562.9	4,461.2	4,319.8
Customers' liabilities for acceptances and guarantees	**395.3**	346.6	280.6	291.7	358.4
Reserve for credit losses	**(100.8)**	(100.1)	(91.7)	(108.2)	(137.3)
Total assets	**9,456.6**	9,258.3	8,928.7	8,889.8	9,321.1
Deposits, including negotiable certificates of deposit	**6,067.0**	5,862.9	5,800.9	5,452.7	5,850.4
Trading liabilities	**184.5**	212.2	294.3	267.9	218.5
Borrowed money	**739.5**	789.6	801.7	805.2	643.4
Acceptances and guarantees	**395.3**	346.6	280.6	291.7	358.4
Total liabilities	**8,600.6**	8,437.5	8,135.6	8,136.0	8,598.5
Common stock	**512.2**	512.2	512.2	512.2	512.2
Total equity	**856.0**	820.7	793.1	753.7	722.5
Total liabilities and equity	**¥ 9,456.6**	¥ 9,258.3	¥ 8,928.7	¥ 8,889.8	¥ 9,321.1
Per share data[1]:					
Common equity[2]	**¥3,376.39**	¥3,163.89	¥ 294.41	¥ 275.45	¥ 247.82
Basic earnings per share	**199.01**	194.65	22.96	25.57	15.59
Diluted earnings per share	**198.98**	194.64	22.96	–	15.59
Capital adequacy data:					
Capital ratio (Basel lll, Domestic Standard)	**12.8%**	13.1%	14.2%	14.9%	13.6%
Total capital adequacy ratio (Basel ll)	**–**	–	–	–	13.8%
Tier I capital ratio (Basel ll)	**–**	–	–	–	12.2%
Average balance data:					
Securities	**¥ 1,109.1**	¥ 1,116.3	¥ 1,336.9	¥ 1,604.9	¥ 1,892.7
Loans and bills discounted	**4,903.7**	4,679.1	4,434.2	4,326.8	4,241.5
Total assets	**9,357.4**	9,093.5	8,909.3	9,105.5	9,175.2
Interest-bearing liabilities	**7,521.0**	7,283.4	7,142.7	7,346.4	7,465.5
Total liabilities	**8,519.0**	8,286.6	8,135.9	8,367.3	8,472.1
Total equity	**838.4**	806.9	773.4	738.2	703.1
Other data:					
Return on assets	**0.5%**	0.6%	0.7%	0.7%	0.5%
Return on equity[2]	**6.1%**	6.3%	8.1%	9.8%	6.5%
Ratio of deposits, including negotiable certificates of deposit, to total liabilities	**70.5%**	69.5%	71.3%	67.0%	68.0%
Expense-to-revenue ratio[3]	**61.6%**	63.1%	65.3%	61.3%	66.5%
Nonperforming claims, nonconsolidated	**¥ 8.3**	¥ 10.3	¥ 34.7	¥ 60.9	¥ 164.7
Ratio of nonperforming claims to total claims, nonconsolidated	**0.2%**	0.2%	0.8%	1.4%	3.8%

1 Shinsei Bank executed a 1-for-10 reverse stock split on October 1, 2017. The above Per share data is calculated as if the reverse stock split had been implemented at the beginning of the fiscal year ended March 31, 2017.
2 Stock acquisition rights and noncontrolling interests are excluded from equity.
3 The expense-to-revenue ratio is calculated by dividing general and administrative expenses by total revenue.

RESULTS OF OPERATIONS (CONSOLIDATED)

NET INTEREST INCOME

Net interest income was ¥128.7 billion in fiscal year 2017, increased ¥6.4 billion from ¥122.2 billion recorded in fiscal year 2016. This was mainly due to a boost from loan growth, including unsecured loans at the consumer finance business and other factors.

NET REVENUE ON INTEREST-EARNING ASSETS

The table below shows the principal components of net revenue on interest-earning assets.

TABLE 1. INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES (CONSOLIDATED)

Billions of yen (except Yield/Rate)

	2018			2017		
Fiscal years ended March 31	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Interest-earning assets:						
Loans and bills discounted	¥ 4,903.7	¥ 134.8	2.75%	¥ 4,679.1	¥ 127.4	2.72%
Lease receivables and leased investment assets/ installment receivables	746.6	37.0	4.96	737.6	38.6	5.24
Securities	1,109.1	11.7	1.06	1,116.3	8.9	0.81
Other interest-earning assets[1]	162.1	1.9	n.m.[3]	185.9	2.0	n.m.[3]
Total revenue on interest-earning assets (A)	¥ 6,921.7	¥ 185.5	2.68%	¥ 6,719.0	¥ 177.1	2.64%
Interest-bearing liabilities:						
Deposits, including negotiable certificates of deposit	¥ 5,965.9	¥ 9.0	0.15%	¥ 5,846.4	¥ 7.8	0.13%
Borrowed money	715.0	3.4	0.49	735.8	3.4	0.46
Subordinated debt	12.4	0.2	2.37	19.6	0.5	2.65
Other borrowed money	702.6	3.1	0.45	716.1	2.8	0.40
Corporate bonds	98.1	0.9	0.97	109.3	1.1	1.03
Subordinated bonds	28.6	0.6	2.43	31.5	0.7	2.51
Other corporate bonds	69.5	0.2	0.37	77.7	0.3	0.43
Other interest-bearing liabilities[1]	741.7	6.2	n.m.[3]	591.8	3.8	n.m.[3]
Total expense on interest-bearing liabilities (B)	¥ 7,521.0	¥ 19.7	0.26%	¥ 7,283.4	¥ 16.2	0.22%
Net interest margin (A) - (B)	–	165.8	2.42%	–	160.9	2.41%
Non interest-bearing sources of funds:						
Non interest-bearing (assets) liabilities, net	¥ (1,436.1)	–	–	¥ (1,365.1)	–	–
Total equity excluding noncontrolling interest[2]	836.8	–	–	800.6	–	–
Total non interest-bearing sources of funds (C)	¥ (599.3)	–	–	¥ (564.4)	–	–
Total interest-bearing liabilities and non interest-bearing sources of funds (D) = (B)+(C)	¥ 6,921.7	¥ 19.7	0.29%	¥ 6,719.0	¥ 16.2	0.24%
Net revenue on interest-earning assets/ yield on interest-earning assets (A) - (D)	–	¥ 165.8	2.40%	–	¥ 160.9	2.40%
Reconciliation of total revenue on interest-earning assets to total interest income						
Total revenue on interest-earning assets	¥ 6,921.7	¥ 185.5	2.68%	¥ 6,719.0	¥ 177.1	2.64%
Less: Income on lease transactions and installment receivables	746.6	37.0	4.96	737.6	38.6	5.24
Total interest income	¥ 6,175.0	¥ 148.5	2.40%	¥ 5,981.4	¥ 138.4	2.32%
Total interest expenses	–	19.7	–	–	16.2	–
Net interest income	–	¥ 128.7	–	–	¥ 122.2	–

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

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

Net interest income presented in the preceding table includes income on lease receivables, leased investment assets and installment receivables in addition to net received interest. However, while the Bank considers income on lease assets and installment receivables to be a component of net interest income, Japanese GAAP does not include income on lease transactions and installment receivables as eligible components of net interest income. As a result, the Bank reports income on lease transactions and installment receivables in net other business income in its consolidated statements of income in conformity with Japanese GAAP.

A net interest margin of 2.42% was recorded in fiscal year 2017, increased from 2.41% recorded in fiscal year 2016. This was primarily the effect of an increase the yield on interest-earning assets such as securities and loans increased from 2.64% to 2.68%, while in the yield on interest-bearing liabilities from 0.22% to 0.26%. Net interest income including income on leasing and installment receivables for fiscal year 2017 was ¥165.8 billion, increased from ¥160.9 billion in the previous fiscal year. This increase reflects an increase in total interest revenue recorded from interest earnings assets from ¥177.1 billion recorded in fiscal year 2016 to ¥185.5 billion recorded in fiscal year 2017, exceeding the increase in interest expenses incurred on interest bearing liabilities from ¥16.2 billion recorded in fiscal year 2016 to ¥19.7 billion recorded in the fiscal year ended March 31, 2018.

NET FEES AND COMMISSIONS

Net fees and commissions consists mainly of fee income associated with sales of products such as mutual funds and insurance products, fee income associated with the credit guarantee and credit card business in the consumer finance business, fee income associated with lending business such as real estate finance and project finance. Net fees and commissions totaled ¥25.0 billion in fiscal year 2017, decreased from ¥25.5 billion recorded in the fiscal year ended March 31, 2017. This reduction was the result of a decline in fee income on the sale of asset management products in the Retail Banking Business, despite the increase in guarantee income for Shinsei Financial, as well as continued strong fee income in the structured finance business, particularly for project finance.

NET TRADING INCOME

The following table presents the principal components of net trading income.

TABLE 2. NET TRADING INCOME (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2018**	2017	Change (Amount)
Income from trading securities	**¥ 3.8**	¥ 2.9	¥ 0.9
Income from securities held to hedge trading transactions	**0.0**	0.0	(0.0)
Income from trading-related financial derivatives	**4.6**	4.3	0.2
Other, net	**0.0**	0.0	0.0
Net trading income	**¥ 8.5**	¥ 7.3	¥ 1.1

Net trading income consists of revenue from derivatives associated with transactions with customers as well as revenue from proprietary trading performed by the Bank. Net trading income of ¥8.5 billion for the fiscal year 2017, increased ¥7.3 billion in the previous fiscal year.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

NET OTHER BUSINESS INCOME

The following table presents the principal components of net other business income.

TABLE 3. NET OTHER BUSINESS INCOME (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2018**	2017	Change (Amount)
Net gain on monetary assets held in trust	**¥ 2.7**	¥ 3.9	¥ (1.1)
Net gain on foreign exchanges	**9.4**	10.4	(0.9)
Net gain on securities	**9.9**	13.2	(3.3)
Net gain on other monetary claims purchased	**1.1**	3.0	(1.8)
Other, net:	**9.2**	4.1	5.1
Income (loss) from derivatives entered into for banking purposes, net	**(0.0)**	(1.0)	1.0
Equity in net income of affiliates	**5.1**	2.8	2.3
Gain on lease cancellation and other lease income, net	**2.1**	1.3	0.7
Other, net	**2.0**	1.0	0.9
Net other business income before income on lease transactions and installment receivables, net	**32.6**	34.7	(2.0)
Income on lease transactions and installment receivables, net	**37.0**	38.6	(1.6)
Net other business income	**¥ 69.6**	¥ 73.3	¥ (3.7)

Net other business income recorded in the fiscal year ended March 31, 2018 totaled ¥69.6 billion, decreased from ¥73.3 billion recorded in the fiscal year ended March 31, 2017. This reflected the non-recurrence in large gains booked on sales of investment securities in the Structured Finance Business in the previous fiscal year, as well as a decrease in gains on bonds in treasury operations, despite there were increases in a gain on the sale of equities and revenues from equity method investment in affiliated companies.

TOTAL REVENUE

As a result of the preceding factors, total revenue in fiscal year 2017 was ¥232.0 billion, as compared to ¥228.5 billion in the previous fiscal year.

GENERAL AND ADMINISTRATIVE EXPENSES

The following table presents the principal components of general and administrative expenses.

TABLE 4. GENERAL AND ADMINISTRATIVE EXPENSES (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2018**	2017	Change (Amount)
Personnel expenses	**¥ 56.2**	¥ 56.6	¥ (0.3)
Premises expenses	**20.0**	21.0	(1.0)
Technology and data processing expenses	**20.8**	20.1	0.6
Advertising expenses	**11.0**	10.4	0.6
Consumption and property taxes	**9.3**	10.1	(0.7)
Deposit insurance premium	**1.7**	2.0	(0.2)
Other general and administrative expenses	**23.6**	23.7	(0.1)
General and administrative expenses	**142.9**	144.2	(1.2)
Amortization of goodwill and intangible assets acquired in business combinations	**3.9**	5.2	(1.2)
Total general and administrative expenses	**¥ 146.9**	¥ 149.4	¥ (2.5)

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

General and administrative expenses excluding amortization of goodwill and intangible assets was ¥142.9 billion in the fiscal year ended March 31, 2018, decreased from ¥144.2 billion recorded in the previous fiscal year 2016. Personnel expenses declined from ¥56.6 billion recorded in the fiscal year ended March 31, 2017, to ¥56.2 billion in the fiscal year ended March 31, 2018. While the Bank has increased personnel in strategic focus business areas where it seeks to expand its customer base and enhance profitability, expenses were reduced through the promotion of operational efficiency.

Nonpersonnel expenses of ¥86.7 billion were recorded in fiscal year 2017, decreased from ¥87.6 billion in the previous fiscal year. The Bank allocated the resources necessary to grow our business base while exercising strict controls in the continued pursuit of operational rationalization across all businesses. The Bank's performances in the major components of nonpersonnel expenses were as follows: 1) While having continued to improve operational efficiency, premises expenses totaled ¥20.0 billion in the fiscal year ended March 31, 2018, decreased from ¥21.0 billion recorded in the previous fiscal year, due to revisions to the years of useful life of some assets; 2) Technology and data processing expenses totaled ¥20.8 billion in the fiscal year ended March 31, 2018, increased from ¥20.1 billion recorded in the fiscal year ended March 31, 2017, as investment for the stabilization of our systems continued; 3) As a result of the continued implementation of advertising activities in order to expand our customer base, advertising expenses increased from ¥10.4 billion recorded in the fiscal year ended March 31, 2017, to ¥11.0 billion in the fiscal year ended March 31, 2018; 4) Consumption and property tax expenses of ¥9.3 billion, decreased from ¥10.1 billion in the previous fiscal year due primarily to the effects of pro-forma standard taxation; 5) Deposit insurance premium totaled ¥1.7 billion in the fiscal year ended March 31, 2018, decreased compared to ¥2.0 billion recorded in the fiscal year ended March 31, 2017, as there was a change in the insurance premium rate, the basis for calculating premiums; and 6) Other general and administrative expenses totaled ¥23.6 billion, in line with the sum recorded in the previous fiscal year.

AMORTIZATION OF GOODWILL AND INTANGIBLE ASSETS ACQUIRED IN BUSINESS COMBINATIONS

Amortization of goodwill and intangible assets acquired in business combinations associated with the acquisition of consumer finance and commercial finance subsidiaries totaled ¥3.9 billion in fiscal year 2017, compared to ¥5.2 billion in the previous fiscal year. This reduction is attributable to factors such as the utilization of the sum-of-the-years' digits method in recording amortization of goodwill and intangible assets acquired in business combinations related to Shinsei Financial.

TABLE 5. AMORTIZATION OF GOODWILL AND INTANGIBLE ASSETS ACQUIRED IN BUSINESS COMBINATIONS (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2018**	2017	Change (Amount)
Shinsei Financial	**¥ 1.9**	¥ 3.0	¥ (1.0)
Shinsei Personal Loan	**(0.3)**	(0.3)	–
Showa Leasing	**2.4**	2.5	(0.1)
Others	**(0.0)**	(0.0)	–
Amortization of goodwill and intangible assets acquired in business combinations	**¥ 3.9**	¥ 5.2	¥ (1.2)

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

NET CREDIT COSTS

The following table presents the principal components of net credit costs.

TABLE 6. NET CREDIT COSTS (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2018**	2017	Change (Amount)
Losses on write-off or sales of loans	**¥ 0.5**	¥ 2.4	¥ (1.9)
Net provision (reversal) of reserve for loan losses:			
Net provision (reversal) of general reserve for loan losses	**28.0**	21.8	6.1
Net provision (reversal) of specific reserve for loan losses	**14.9**	12.7	2.2
Net provision (reversal) of reserve for loan losses to restructuring countries	**(0.0)**	(0.0)	0.0
Subtotal	**43.0**	34.6	8.4
Net provision (reversal) of specific reserve for other credit losses	**–**	0.2	(0.2)
Other credit costs (recoveries) relating to leasing business	**0.6**	(0.0)	0.7
Recoveries of written-off claims	**(6.9)**	(5.3)	(1.6)
Net credit costs (recoveries)	**¥ 37.2**	¥ 31.8	¥ 5.3

The principal components of net credit costs are provisions and reversals of reserves for loan losses. In accordance with Japanese GAAP, the Bank maintains general and specific reserves for loan losses, specified reserves for loans losses to restructuring countries as well as a specific reserve for other credit losses. Subsidiaries such as Shinsei Financial, APLUS FINANCIAL, Shinsei Personal Loan and Showa Leasing also maintain general and specific reserves for loan losses.

In the fiscal year ended March 31, 2018, the Bank recorded net credit costs totaling ¥37.2 billion, increased from ¥31.8 billion recorded in the fiscal year ended March 31, 2017. This increase is largely attributable to the provisioning of specific reserves for loan losses in the Institutional Business, as well as in conjunction with the growth of the loan balance of the consumer finance business, including unsecured loans.

Recoveries of written-off claims totaled ¥6.9 billion in fiscal year 2017, increased compared to ¥5.3 billion recorded in fiscal year 2016. Major components of the ¥6.9 billion of recoveries recorded in the fiscal year ended March 31, 2018 included ¥1.3 billion in Shinsei Bank on a nonconsolidated basis and ¥5.3 billion in Shinsei Financial. It should be noted that excluding recoveries of written-off claims, net credit costs recorded in fiscal year 2017 totaled ¥44.2 billion, increased compared to ¥37.2 billion recorded in fiscal year 2016.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

OTHER GAINS (LOSSES), NET

The following table presents the principal components of other gains (losses).

TABLE 7. OTHER GAINS (LOSSES), NET (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2018**	2017	Change (Amount)
Net gain (loss) on disposal of premises and equipment	**¥ 0.5**	¥ (0.2)	¥ 0.7
Gains on write-off of unclaimed debentures	**3.1**	2.8	0.3
Provision for reimbursement of debentures	**(1.2)**	(1.0)	(0.1)
Gains on write-off of unclaimed deposits	**0.4**	1.2	(0.8)
Gains on sale of nonperforming loans	**–**	1.8	(1.8)
Gain on purchase of loans	**–**	4.2	(4.2)
Gain on liquidation of subsidiaries	**–**	1.2	(1.2)
Loss on liquidation of subsidiaries	**(0.0)**	(0.1)	0.1
Loss on liquidation of affiliates	**–**	(0.5)	0.5
Reversal (provision) of reserve for losses on interest repayments	**6.0**	(5.1)	11.2
Gain on sale of investments in subsidiaries	**–**	0.2	(0.2)
Loss on sale of investments in subsidiaries	**–**	(0.1)	0.1
Impairment losses on long-lived assets	**(1.8)**	(0.4)	(1.3)
Loss on change in equity of affiliates	**(0.2)**	–	(0.2)
Gains on unexercised and forfeited stock acquisition rights	**0.2**	–	0.2
Other, net	**0.3**	0.6	(0.2)
Total	**¥ 7.6**	¥ 4.6	¥ 3.0

Other net gains totaled ¥7.6 billion in the fiscal year ended March 31, 2018. With respect to reserves for losses on interest repayments, Shinsei Financial reversed ¥11.8 billion, whereas Shinsei Personal Loan and APLUS FINANCIAL made provisions of additional reserves totaling ¥2.7 billion and ¥3.0 billion, respectively.

INCOME BEFORE INCOME TAXES

As a result of the preceding factors income before income taxes totaled ¥55.4 billion for fiscal year 2017, compared to ¥51.7 billion in the previous fiscal year.

TAX EXPENSE (BENEFIT)

Current taxes, including corporate tax, residency tax and business tax, and deferred taxes, totaled a net expense of ¥3.8 billion for fiscal year 2017, compared to a net expense of ¥1.2 billion in the previous fiscal year. In fiscal year 2017, current tax expense totaled ¥1.2 billion and deferred tax expense totaled ¥2.5 billion. In the previous fiscal year, current tax expense totaled ¥2.1 billion and deferred tax benefit totaled ¥0.9 billion.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

As a result of the preceding factors, in fiscal year 2017, we recorded a consolidated profit attributable to owners of the parent of ¥51.4 billion, increased from ¥50.7 billion in the previous fiscal year.

RECONCILIATION OF REPORTED-BASIS RESULTS AND OPERATING-BASIS RESULTS

In addition to analyzing our results of operations in the format used for our English version annual report financial statements, which we refer to as the "reported-basis" results, our management also monitors our "operating-basis" results in order to assess individual business lines and evaluate achievements against targeted goals. Operating-basis results are calculated by adjusting the reported-basis results, with adjustments primarily made for the amortization of goodwill and intangible assets acquired in business combinations, certain revenue items, amortization of net actuarial losses and lump-sum payment lines. Generally speaking, the operating-basis results represent what the Bank considers to be "core" business results and are in accordance with Japanese GAAP at the profit (loss) level. The following summary table presents a reconciliation between our reported-basis results and operating-basis results.

TABLE 8. RECONCILIATION FROM REPORTED-BASIS RESULTS TO OPERATING-BASIS RESULTS (CONSOLIDATED)

	Billions of yen					
	2018			2017		
Fiscal years ended March 31	**Reported-basis**	**Reclassifications**	**Operating-basis**	Reported-basis	Reclassifications	Operating-basis
Revenue:						
Net interest income	**¥ 128.7**	**¥ –**	**¥ 128.7**	¥ 122.2	¥ –	¥ 122.2
Noninterest income	**103.2**	**–**	**103.2**	106.2	–	106.2
Total revenue	**232.0**	**–**	**232.0**	228.5	–	228.5
General and administrative expenses[1,3]	**142.9**	**(0.3)**	**142.5**	144.2	(1.7)	142.4
Amortization of goodwill and intangible assets acquired in business combinations[2,3]	**3.9**	**(3.9)**	**–**	5.2	(5.2)	–
Total general and administrative expenses	**146.9**	**(4.3)**	**142.5**	149.4	(7.0)	142.4
Net business profit/Ordinary business profit[2]	**85.0**	**4.3**	**89.4**	79.0	7.0	86.0
Net credit costs	**37.2**	**–**	**37.2**	31.8	–	31.8
Amortization of goodwill and intangible assets acquired in business combinations[2]	**–**	**3.9**	**3.9**	–	5.2	5.2
Other gains (losses), net[1]	**7.6**	**(0.3)**	**7.2**	4.6	(1.7)	2.8
Income before income taxes	**55.4**	**–**	**55.4**	51.7	–	51.7
Income taxes and profit attributable to noncontrolling interests	**3.9**	**–**	**3.9**	0.9	–	0.9
Profit attributable to owners of the parent	**¥ 51.4**	**¥ –**	**¥ 51.4**	¥ 50.7	¥ –	¥ 50.7

1 Reclassifications consist principally of adjustments relating to lump-sum compensation and amortization of actuarial gains or losses from general and administrative expenses to other gains (losses), net.
2 Amortization of goodwill and intangible assets acquired in business combinations associated with acquisitions of companies is reclassified under ordinary business profit after net credit costs.
3 Amortization of goodwill and intangible assets acquired in business combinations associated with partial acquisitions of businesses is classified to general and administrative expenses.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

BUSINESS LINES RESULTS

The management of Shinsei Bank continuously monitors operating-basis business performances. The following section provides explanations regarding the operating-basis ordinary business profit (loss) after net credit costs (recoveries) of each business area.

TABLE 9. OPERATING-BASIS ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS (RECOVERIES) BY BUSINESS LINE (CONSOLIDATED)[1]

	Billions of yen		
Fiscal years ended March 31	**2018**	2017	Change (Amount)
Institutional Business:			
Net interest income	**¥ 24.4**	¥ 23.0	¥ 1.4
Noninterest income	**40.2**	39.7	0.4
Total revenue	**64.6**	62.7	1.8
General and administrative expenses	**32.5**	32.3	0.2
Ordinary business profit (loss)	**32.1**	30.4	1.6
Net credit costs (recoveries)	**3.6**	3.0	0.5
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 28.5**	¥ 27.4	¥ 1.0
Global Markets Business:			
Net interest income	**¥ 2.1**	¥ 2.2	¥ (0.1)
Noninterest income	**9.2**	8.7	0.5
Total revenue	**11.4**	11.0	0.4
General and administrative expenses	**7.0**	7.0	(0.0)
Ordinary business profit (loss)	**4.3**	3.9	0.4
Net credit costs (recoveries)	**0.0**	(0.0)	0.1
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 4.3**	¥ 3.9	¥ 0.3
Individual Business:			
Net interest income	**¥ 103.4**	¥ 96.9	¥ 6.4
Noninterest income	**48.8**	48.5	0.3
Total revenue	**152.3**	145.4	6.8
General and administrative expenses	**99.6**	100.1	(0.5)
Ordinary business profit (loss)	**52.6**	45.3	7.3
Net credit costs (recoveries)	**33.6**	28.7	4.8
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 19.0**	¥ 16.5	¥ 2.4
Corporate/Other[2]:			
Net interest income	**¥ (1.3)**	¥ (0.0)	¥ (1.3)
Noninterest income	**4.9**	9.2	(4.2)
Total revenue	**3.6**	9.2	(5.6)
General and administrative expenses	**3.3**	2.9	0.4
Ordinary business profit (loss)	**0.2**	6.3	(6.0)
Net credit costs (recoveries)	**(0.0)**	0.2	(0.2)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 0.2**	¥ 6.1	¥ (5.8)
Total:			
Net interest income	**¥ 128.7**	¥ 122.2	¥ 6.4
Noninterest income	**103.2**	106.2	(2.9)
Total revenue	**232.0**	228.5	3.5
General and administrative expenses	**142.5**	142.4	0.1
Ordinary business profit (loss)	**89.4**	86.0	3.3
Net credit costs (recoveries)	**37.2**	31.8	5.3
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 52.1**	¥ 54.1	¥ (1.9)

1 Costs associated with the funding operations have been allocated to the interest earning businesses on a management accounting basis.
2 Includes company-wide accounts, allocation variance of indirect expense and elimination amount of inter-segment transactions.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

INSTITUTIONAL BUSINESS

The Institutional Business consists of: 1) Corporate Business, which provides financial products and services to the Bank's corporate, public corporation and financial institution customers; 2) Structured Finance, which provides services including real estate finance and project finance; 3) Principal Transactions, which is engaged in businesses such as credit trading, private equity and asset-backed investment businesses;and 4) Showa Leasing.

TABLE 10. INSTITUTIONAL BUSINESS ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS (RECOVERIES) BY BUSINESS/SUBSIDIARY (CONSOLIDATED)[1]

	Billions of yen		
Fiscal years ended March 31	**2018**	2017	Change (Amount)
Corporate Business[2,3]:			
Net interest income	**¥ 10.0**	¥ 10.5	¥ (0.5)
Noninterest income	**8.7**	5.7	2.9
Total revenue	**18.7**	16.3	2.4
General and administrative expenses	**11.9**	11.9	0.0
Ordinary business profit (loss)	**6.8**	4.4	2.4
Net credit costs (recoveries)	**0.2**	0.4	(0.1)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 6.5**	¥ 4.0	¥ 2.5
Structured Finance[2,3]:			
Net interest income	**¥ 9.5**	¥ 9.4	¥ 0.1
Noninterest income	**7.4**	12.4	(5.0)
Total revenue	**17.0**	21.8	(4.8)
General and administrative expenses	**6.8**	6.4	0.4
Ordinary business profit (loss)	**10.1**	15.4	(5.2)
Net credit costs (recoveries)	**1.7**	3.5	(1.8)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 8.4**	¥ 11.8	¥ (3.4)
Principal Transactions[2,3]:			
Net interest income	**¥ 5.0**	¥ 4.2	¥ 0.7
Noninterest income	**7.8**	7.0	0.8
Total revenue	**12.8**	11.2	1.5
General and administrative expenses	**4.7**	5.0	(0.3)
Ordinary business profit (loss)	**8.1**	6.2	1.9
Net credit costs (recoveries)	**(1.2)**	0.0	(1.2)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 9.3**	¥ 6.1	¥ 3.1
Showa Leasing[3]:			
Net interest income	**¥ (0.1)**	¥ (1.2)	¥ 1.1
Noninterest income	**16.1**	14.4	1.6
Total revenue	**15.9**	13.2	2.7
General and administrative expenses	**8.9**	8.8	0.1
Ordinary business profit (loss)	**7.0**	4.3	2.6
Net credit costs (recoveries)	**2.7**	(1.0)	3.8
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 4.2**	¥ 5.3	¥ (1.1)
Institutional Business:			
Net interest income	**¥ 24.4**	¥ 23.0	¥ 1.4
Noninterest income	**40.2**	39.7	0.4
Total revenue	**64.6**	62.7	1.8
General and administrative expenses	**32.5**	32.3	0.2
Ordinary business profit (loss)	**32.1**	30.4	1.6
Net credit costs (recoveries)	**3.6**	3.0	0.5
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 28.5**	¥ 27.4	¥ 1.0

1 Net of consolidation adjustments, if applicable.
2 Part of "Corporate Business" is now included as "Principal Transactions" due to the revision of segment classification.
3 Reclassifies "Others" included as "Individual Business" into "Principal Transactions" reflecting the organizational change as of October 1, 2017. Part of "Corporate Business" is now included as "Principal Transactions" due to the revision of segment classification.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

The Institutional Business recorded total revenue of ¥64.6 billion in the fiscal year ended March 31, 2018, compared to ¥62.7 billion in the previous fiscal year. Of this amount, net interest income accounted for ¥24.4 billion, compared with ¥23.0 billion recorded in the previous fiscal year. This was due to the steady increase in the balance of operating assets in the structured finance business, the increase in dividend income from investment securities in the principal transactions business, the decline in fund procurement costs at Showa Leasing, and other factors. Noninterest income was ¥40.2 billion, up from ¥39.7 billion recorded in the previous fiscal year. This was due to a number of factors. While there was the non-recurrence of large gains on sales of investment securities in the structured finance business booked in the previous fiscal year, in continuation from the previous fiscal year the Bank recorded solid fee income from newly originated deals centered on real estate finance and project finance, an increase in derivative-related income and fee income in the Corporate Business, as well as the recording of gains on the sale of equities in the Corporate Business and Showa Leasing, along with the increase in gains on investments in equity-method affiliates in the principal transactions business.

Within the Institutional Business, the Corporate Business recorded total revenue of ¥18.7 billion, compared to ¥16.3 billion in the previous fiscal year. This increase was due to the rise in income resulting from efforts to capture new business with a focus on profitability as well as initiatives to deepen business with existing customers, along with strong foreign currency derivative business for institutions and firm syndication and sales of structured products to meet the investment needs of regional financial institutions.

The Structured Finance recorded total revenue of ¥17.0 billion in the fiscal year ended March 31, 2018, compared to ¥21.8 billion in the previous fiscal year. The decline was due to the non-recurrence of large gains on the sale of investment securities in the real estate finance business recorded in the year earlier period, despite the steady increase in operating assets, centered on the project finance and real estate finance businesses, as well as strong fee income due to newly-originated deals.

The Principal Transactions recorded total revenue of ¥12.8 billion in the fiscal year 2017, compared to ¥11.2 billion in the previous fiscal year. The increase was due to factors including the increase in dividend revenue centered on the Private Equity business, and the rise in revenues from equity investment in affiliated companies.

Showa Leasing recorded total revenue of ¥15.9 billion in the fiscal year 2017, an increase compared to ¥13.2 billion a year earlier. This increase was due to a reduction in fund procurement costs and the recording of gains on the sale of equities.

General and administrative expenses totaled ¥32.5 billion in the fiscal year 2017, compared to ¥32.3 billion in the previous fiscal year. This increase was due to the effective allocation of resources to growth areas, despite the ongoing efforts to promote efficiency and rationalization across all business lines.

Net credit costs in the fiscal year 2017 totaled ¥3.6 billion, compared to ¥3.0 billion of net credit costs in the previous fiscal year. This was due to factors including the provisions for loan losses in conjunction with specific deals by Showa Leasing.

As a result of the preceding factors, the Institutional Business recorded an ordinary business profit after net credit costs of ¥28.5 billion in the fiscal year ended March 31, 2018, compared to ¥27.4 billion recorded in the previous fiscal year.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

GLOBAL MARKETS BUSINESS

The Global Markets Business consists of: 1) Markets, which engages in foreign exchange, derivatives and other capital markets related businesses; and 2) Others, which includes businesses such as asset management and wealth management, as well as Shinsei Securities.

TABLE 11. GLOBAL MARKETS BUSINESS ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS (RECOVERIES) BY BUSINESS (CONSOLIDATED)[1]

	Billions of yen		
Fiscal years ended March 31	**2018**	2017	Change (Amount)
Markets:			
Net interest income	**¥ 1.6**	¥ 1.9	¥ (0.2)
Noninterest income	**6.8**	6.4	0.4
Total revenue	**8.5**	8.3	0.1
General and administrative expenses	**3.7**	3.5	0.2
Ordinary business profit (loss)	**4.8**	4.8	(0.0)
Net credit costs (recoveries)	**(0.0)**	(0.0)	0.0
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 4.8**	¥ 4.9	¥ (0.0)
Others[2]:			
Net interest income	**¥ 0.5**	¥ 0.3	¥ 0.1
Noninterest income	**2.3**	2.2	0.0
Total revenue	**2.8**	2.6	0.2
General and administrative expenses	**3.3**	3.5	(0.2)
Ordinary business profit (loss)	**(0.4)**	(0.9)	0.4
Net credit costs (recoveries)	**0.0**	0.0	0.0
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ (0.5)**	¥ (0.9)	¥ 0.3
Global Markets Business:			
Net interest income	**¥ 2.1**	¥ 2.2	¥ (0.1)
Noninterest income	**9.2**	8.7	0.5
Total revenue	**11.4**	11.0	0.4
General and administrative expenses	**7.0**	7.0	(0.0)
Ordinary business profit (loss)	**4.3**	3.9	0.4
Net credit costs (recoveries)	**0.0**	(0.0)	0.1
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 4.3**	¥ 3.9	¥ 0.3

1 Net of consolidation adjustments, if applicable.
2 In accordance with the organizational change on June 1, 2017, a portion of the profit and loss of "Others" in Global Markets Group was transferred to "Retail banking" on a management accounting basis.

The Global Markets Business recorded total revenue of ¥11.4 billion in the fiscal year 2017, compared to ¥11.0 billion recorded in the previous fiscal year. This increase was the result of efforts to expand the customer base, and to develop and provide products that meet customers' needs.

The Markets business recorded total revenue of ¥8.5 billion in the fiscal year 2017, compared to ¥8.3 billion recorded in the previous fiscal year. This was due to an increase in revenues on customer transactions, primarily derivatives transactions, firm performance in the markets related business versus the previous fiscal year, gains on bond sales, and other factors.

Others recorded total revenue of ¥2.8 billion in the fiscal year 2017, compared to ¥2.6 billion in the previous fiscal year.

General and administrative expenses recorded in the Global Markets Business totaled ¥7.0 billion in the fiscal year 2017, the same as in the year-earlier period. This was the result of investing management resources in key areas to reinforce the customer base and strengthen market transactions, while also working to enhance efficiency in each business line.

Net credit costs recorded in the Global Markets Business totaled ¥0.0 billion (¥22 million) in the fiscal year 2017, compared to net credit recoveries of ¥0.0 billion (¥91 million) recorded in the previous fiscal year.

As a result of the preceding factors, the Global Markets Business recorded an ordinary business profit after net credit costs of ¥4.3 billion in the fiscal year 2017, compared to ¥3.9 billion in the previous fiscal year.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

INDIVIDUAL BUSINESS

The Individual Business consists of: 1) Retail Banking; 2) Shinsei Bank Card Loan Lake ("Shinsei Bank Lake") and its subsidiary Shinsei Financial; 3) APLUS FINANCIAL. Also, Shinsei Personal Loan was added as the "No Loan" brand to the "Shinsei Financial" sub-segment, which includes Shinsei Bank Lake.

TABLE 12. INDIVIDUAL BUSINESS ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS (RECOVERIES) BY BUSINESS/SUBSIDIARY (CONSOLIDATED)[1]

	Billions of yen		
Fiscal years ended March 31	**2018**	2017	Change (Amount)
Retail Banking[2]:			
Net interest income	**¥ 22.4**	¥ 23.4	¥ (1.0)
Loans	**10.5**	10.8	(0.3)
Deposits	**11.9**	12.6	(0.6)
Noninterest income	**1.0**	2.5	(1.4)
Asset Management Products	**6.5**	7.1	(0.5)
Other Fees (ATM, Fund Transfer, FX etc.)	**(5.4)**	(4.6)	(0.8)
Total revenue	**23.5**	26.0	(2.5)
General and administrative expenses	**29.1**	29.4	(0.3)
Ordinary business profit (loss)	**(5.6)**	(3.4)	(2.2)
Net credit costs (recoveries)	**0.1**	(0.6)	0.8
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ (5.8)**	¥ (2.7)	¥ (3.0)
Shinsei Financial and Shinsei Bank Lake[3]:			
Net interest income	**¥ 69.0**	¥ 64.2	¥ 4.8
Shinsei Bank Lake	**44.9**	38.0	6.9
NOLOAN	**6.1**	6.5	(0.4)
Noninterest income	**(0.1)**	(0.9)	0.8
Total revenue	**68.9**	63.2	5.6
General and administrative expenses	**32.4**	32.8	(0.3)
Ordinary business profitt (loss)	**36.4**	30.4	6.0
Net credit costs (recoveries)	**22.7**	20.5	2.2
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 13.7**	¥ 9.9	¥ 3.7
APLUS FINANCIAL[4]:			
Net interest income	**¥ 11.3**	¥ 9.0	¥ 2.2
Noninterest income	**45.0**	45.1	(0.0)
Total revenue	**56.4**	54.2	2.2
General and administrative expenses	**36.6**	36.6	0.0
Ordinary business profitt (loss)	**19.7**	17.6	2.1
Net credit costs (recoveries)	**10.6**	8.6	2.0
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 9.1**	¥ 8.9	¥ 0.1
Others[5]:			
Net interest income	**¥ 0.6**	¥ 0.1	¥ 0.4
Noninterest income	**2.7**	1.7	1.0
Total revenue	**3.4**	1.9	1.4
General and administrative expenses	**1.3**	1.2	0.0
Ordinary business profitt (loss)	**2.0**	0.6	1.3
Net credit costs (recoveries)	**0.0**	0.3	(0.2)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 2.0**	¥ 0.3	¥ 1.6
Individual Business:			
Net interest income	**¥ 103.4**	¥ 96.9	¥ 6.4
Noninterest income	**48.8**	48.5	0.3
Total revenue	**152.3**	145.4	6.8
General and administrative expenses	**99.6**	100.1	(0.5)
Ordinary business profitt (loss)	**52.6**	45.3	7.3
Net credit costs (recoveries)	**33.6**	28.7	4.8
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 19.0**	¥ 16.5	¥ 2.4

1 Net of consolidation adjustments, if applicable.
2 In accordance with the organizational change on June 1, 2017, a portion of the profit and loss of "Others" in Global Markets Group was transferred to "Retail banking" on a management accounting basis.
3 Income of Shinsei Financial, "Shinsei Bank Card Loan - Lake", and "Shinsei Bank Smart Card Loan Plus" are combined on a management accounting basis.
4 Reclassifies part of profit and loss from "APLUS Financial" into "Others" reflecting the organizational change as of October 1, 2017.
5 Includes unallocated profit and loss from consumer finance business. Reclassifies part of profit and loss included in "Others" into as "Principal Transactions" in "Corporate Business" and part of profit and loss from "Principal Transactions" and "APLUS Financials" is now included as "Others" due to the organizational change as of October 1, 2017.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

The Individual Business recorded an ordinary business profit after net credit costs of ¥19.0 billion in fiscal year 2017, compared to ¥16.5 billion in the previous fiscal year.

RETAIL BANKING

The Retail Banking Business recorded total revenue of ¥23.5 billion in the fiscal year ended March 31, 2018, compared to ¥26.0 billion in the previous fiscal year. Of this amount, net interest income was ¥22.4 billion, compared to ¥23.4 billion recorded in the previous fiscal year. This decrease was the result of the decline in new housing loan originations and other factors. Noninterest income totaled ¥1.0 billion in the fiscal year 2017, compared to ¥2.5 billion recorded in the previous fiscal year. This was the result of a decline in fee income, mainly from sales of asset management products.

General and administrative expenses totaled ¥29.1 billion in fiscal year 2017, a decline compared to the ¥29.4 billion recorded in the previous fiscal year. This was the result of the continued pursuit of efficiency and rationalization across all businesses.

Net credit costs of ¥0.1 billion were recorded in the fiscal year 2017, compared to recoveries of ¥0.6 billion in the previous fiscal year.

As a result of the preceding factors, an ordinary business loss after net credit costs of ¥5.8 billion was recorded in the fiscal year ended March 31, 2018, compared to a loss of ¥2.7 billion recorded in the previous fiscal year.

SHINSEI FINANCIAL AND SHINSEI BANK LAKE

Shinsei Financial and Shinsei Bank Lake recorded a combined ordinary business profit after net credit costs after related consolidation adjustments of ¥13.7 billion in fiscal year ended March 31, 2018, compared to ¥9.9 billion in the previous fiscal year.

Total revenue was ¥68.9 billion in the fiscal year 2017, compared to ¥63.2 billion in the previous fiscal year, primarily the result of the growth of the loan balance.

General and administrative expenses totaled ¥32.4 billion in fiscal year 2017, a decline compared to the ¥32.8 billion recorded in the previous fiscal year.

Net credit costs were ¥22.7 billion in the fiscal year 2017, compared to ¥20.5 billion in the fiscal year 2016. While the Bank has continued to engage in a phased strengthening of credit controls in addition to the strengthening of collection capabilities, the year-on-year growth of the loan balance was partially responsible for the increase in net credit costs.

APLUS FINANCIAL

APLUS FINANCIAL recorded an ordinary business profit after net credit costs after related consolidation adjustments of ¥9.1 billion in the fiscal year ended March 31, 2018, compared to ¥8.9 billion in the previous fiscal year.

Total revenue in the fiscal year 2017 was ¥56.4 billion, increased from ¥54.2 billion recorded in the previous fiscal year. Of this amount, net interest income was ¥11.3 billion, increased from ¥9.0 billion in the previous fiscal year, due to the steady growth of the loan balance. Noninterest income was ¥45.0 billion, compared to ¥45.1 billion in the previous fiscal year, as despite the strong performance by the installment sales credit and credit card businesses, there was an increase in payment fees and other cost of sales.

General and administrative expenses were ¥36.6 billion in fiscal year 2017, roughly the same as the ¥36.6 billion in the previous fiscal year. This was due to the deployment of a variety of initiatives to enhance customer service resulting in higher expenses despite the continued pursuit of efficiency and rationalization in our businesses.

Net credit costs were ¥10.6 billion in the fiscal year 2017, compared to ¥8.6 billion in the previous fiscal year. This increase was due mainly to the increase in operating receivables.

Others include the results of Alpha Servicer Co., Ltd. and unallocated consumer finance business financials.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

INTEREST REPAYMENT

The Bank provisioned ¥5.1 billion in additional reserves for losses on interest repayments in the fiscal year ended March 31, 2017, but in fiscal year 2017, a recalculation of the necessary amount of reserves required to cover future overpayment burden based on recent interest repayment trends was performed, and as a result Shinsei Financial reversed ¥11.8 billion, whereas Shinsei Personal Loan and APLUS FINANCIAL made provisions of additional reserves totaling ¥2.7 billion and ¥3.0 billion, respectively.

Shinsei Financial's usage of reserves for losses on interest repayments (interest repayments and related principal amortization) was ¥14.8 billion in the fiscal year ended March 31, 2018, compared to ¥28.1 billion utilized in the previous fiscal year. As ¥11.8 billion of reserves for losses on interest repayments were reversed in the fiscal year 2017, the total balance of reserves for losses on interest repayments was ¥61.1 billion as of March 31, 2018, compared to ¥87.8 billion as of March 31, 2017.

Shinsei Personal Loan's usage of reserves for losses on interest repayments (interest repayments and related principal amortization) in the fiscal year ended March 31, 2018 was ¥2.3 billion, compared to ¥3.6 billion in the previous fiscal year. In the fiscal year 2017, an additional ¥2.7 billion has been provisioned as reserves for losses on interest repayments were made and the total balance of reserves for losses on interest repayments was ¥7.4 billion as of March 31, 2018, compared to ¥6.9 billion as of March 31, 2017.

APLUS FINANCIAL and its consolidated subsidiaries' usage of reserves for losses on interest repayments (interest repayments and related principal amortization) was ¥3.9 billion in the fiscal year ended March 31, 2018, compared to ¥5.1 billion utilized in the previous fiscal year. In the fiscal year 2017, an additional ¥3.0 billion has been provisioned as reserves for losses on interest repayments were made and the total balance of reserves for losses on interest repayments was ¥6.1 billion as of March 31, 2018, compared to ¥7.0 billion as of March 31, 2017.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

CORPORATE/OTHER

Corporate/Other consists of: 1) Treasury, which engages in the ALM and fundraising operations; and 2) Others, which includes company-wide accounts, variances from budgeted allocations of indirect expenses and eliminated amounts of inter-segment transactions. Ordinary business profit after net credit costs was ¥0.2 billion in fiscal year 2017.

TABLE 13. CORPORATE/OTHER ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS (RECOVERIES) BY BUSINESS (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2018**	2017	Change (Amount)
Treasury:			
Net interest income	**¥ (1.3)**	¥ (0.0)	¥ (1.2)
Noninterest income	**4.2**	7.1	(2.9)
Total revenue	**2.8**	7.0	(4.2)
General and administrative expenses	**1.7**	1.7	0.0
Ordinary business profit (loss)	**1.0**	5.3	(4.3)
Net credit costs (recoveries)	**–**	–	–
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 1.0**	¥ 5.3	¥ (4.3)
Others[1]:			
Net interest income	**¥ (0.0)**	¥ 0.0	¥ (0.0)
Noninterest income	**0.7**	2.1	(1.3)
Total revenue	**0.7**	2.1	(1.4)
General and administrative expenses	**1.5**	1.2	0.3
Ordinary business profit (loss)	**(0.8)**	0.9	(1.7)
Net credit costs (recoveries)	**(0.0)**	0.2	(0.2)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ (0.8)**	¥ 0.7	¥ (1.5)
Corporate/Other[1]:			
Net interest income	**¥ (1.3)**	¥ (0.0)	¥ (1.3)
Noninterest income	**4.9**	9.2	(4.2)
Total revenue	**3.6**	9.2	(5.6)
General and administrative expenses	**3.3**	2.9	0.4
Ordinary business profit (loss)	**0.2**	6.3	(6.0)
Net credit costs (recoveries)	**(0.0)**	0.2	(0.2)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 0.2**	¥ 6.1	¥ (5.8)

1 Includes company-wide accounts, allocation variance of indirect expense and elimination amount of inter-segment transactions.

Total revenue for the Treasury was ¥2.8 billion in fiscal year 2017, compared to ¥7.0 billion recorded in the previous fiscal year. This decline reflected smaller gains (losses) on sales of Japanese government bonds compared to the previous fiscal year.

RESULTS OF OPERATIONS (NONCONSOLIDATED)

OVERVIEW

We disclose nonconsolidated financial information in addition to our consolidated financial statements. As a recipient of public funds, we are required by the Financial Services Agency of Japan ("FSA") to update and report on nonconsolidated performance in relation to targets set forth in our Revitalization Plan on a quarterly basis and to publicly disclose that information semi-annually.

Shinsei recorded net income of ¥40.5 billion on a nonconsolidated basis for the fiscal year ended March 31, 2018. Differences between the net incomes on a nonconsolidated basis and consolidated basis result mainly from the gains and losses from our consolidated subsidiaries, including Showa Leasing, Shinsei Financial, APLUS FINANCIAL and Shinsei Personal Loan, the gains and losses on our investment in our equity-method affiliate, Jih Sun Financial Holding Co., Ltd., and the dividends received from our major consolidated subsidiaries.

TABLE 14. COMPARISON OF TARGETS AND RESULTS FOR KEY MEASURES IN THE REVITALIZATION PLAN (NONCONSOLIDATED)

	Billions of yen (except percentages)			
	2018		2017	
Fiscal years ended March 31	**Target**	**Actual**	Target	Actual
Net income	**¥ 36.0**	**¥ 40.5**	¥ 36.0	¥ 43.4
Total expenses (without taxes)[1]	**76.5**	**73.4**	76.1	71.7
Return on equity based on net business profit[2]	**3.0%**	**3.9%**	4.5%	4.2%

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

SUPPLEMENTAL MEASURES

In addition to the reporting items set forth in our nonconsolidated financial statements, the Banking Act of Japan requires us to disclose gross business profit (gyomu sorieki) on a nonconsolidated basis. Furthermore, in the Japanese banking industry, net business profit (jisshitsu gyomu jun-eki) has traditionally been used as a measure of the profitability of core banking operations. We review these non Japanese GAAP performance measures in monitoring the results of our operations.

Gross business profit (gyomu sorieki) is the sum of:
- net interest income, which excludes interest expense related to investment in monetary assets held in trust;
- net fees and commissions, which includes net gain (loss) on monetary assets held in trust (in keeping with the definition of gross business profit in our Revitalization Plan);
- net trading income; and
- net other business income, which excludes net gain (loss) on monetary assets held in trust and on equity securities.

Net business profit (jisshitsu gyomu jun-eki) is gross business profit (gyomu sorieki) minus nonconsolidated expenses, which corresponds to general and administrative expenses adjusted for certain items.

While these non Japanese GAAP business profit measures should not be viewed as a substitute for net income, management believes that these measures provide a meaningful way of comparing a number of the important components of Shinsei's revenues and profitability from year to year. The following table sets forth these supplemental financial data and corresponding reconciliations to net income under Japanese GAAP for the fiscal years ended March 31, 2018 and 2017.

RESULTS OF OPERATIONS (NONCONSOLIDATED) (continued)

TABLE 15. SUPPLEMENTAL MEASURES (NONCONSOLIDATED)

Fiscal years ended March 31	Billions of yen 2018	2017
Gross business profit (gyomu sorieki):		
Net interest income	**¥ 105.4**	¥ 90.9
Net fees and commissions[1]	**(10.4)**	(2.9)
Net trading income	**4.5**	4.0
Net other business income	**11.2**	19.0
Total gross business profit	**110.8**	111.1
Expenses[2]	**79.0**	77.6
Net business profit (jisshitsu gyomu jun-eki)	**31.8**	33.5
Net credit costs (recoveries)	**1.2**	3.9
Other, net[3]	**6.0**	3.2
Net operating income (keijo rieki)	**36.5**	32.8
Extraordinary income (loss)	**4.4**	7.9
Income before income taxes	**40.9**	40.8
Current income taxes (benefit)	**(2.6)**	(0.0)
Deferred income taxes (benefit)	**3.1**	(2.5)
Net income	**¥ 40.5**	¥ 43.4

1 Includes net gain (loss) on monetary assets held in trust of ¥2.0 billion in the fiscal year ended March 31, 2018 and ¥4.4 billion in the previous fiscal year.
2 General and administrative expenses with certain adjustment.
3 Excludes net gain (loss) on monetary assets held in trust.

CRITICAL ACCOUNTING POLICIES

GENERAL

Our financial statements are prepared in accordance with Japanese GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. In addition, certain accounting principles require significant judgment by management in applying complex accounting principles to individual transactions to determine the most appropriate accounting treatment. We have established procedures and processes to facilitate making the estimates and assumptions necessary to value assets and liabilities, record transactions and prepare the financial statements. On an ongoing basis, management evaluates its estimates and judgments, including those related to the valuation of assets and liabilities. Although actual results may differ from these estimates under different assumptions and conditions and future changes in the key assumptions could change future valuations and results, we have used the best information available at the time to make our estimates. Significant accounting policies are described in Note 2 to the Consolidated Financial Statements included in this annual report.

Management believes the following are our critical accounting policies. These policies are considered "critical" because:

- the estimates involved in these policies require us to make assumptions about matters that are uncertain at the time the estimates are made; and
- different estimates that we reasonably could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on the presentation of our financial condition, or changes in our financial position or results of operations.

RESERVE FOR CREDIT LOSSES

The reserve for loan losses, a separate component of the reserve for credit losses, is management's estimate of the credit losses to be incurred in the lending portfolio and is discussed in further detail in "—Financial Condition—Asset Quality and Disposal of Nonperforming Loans of Shinsei." We establish a specific reserve, a general reserve and a reserve for loans to restructuring countries based on our self-assessment guidelines to absorb estimated credit losses in the lending portfolio.

A specific reserve is provided for claims against obligors in the legally bankrupt, virtually bankrupt and possibly bankrupt categories. For claims against obligors in the legally and virtually bankrupt categories, the unsecured, unguaranteed portion of the claim is written off or otherwise fully reserved because such portion is deemed unlikely to be collected. For claims against obligors in the possibly bankrupt category, a specific reserve is principally determined by estimating discounted future cash flows, other than in cases where it is difficult to reasonably estimate future cash flows.

CRITICAL ACCOUNTING POLICIES (continued)

A general reserve is provided for claims against normal obligors, as well as claims against need caution obligors (including substandard obligors). Shinsei applies the discounted cash flow method in calculating the amount of a general reserve for most of its claims against substandard obligors. The amount of the reserve for claims against normal obligors and claims against need caution obligors (other than substandard obligors of Shinsei which are subject to the discounted cash flow method) is based on the total amount of, as well as the expected loss ratios for, claims against each category of obligor. Using the expected loss ratios, which are based on the historical loss ratios calculated in accordance with the predefined method in internal reserves guidelines, Shinsei reserves for the estimated amount of losses for the next three years for claims against substandard obligors, for the remaining term of the claims with respect to claims against normal obligors given ratings of 5A through 6C in Shinsei's credit ratings system and claims against need caution obligors other than substandard obligors or other need caution obligors, and for the next year for claims against normal obligors given ratings higher than 5A.

Shinsei reviews its classification of obligors quarterly, although every month it downgrades obligors whose financial condition has deteriorated based on the results of its self-assessment process. A reserve for loans to restructuring countries is provided for estimated losses on those loans due to political and economic conditions in the countries.

Estimating Shinsei's specific reserve for claims against obligors in the possibly bankrupt category and the general reserve for claims against obligors in the substandard category is subject to a number of significant judgments and uncertainties regarding discounted cash flows due to the changing financial conditions of the obligors and general economic conditions surrounding the obligors' business operations. In addition, because the secured portion of claims is not covered by a specific reserve, actual losses on such claims are also subject to significant judgments and uncertainties regarding the fair value of collateral. Estimating the general reserve for claims against obligors in the normal and other need caution categories could be affected by changes made by management in the methodologies used to calculate the migration analyses of obligors or the assumptions used in the calculation of the reserve. As a result, actual losses in the nonperforming loans portfolio could be greater or lesser than we have estimated. If the estimated credit losses are not enough to cover actual losses incurred from the ultimate disposition of the portfolio, it would result in additional write-offs or additional reserves in the future for the lending portfolio, increasing our reported total credit costs. If the estimate is in excess of actual losses, it would result in a reduction of our total credit costs.

APLUS FINANCIAL establishes loan loss reserves based on the historical loss ratio for delinquent and non delinquent accounts. The amount of reserves in the case of delinquent accounts primarily depends on the number of months for which a particular account is past due. In addition, APLUS FINANCIAL writes off the entire amount of any claims it deems uncollectible, either as a result of personal bankruptcy or otherwise. Shinsei Financial and Shinsei Personal Loan establish loan loss reserves in the same manner as APLUS FINANCIAL, and Showa Leasing establishes reserves on the basis of obligor classification in accordance with its self-assessment guidelines.

RESERVE FOR REIMBURSEMENT OF DEBENTURES

The reserve for reimbursement of debentures is provided for estimated losses on future reimbursement requests of debentures derecognized from liabilities based on past experience. If any of the assumptions change due to changes in circumstances, an additional reserve could become necessary.

RESERVE FOR LOSSES ON INTEREST REPAYMENTS

We follow "Audit Guidelines on Consumer Finance Companies' Provisions for Possible Losses on Reimbursements of Excess Interest Payments" issued by the Japanese Institute of Certified Public Accountants (the "JICPA"). These guidelines stipulate that consumer and commercial finance companies make certain provisions for possible losses on reimbursements of excess interest payments and loan losses related to consumer finance loans extended at interest rates in excess of the maximum interest rate prescribed in the Interest Rate Restriction Act of Japan. The reserve is established in the amount of the estimated future reimbursement requests based on past experience. If any of the assumptions change due to changes in circumstances, an additional reserve could become necessary.

VALUATION OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

We have various types of financial instruments in our trading and banking books. Pursuant to Japanese GAAP, we record some of our financial instruments at their fair values, which are measured based on market prices or third-party quotes or, if both are unavailable, our internal valuation methodologies.

CRITICAL ACCOUNTING POLICIES (continued)

Although we strive to follow market standards in making assumptions and determining scenarios necessary for these valuation methodologies, the outcomes of our methodologies could differ from those derived from other methodologies.

AVAILABLE-FOR-SALE SECURITIES

We record available-for-sale securities, both debt and equity, at their fair values except for securities whose fair value cannot be reliably determined, such as non marketable equity securities, etc. The net unrealized gains or losses on these securities are included in and presented as a separate component of equity.

Available-for-sale securities include some securities without readily obtainable market prices or quotes. These securities primarily consist of residual interests and debt investments in collateralized debt obligations as well as illiquid corporate bonds. We estimate the fair values of these securities based on historical data concerning market prices and quotes. In some cases, we determine fair value using internal valuation methodologies that are subject to complex assumptions, including those relating to scenarios, interest rates and volatility.

IMPAIRMENT IN VALUE OF DEBT AND EQUITY SECURITIES

Available-for-sale debt and equity securities, and held-to-maturity debt securities are both exposed to the risk of decline in their fair values. If the decline in fair values of available-for-sale securities and held-to-maturity securities whose fair value can be reliably determined is deemed to be significant, impairment loss is recognized in the amortized/acquisition cost of the securities since the decline in fair values is deemed to be other than temporary. Our rules for the determination of whether an other-than-temporary impairment has occurred differ by the obligor classification of the security issuer based upon our self-assessment guidelines. The details of these rules are as follows:

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

See "— Financial Condition— Asset Quality and Disposal of Nonperforming Loans— Self-Assessment Guidelines and Reserve Policies— Definition of Obligor Classifications," for the definition of each obligor classification.

For available-for-sale securities, whose fair value cannot be reliably determined, if the net asset value of a security has declined in excess of 50% of its acquisition cost, we deem the impairment to be other-than-temporary in principle.

FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING PURPOSES

Our trading book assets and liabilities consist of derivative financial instruments, securities, short-term money market investments and other monetary claims maturing within a short period of time.

In addition, we hold certain securities investments, such as foreign fund trusts and corporate bonds, financial assets backed by loans and receivables as well as mortgages included in securities, other monetary claims purchased and monetary assets held in trust that are not recorded in the trading book, but are held for trading purposes in the banking book. All of these trading-purpose assets and liabilities are booked at their fair values, and changes in value are reflected in our profit (loss). The fair values of trading-purpose assets that are traded actively in open markets are based on observable market prices of the same or similar securities and monetary claims.

When actively traded market prices are not available, we estimate the fair values of the assets and liabilities held for trading purposes using our internal valuation methodologies. These methodologies require us to use our judgment in both making assumptions regarding market parameters, such as swap rates for interest rate and currency swaps with longer maturities, as well as determining the required scenarios, such as future cash flow projections for financial assets underlying purchased monetary claims. In addition, we adjust the fair value estimates for derivative financial instruments to reflect credit and liquidity risks.

CREDIT TRADING ACTIVITIES

We are engaged in credit trading activities in Japan and foreign countries, in which we purchase monetary claims such as loans, bonds, guarantees, receivables and lease receivables without intending to hold them to maturity. To recover our investment, we either collect on the claim, including through repayments, legal proceedings and discounted payoffs, or resell or securitize the claim. Claims

CRITICAL ACCOUNTING POLICIES (continued)

purchased are recorded either in monetary assets held in trust or other monetary claims purchased, depending on the structure used for the purchase, and are principally measured at fair value. Fair value is estimated in the same way as it is for assets held for trading purposes. The internal valuation methodology we use to calculate the fair value of these claims primarily relies on a discounted cash flow method based on cash flow projections and implied discount rates. As estimations of future cash flows and discount rates are based on complex processes and contain an element of judgment, changes in assumptions could lead to different estimates of the fair value of monetary assets held in trust and other monetary claims purchased, which could in turn impact the related gain or loss amounts in our financial statements.

VALUATION OF DEFERRED TAX ASSETS

We record deferred tax assets for deductible temporary differences and tax loss carry-forwards and evaluate them in accordance with the Accounting Standards Board of Japan ("ASBJ") Guidance. Under the ASBJ Guidance No. 26 "Implementation Guidance on Recoverability of Deferred Tax Assets," if a company recorded a material amount of tax loss within the past three years or expired a material amount of tax loss carry-forwards within the past three years, the company able to record deferred tax assets for the temporary differences and tax loss carry-forwards to the extent scheduled as deductible from the estimated "Taxable profit before adjustments for existing temporary differences and tax loss carryforwards" in the next fiscal year.

As a result of that we recorded tax loss in the past three years, we recorded deferred tax assets for the temporary differences and tax loss carry-forwards to the extent scheduled as deductible in the next fiscal year. We recorded a valuation allowance to reduce deferred tax assets accordingly. The actual taxable profit amount for the fiscal year ended March 31, 2019 may be different from our estimate.

EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN ASSETS

The Bank has a noncontributory defined benefit pension plan. APLUS Co., Ltd. ("APLUS") and Showa Leasing have a noncontributory defined benefit pension plan and an unfunded severance indemnity plan. Shinsei Financial and certain consolidated domestic subsidiaries have unfunded severance indemnity plans. These plans cover substantially all of the Group's employees.

Assets and liabilities for employees' retirement benefits are held for the payment of employees' retirement benefits based on the estimated amounts of the projected benefit obligation and the estimated value of pension plan assets at the end of the period. We follow the accounting standard and guideline for employees' retirement benefit plans issued by the ASBJ and estimate the amounts of the projected benefit obligation and the fair value of pension plan assets at the end of the fiscal year using assumptions for the long-term expected rate of return on plan assets and the discount rate.

We determine the long-term expected rate of return on plan assets based on the targeted average long-term performance of the assets. Because assumptions regarding the long-term expected rate of return on plan assets are affected by changing general economic and market conditions, we need to make significant judgments to determine appropriate assumptions underlying the estimate of long-term performance, which also impact the estimate of the liabilities for employees' retirement benefits and net periodic retirement benefit cost.

We have applied the method of allocating the projected benefit obligations over the period on a benefit formula basis and selected a single weighted average discount rate of highly graded corporate bonds reflecting the estimated timing and amount of benefit payments. If we become aware of information that leads us to determine that a different discount rate for settling the benefit obligation is required, the discount rate could be changed accordingly, which may have an impact on the related amounts reported in our financial statements.

HEDGE ACCOUNTING

We follow guidelines issued by the JICPA regarding hedge accounting applicable to financial assets and liabilities exposed to a risk of change in fair value or cash flow. Derivative transactions that meet the hedge accounting criteria are primarily accounted for under a deferral method whereby unrealized gains and losses are deferred in a separate component of equity until the gains and losses on the hedged items are realized.

We adopted portfolio hedging in accordance with Industry Audit Committee Report No. 24 issued, on February 13, 2002, by the JICPA. Under portfolio hedging activities to mitigate the change in fair value, a portfolio of hedged items with common maturities such as deposits or loans is designated and matched with a group of hedging instruments such as interest rate swaps, which offset the effect of fair value fluctuations of the hedged items by

CRITICAL ACCOUNTING POLICIES (continued)

identified maturities. The effectiveness of the portfolio hedging is assessed by each group.

As for portfolio hedging activities to fix the cash flows, the effectiveness is assessed based on the correlation between the base interest rate index of the hedged cash flow and that of the hedging instrument. The interest rate swaps of certain consolidated subsidiaries which qualify for hedge accounting and meet specific matching criteria are not measured at fair values, but the net payments or receipts under the swap agreements are recognized and included in interest expenses or income.

Shinsei applies either deferral hedge accounting or fair value hedge accounting in accordance with Industry Audit Committee Report No. 25 issued, on July 29, 2002, by the JICPA, to the derivative transactions that meet the hedge accounting criteria for mitigating foreign currency fluctuation risks of Shinsei's financial assets and liabilities such as funding swap and certain currency swap transactions. Funding swap transactions are foreign exchange swaps, and consist of spot foreign exchange contracts bought or sold and forward foreign exchange contracts sold or bought. Such transactions are contracted for the purpose of lending or borrowing in a different currency and converting the corresponding principal equivalents and foreign currency equivalents to pay and receive, whose amounts and due dates are predetermined at the time of the transactions, into forward foreign exchange contracts sold or bought. Under deferral hedge accounting, hedged items are identified by grouping the foreign currency-denominated financial assets and liabilities by currencies and designating derivative transactions such as currency swap transactions and forward exchange contracts as hedging instruments. Hedge effectiveness is assessed by confirming that the total foreign currency position of the hedged items is equal to or larger than that of hedging instruments.

In accordance with Industry Audit Committee Report No. 25 of the JICPA, Shinsei also applies deferral hedge accounting and fair value hedge accounting to translation gains or losses from foreign currency assets of net investments in foreign nonconsolidated subsidiaries, affiliates and securities available for sale (other than bonds denominated in foreign currencies) when such foreign currency exposures recorded as assets are hedged with offsetting foreign currency liabilities and the liabilities exceed the acquisition cost of such foreign currency assets.

IMPAIRMENT OF LONG-LIVED ASSETS

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Impairment losses on an asset or asset group establish a new cost basis for the assets. We evaluate our long-lived assets for impairment using our best estimates based on reasonable and supportable assumptions and projections. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of an asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the sum of discounted cash flows from the continuing use and eventual disposition of the asset, or the net selling price at disposition.

BUSINESS COMBINATIONS

For consolidated financial statement purposes, assets and liabilities of acquired subsidiaries are recorded primarily on the basis of their estimated fair values at the date of the acquisition.

We acquired controlling interests in APLUS FINANCIAL and Showa Leasing on September 29, 2004 and March 23, 2005, respectively. Regarding Showa Leasing, we acquired 100% of the controlling interest, through additional acquisition and a share exchange on June 30, 2016 and December 1, 2016, respectively. On December 13, 2007, we acquired a controlling interest in Shinsei Personal Loan, which was previously an affiliate, through the purchase of additional shares. On September 22, 2008, the Bank, together with APLUS FINANCIAL, acquired 100% of the controlling interest (equity and debt) in Shinsei Financial, and its subsidiaries.

In connection with the consolidation of APLUS FINANCIAL, Showa Leasing, Shinsei Personal Loan and Shinsei Financial, we recognized the assets (including intangibles) and liabilities of those entities primarily at their fair values. We used quoted market prices in active markets as the best evidence of fair value, where available. If quoted market prices were not available, the estimate of fair value was based on the best information available, including prices for similar assets and liabilities and the results using other fair value measurement methodologies. We adopted the following methodologies based on the nature of the assets and liabilities being valued and the availability of information:

CRITICAL ACCOUNTING POLICIES (continued)

• market approach: market transactions involving the sale of comparable assets.
• income approach: present value of earnings attributable to the asset.

As a result of fair value recognition, reserves for credit losses were offset with the corresponding loans or other assets.

We also recognized certain identifiable intangible assets in connection with the acquisition of Showa Leasing, Shinsei Financial and their consolidated subsidiaries, because they were separable such as contractual or other legal rights. The identified intangible assets consist of trade names and customer and/or merchant relationships, among others, which are valued using variations of the income approach and which are being amortized over various periods and using different methodologies depending on the nature of the asset. See Note 2 (B) to the Consolidated Financial Statements.

The excess of the purchase price over the fair value of the net assets acquired, including identified intangible assets, was recorded as goodwill and is being amortized on a consistent basis primarily over 20 years. The amortization period of 20 years is the maximum period allowed under Japanese GAAP and was determined based upon the Bank's business strategy. With regard to the acquisitions executed before April 1, 2010, recorded with the previous accounting standard, when the purchase price was lower than the fair value of the net assets acquired, including identified intangible assets, the difference was recorded as negative goodwill and has been amortized on a straight-line basis primarily over 20 years, which is the maximum period allowed under the previous accounting standards. Any unamortized balances of identified intangible assets and goodwill are subject to impairment testing periodically.

IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS ACQUIRED IN BUSINESS COMBINATIONS

The Bank conducts impairment testing for goodwill and intangible assets acquired in business combinations as a result of certain triggering events including:

• A result or an indication of an operating loss or negative cash flow for two consecutive years
• Impairment of underlying investment securities is recognized
• A material adverse change in the business environment surrounding subsidiaries, such as a change in law which significantly and negatively impacts their business
• Management decisions that could have an adverse effect on the value of goodwill and intangible assets which were acquired in business combination

As the first step of the impairment test, we estimate the undiscounted future cash flows of the business. If the value of the undiscounted future cash flows is less than the book value of the net assets, including goodwill and intangible assets acquired in business combination, of the business, it is determined that impairment exists.

The next step of the impairment test is to measure the amount of the impairment loss, which is to compare the "value in use," which is recoverable amount calculated as the discounted value of future cash flows of the business, with the net asset book value which includes unamortized balances of goodwill and intangible assets acquired in business combination.

Finally, the impairment loss on goodwill is calculated as the residual, (i) less (ii) below.

(i) Impairment loss for the total of goodwill and intangible assets acquired in business combination is recognized as an amount by which the net asset book value exceeds the "value in use." The recoverable amount of intangible assets acquired in business combination is determined by discounted cash flow method, which is also used to measure the acquired assets, and (ii) the impairment loss of intangible assets acquired in business combinations, is determined as the difference between the recoverable amount and book value.

ASSET RETIREMENT OBLIGATIONS

An asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset. The asset retirement obligation is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability.

The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

FINANCIAL CONDITION

TOTAL ASSETS

As of March 31, 2018, we had consolidated total assets of ¥9,456.6 billion, representing a 2.1% increase from March 31, 2017.

The balance of loans and bills discounted as of March 31, 2018 was ¥4,895.9 billion, increased by ¥62.5 billion from ¥4,833.4 billion as of March 31, 2017. While the balance of loans to institutional clients and housing loan has declined, this growth in the overall balance was supported by the increase of the Structured Finance and Consumer Finance Business loan balances.

SECURITIES

The following table sets forth the composition of our consolidated portfolio of trading securities in the banking book, available-for-sale securities and held-to-maturity securities as of March 31, 2018. As reflected below, 62.7% of the securities will mature during the next five years. The balance of securities as of March 31, 2018 was ¥1,123.5 billion, increased compared to the balance of ¥1,014.6 billion as of March 31, 2017. 44.9% of the investments in securities consists of Japanese national government bonds for ALM purposes, including liquidity reserves. In the course of portfolio management, the total balance of Japanese national government bonds was ¥504.5 billion as of March 31, 2018, as compared to ¥495.6 billion as of March 31, 2017.

TABLE 16. SECURITIES BY MATURITY (CONSOLIDATED)

	Billions of yen							
	As of March 31, 2018							
	1 year or less	**Over 1 year to 3 years**	**Over 3 years to 5 years**	**Over 5 years to 7 years**	**Over 7 years to 10 years**	**Over 10 years**	**Unspecified term**	**Total**
Japanese national government bonds	**¥ 120.0**	**¥ 243.8**	**¥ 119.3**	**¥ –**	**¥ 21.2**	**¥ –**	**¥ –**	**¥ 504.5**
Japanese local government bonds	**–**	**–**	**–**	**–**	**2.3**	**–**	**–**	**2.3**
Japanese corporate bonds	**3.0**	**29.0**	**73.7**	**18.2**	**18.3**	**14.9**	**–**	**157.4**
Japanese equity securities	**–**	**–**	**–**	**–**	**–**	**–**	**32.7**	**32.7**
Foreign bonds and other	**46.9**	**14.3**	**53.9**	**38.1**	**83.6**	**97.5**	**91.8**	**426.5**
Total securities	**¥ 170.1**	**¥ 287.3**	**¥ 247.1**	**¥ 56.3**	**¥ 125.5**	**¥ 112.4**	**¥ 124.5**	**¥ 1,123.5**

	Billions of yen							
	As of March 31, 2017							
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years	Unspecified term	Total
Japanese national government bonds	¥ 10.0	¥ 240.1	¥ 239.1	¥ 6.2	¥ –	¥ –	¥ –	¥ 495.6
Japanese local government bonds	–	–	–	–	–	–	–	–
Japanese corporate bonds	2.0	14.4	59.5	12.7	1.0	27.9	–	117.8
Japanese equity securities	–	–	–	–	–	–	34.8	34.8
Foreign bonds and other	39.8	39.2	61.2	51.0	50.4	44.8	79.5	366.3
Total securities	¥ 52.0	¥ 293.9	¥ 359.9	¥ 70.0	¥ 51.4	¥ 72.8	¥ 114.4	¥ 1,014.6

FINANCIAL CONDITION (continued)

LOAN PORTFOLIO

As of March 31, 2018, loans and bills discounted totaled ¥4,895.9 billion. This represented 51.8% of total consolidated assets. Installment receivables of APLUS FINANCIAL, Showa Leasing and other non bank subsidiaries are classified in our consolidated balance sheets as other assets, and are not reflected in our data on loans and bills discounted.

Most of our loan portfolio was originated by Shinsei and our domestic subsidiaries. Of loans we originated, loans to the finance and insurance industry and the real estate industry accounted for 22.6% of total domestic loans as of March 31, 2018. Loans to the real estate industry consisted in part of non recourse and project finance loans. Loans to others of ¥2,437.3 billion as of March 31, 2018 included loans extended to Shinsei's retail banking, Shinsei Bank Lake, Shinsei Financial's, APLUS FINANCIAL's and Shinsei Personal Loan's individual customers amounting, in aggregate, to ¥1,998.2 billion.

TABLE 17. LOANS BY BORROWER INDUSTRY (CONSOLIDATED)

	Billions of yen (except percentages)			
As of March 31	**2018**		2017	
Domestic offices (excluding Japan offshore market account):				
Manufacturing	**¥ 189.6**	**4.0%**	¥ 198.9	4.2%
Agriculture and forestry	**0.0**	**0.0**	0.0	0.0
Fishery	**–**	**–**	0.0	0.0
Mining, quarrying and gravel extraction	**0.4**	**0.0**	0.3	0.0
Construction	**7.6**	**0.2**	8.9	0.2
Electric power, gas, heat supply and water supply	**250.1**	**5.3**	230.7	4.9
Information and communications	**70.5**	**1.5**	42.9	0.9
Transportation, postal service	**197.9**	**4.2**	188.0	4.0
Wholesale and retail	**114.5**	**2.4**	114.5	2.4
Finance and insurance	**509.1**	**10.7**	573.8	12.1
Real estate	**565.9**	**11.9**	575.6	12.2
Services	**344.6**	**7.2**	330.1	7.0
Local government	**68.4**	**1.4**	76.7	1.6
Others	**2,437.3**	**51.2**	2,389.1	50.5
Total domestic (A)	**¥ 4,756.4**	**100.0%**	¥ 4,730.0	100.0%
Overseas offices (including Japan offshore market accounts):				
Governments	**¥ 0.3**	**0.3%**	¥ 0.5	0.6%
Financial institutions	**30.8**	**22.1**	7.3	7.1
Others	**108.3**	**77.6**	95.4	92.3
Total overseas (B)	**¥ 139.5**	**100.0%**	¥ 103.3	100.0%
Total (A+B)	**¥ 4,895.9**		¥ 4,833.4	

FINANCIAL CONDITION (continued)

LOAN MATURITY

The following table sets forth the composition of Shinsei's nonconsolidated loan portfolio by type of interest rate and maturity as of the dates indicated. In the fiscal year ended March 31, 2018, the increase in total loans resulted from an increase in both variable-interest rate loans and fixed-interest rate loans.

TABLE 18. LOAN MATURITY (NONCONSOLIDATED)

As of March 31	Billions of yen 2018	2017
Fixed-interest loans:		
One year or less[1]	¥ –	¥ –
Over one year to three years	18.5	14.5
Over three years to five years	17.2	16.6
Over five years to seven years	38.9	33.3
Over seven years	958.1	993.9
Indefinite term	299.1	259.3
Variable-interest loans:		
One year or less[1]	¥ –	¥ –
Over one year to three years	787.9	715.8
Over three years to five years	700.4	780.9
Over five years to seven years	262.2	217.8
Over seven years	749.1	770.4
Indefinite term	6.8	8.5
Total loans:		
One year or less	¥ 799.0	¥ 725.0
Over one year to three years	806.5	730.4
Over three years to five years	717.7	797.5
Over five years to seven years	301.2	251.2
Over seven years	1,707.3	1,764.3
Indefinite term	306.0	267.8
Total loans	¥ 4,637.9	¥ 4,536.4

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

ASSET QUALITY AND DISPOSAL OF NONPERFORMING LOANS OF SHINSEI

At March 31, 2018, 11.2% of our consolidated nonperforming loans as disclosed in accordance with the guidelines of the Japanese Bankers Association (JBA) were held by Shinsei and most of the remaining nonperforming loans were held by Shinsei Financial and APLUS FINANCIAL. This discussion of our asset quality presents information of Shinsei on a nonconsolidated basis unless specified otherwise. In particular, nonperforming claims as defined in the Financial Revitalization Law are only disclosed on a nonconsolidated basis, and therefore do not include nonperforming loans held by Shinsei Financial, APLUS FINANCIAL and Showa Leasing. For a discussion of the nonperforming claims of Shinsei Financial, APLUS FINANCIAL and Showa Leasing see "—Asset Quality of Shinsei Financial, APLUS FINANCIAL and Showa Leasing."

We classify our obligors and assess our asset quality based on our self-assessment guidelines developed in accordance with guidelines published by the FSA. We generally perform our self-assessment quarterly. The self-assessment process involves classifying obligors based on their financial condition and then categorizing claims against obligors in order of collection risk. Based on these classifications, we establish reserves and disclose our nonperforming loans and other claims using criteria specified in the Financial Revitalization Law. We also disclose our nonperforming loans under a format devised by the JBA for the disclosure of risk-monitored loans.

The following table compares the scope of each category of claim under the Financial Revitalization Law and each type of riskmonitored loan, as well as the obligor type to which they relate as of March 31, 2018:

FINANCIAL CONDITION (continued)

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

(Billions of yen)

Obligor Classifications		Internal Ratings	Reserve Ratios for Borrowers Type	Claims Classified under the Financial Revitalization Law[2,3] Total loans and bills discounted: 4,637.9	Other 86.1	Risk-monitored Loans[2] Total loans and bills discounted: 4,637.9
Legally bankrupt		9E	100.0% for unsecured portion	Claims against bankrupt and quasi-bankrupt obligors 1.8 (Amount of coverage, coverage ratio) (1.8*, 100.0%) *Amount of reserve for loan losses is 0.4, collateral and guarantees is 1.3		Loans to bankrupt obligors 0.5
Virtually bankrupt		9D	100.0% for unsecured portion			Non accrual delinquent loans 4.7
Possibly bankrupt		9C	55.7% for unsecured portion	Doubtful claims 3.5 (Amount of coverage, coverage ratio) (2.0*, 57.4%) *Amount of reserve for loan losses is 1.9, collateral and guarantees is 0.1		
Need caution	Substandard	9B	39.7% for unsecured portion	Substandard claims (loan account only) 3.0 (Amount of coverage, coverage ratio) (1.6*, 55.3%) *Amount of reserve for loan losses is 0.6, collateral and guarantees is 1.0		Loans past due for three months or more Restructured loans 3.0
	Other need caution	9A	5.4% for total claims			
Normal		0A–6C	0.4% for total claims	Normal claims 4,715.7		Normal 4,629.5
				Total nonperforming claims and ratio to total claims 8.3, 0.2% (Total amount of coverage, coverage ratio) (5.5*, 65.8%) *Total amount of reserve for loan losses is 3.0, collateral and guarantees is 2.5		Total risk-monitored loans and ratio to total loans and bills discounted 8.3, 0.2%

1 Financial and operational data that are stated in multiples of ¥0.1 billion have been truncated. All percentages have been rounded to the nearest 0.1%.
2 The Financial Revitalization Law requires us to classify and disclose "claims" which include, in addition to loans and bills discounted, foreign exchange claims, securities lent, private placement bonds guaranteed by Shinsei, accrued income and suspense payments in other assets, as well as customers' liabilities for acceptances and guarantees. By comparison, as for risk-monitored loans, the format devised by the JBA only classifies, and calls for disclosure of, certain loans and bills discounted.
3 Shaded claims denoted claims that are considered to be nonperforming under the Financial Revitalization Law.

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

FINANCIAL CONDITION (continued)

SELF-ASSESSMENT GUIDELINES AND RESERVE POLICIES

DEFINITION OF OBLIGOR CLASSIFICATIONS

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

DEFINITIONS OF CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

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

DEFINITIONS OF RISK–MONITORED LOANS

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

FINANCIAL CONDITION (continued)

RESERVE POLICIES

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

CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

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

DISCLOSURE OF CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

Our current management team has consistently emphasized the monitoring of nonperforming loans. Shinsei's total amount of nonperforming claims as disclosed pursuant to the Financial Revitalization Law decreased by ¥1.9 billion, or 19.2%, to ¥8.3 billion, between March 31, 2017 and 2018. During the fiscal year ended March 31, 2018, claims against bankrupt and quasi-bankrupt obligors decreased from ¥2.9 billion to ¥1.8 billion, doubtful claims decreased from ¥3.6 billion to ¥3.5 billion, and substandard claims decreased from ¥3.8 billion to ¥3.0 billion as a result of our self assessment. The ratio of nonperforming claims disclosed under the Financial Revitalization Law to total nonconsolidated claims as of March 31, 2018 was 0.2%, was same as March 31, 2017.

Shinsei's claims against other need caution obligors, excluding substandard claims, totaled ¥43.6 billion as of March 31, 2018, a 17.7% decrease from ¥53.0 billion as of March 31, 2017. These include private placement bonds guaranteed by Shinsei and classified as claims against other need caution obligors. These claims represented 0.9% of total nonconsolidated claims as of March 31, 2018, decreased from 1.1% as of March 31, 2017.

TABLE 19. CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW (NONCONSOLIDATED)

Billions of yen (except percentages)

As of March 31	**2018**	2017
Claims against bankrupt and quasi-bankrupt obligors	**¥ 1.8**	¥ 2.9
Doubtful claims	**3.5**	3.6
Substandard claims	**3.0**	3.8
Total claims disclosed under the Financial Revitalization Law[1]	**8.3**	10.3
Normal claims and claims against other need caution obligors, excluding substandard claims	**4,715.7**	4,706.7
Total claims	**¥ 4,724.0**	¥ 4,717.1
Ratio of total claims disclosed under the Financial Revitalization Law to total claims	**0.2%**	0.2%

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

FINANCIAL CONDITION (continued)

COVERAGE RATIOS

As of March 31, 2018, Shinsei's nonconsolidated coverage ratios for claims classified under the Financial Revitalization Law, which for each category of claims is the total of collateral pledged against claims, guarantees for claims and reserve for loan losses, measured against total claims, were 100.0% for claims against bankrupt and quasi-bankrupt obligors, 57.4% for doubtful claims and 55.3% for substandard claims. For all claims classified under the Financial Revitalization Law, the coverage ratio was 65.8%, a decrease from 74.2% as of March 31, 2017.

Shinsei directly writes off, rather than reserves, the portion of claims against bankrupt and quasi-bankrupt obligors that are estimated to be uncollectible. In the fiscal years ended March 31, 2018 and 2017, ¥5.8 billion and ¥33.9 billion, respectively, of such claims were written off on a nonconsolidated basis.

TABLE 20. COVERAGE RATIOS FOR NONPERFORMING CLAIMS DISCLOSED UNDER THE FINANCIAL REVITALIZATION LAW (NONCONSOLIDATED)

Billions of yen (except percentages)

	Amount of claims	Amounts of coverage: Reserve for loan losses	Collateral and guarantees	Total	Coverage ratio
As of March 31, 2018:					
Claims against bankrupt and quasi-bankrupt obligors	**¥ 1.8**	**¥ 0.4**	**¥ 1.3**	**¥ 1.8**	**100.0%**
Doubtful claims	**3.5**	**1.9**	**0.1**	**2.0**	**57.4**
Substandard claims	**3.0**	**0.6**	**1.0**	**1.6**	**55.3**
Total	**¥ 8.3**	**¥ 3.0**	**¥ 2.5**	**¥ 5.5**	**65.8%**
As of March 31, 2017:					
Claims against bankrupt and quasi-bankrupt obligors	¥ 2.9	¥ 0.2	¥ 2.7	¥ 2.9	100.0%
Doubtful claims	3.6	2.0	0.0	2.0	58.2
Substandard claims	3.8	1.0	1.5	2.6	69.4
Total	¥ 10.3	¥ 3.3	¥ 4.3	¥ 7.7	74.2%

CHANGES IN AMOUNT OF NONPERFORMING CLAIMS

The table below sets forth Shinsei's experience since March 31, 2016 with the removal of nonperforming claims and the emergence of new claims on a nonconsolidated basis:

TABLE 21. CHANGES IN AMOUNT OF NONPERFORMING CLAIMS (NONCONSOLIDATED)

Billions of yen

	Substandard claims	Doubtful claims	Claims against bankrupt and quasi-bankrupt obligors	Total
Balance of nonperforming claims as of March 31, 2016	¥ 2.6	¥ 27.0	¥ 4.9	¥ 34.7
Claims newly added April 1, 2016 to March 31, 2017	2.3	3.0	1.0	6.4
Claims removed April 1, 2016 to March 31, 2017	(1.0)	(26.5)	(3.2)	(30.8)
Claims migrating between classifications April 1, 2016 to March 31, 2017	0.0	0.0	0.1	–
Net change	1.1	(23.4)	(2.0)	(24.3)
Balance of nonperforming claims as of March 31, 2017	¥ 3.8	¥ 3.6	¥ 2.9	¥ 10.3
Claims newly added April 1, 2017 to March 31, 2018	**0.8**	**0.5**	**1.1**	**2.4**
Claims removed April 1, 2017 to March 31, 2018	**(1.6)**	**(0.2)**	**(2.6)**	**(4.4)**
Claims migrating between classifications April 1, 2017 to March 31, 2018	**0.0**	**(0.3)**	**0.3**	**–**
Net change	**(0.7)**	**(0.0)**	**(1.1)**	**(1.9)**
Balance of nonperforming claims as of March 31, 2018	**¥ 3.0**	**¥ 3.5**	**¥ 1.8**	**¥ 8.3**

In the fiscal year ended March 31, 2018, ¥2.4 billion of claims were newly classified as substandard or worse, while Shinsei removed ¥4.4 billion of claims in these categories during the same period. Of the newly added nonperforming claims, ¥0.8 billion were classified as substandard claims, and ¥0.5 billion were classified as Doubtful claims.

For the fiscal year ended March 31, 2017, ¥6.4 billion of claims were newly classified as substandard or worse, while Shinsei removed ¥30.8 billion of claims in these categories during the same period.

FINANCIAL CONDITION (continued)

RESERVE FOR CREDIT LOSSES

The following table sets forth a breakdown of our total reserve for credit losses on a nonconsolidated basis as of the dates indicated:

TABLE 22. RESERVE FOR CREDIT LOSSES (NONCONSOLIDATED)

	Billions of yen (except percentages)	
As of March 31	**2018**	2017
General reserve for loan losses	**¥ 24.3**	¥ 22.9
Specific reserve for loan losses	**2.3**	2.3
Reserve for loans to restructuring countries	**–**	0.0
Subtotal of reserve for loan losses	**26.7**	25.2
Specific reserve for other credit losses	**–**	4.1
Total reserve for credit losses	**¥ 26.7**	¥ 29.3
Total claims[1]	**¥ 4,724.0**	¥ 4,717.1
Ratio of total reserve for loan losses to total claims	**0.6%**	0.5%
Ratio of total reserve for credit losses to total claims	**0.6%**	0.6%

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

As of March 31, 2018 and 2017, Shinsei's total reserve for credit losses on a nonconsolidated basis was ¥26.7 billion and ¥29.3 billion, respectively, constituting 0.6% and 0.6%, respectively, of total claims.

TABLE 23. RESERVE RATIOS BY BORROWERS' CATEGORY (NONCONSOLIDATED)

		Percentages	
As of March 31		**2018**	2017
Legally and virtually bankrupt	(unsecured portion)	**100.0%**	100.0%
Possibly bankrupt	(unsecured portion)	**55.7%**	58.2%
Substandard	(unsecured portion)	**39.7%**	52.3%
Other need caution	(total claims)	**5.4%**	3.7%
	(unsecured portion)	**11.2%**	6.6%
Normal	(total claims)	**0.4%**	0.4%

RISK-MONITORED LOANS

Consolidated risk-monitored loans increased by 4.4% during the fiscal year ended March 31, 2018 to ¥74.9 billion. The decrease of ¥2.1 billion in nonaccrual delinquent loans during the period were primarily attributable to collection of nonconsolidated loans.

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

TABLE 24. RISK-MONITORED LOANS (CONSOLIDATED)

	Billions of yen (except percentages)	
As of March 31	**2018**	2017
Total loans and bills discounted	**¥ 4,895.9**	¥ 4,833.4
Loans to bankrupt obligors (A)	**5.6**	4.6
Nonaccrual delinquent loans (B)	**31.1**	33.3
Subtotal (A) + (B)	**¥ 36.8**	¥ 37.9
Ratio to total loans and bills discounted	**0.8%**	0.8%
Loans past due for three months or more (C)	**¥ 1.8**	¥ 1.7
Restructured loans (D)	**36.2**	32.0
Total risk-monitored loans (A) + (B) + (C) + (D)	**¥ 74.9**	¥ 71.7
Ratio to total loans and bills discounted	**1.5%**	1.5%
Reserve for credit losses	**¥ 100.8**	¥ 100.1

FINANCIAL CONDITION (continued)

TABLE 25. RISK-MONITORED LOANS (NONCONSOLIDATED)

As of March 31	2018	2017
	Billions of yen (except percentages)	
Total loans and bills discounted	¥ 4,637.9	¥ 4,536.4
Loans to bankrupt obligors (A)	0.5	0.7
Nonaccrual delinquent loans (B)	4.7	5.7
Subtotal (A) + (B)	¥ 5.3	¥ 6.5
Ratio to total loans and bills discounted	0.1%	0.1%
Loans past due for three months or more (C)	¥ 1.1	¥ 1.1
Restructured loans (D)	1.8	2.6
Total risk-monitored loans (A) + (B) + (C) + (D)	¥ 8.3	¥ 10.3
Ratio to total loans and bills discounted	0.2%	0.2%
Reserve for credit losses	¥ 26.7	¥ 29.3

TABLE 26. RISK-MONITORED LOANS BY BORROWER INDUSTRY (NONCONSOLIDATED)

As of March 31	2018	2017
	Billions of yen	
Domestic offices (excluding Japan offshore market account):		
Manufacturing	¥ 2.9	¥ 3.6
Agriculture and forestry	–	–
Fishery	–	–
Mining, quarrying and gravel extraction	–	–
Construction	–	0.0
Electric power, gas, heat supply and water supply	–	–
Information and communications	0.2	0.0
Transportation and postal service	0.0	0.7
Wholesale and retail	0.3	0.2
Finance and insurance	–	–
Real estate	–	–
Services	0.5	0.3
Local government	–	–
Individual	2.6	2.4
Overseas yen loan and overseas loans booked domestically	0.2	1.1
Total domestic (A)	¥ 7.0	¥ 8.6
Overseas offices (including Japan offshore market accounts):		
Governments	¥ –	¥ –
Financial institutions	–	–
Others	1.3	1.6
Total overseas (B)	¥ 1.3	¥ 1.6
Total (A+B)	¥ 8.3	¥ 10.3

FINANCIAL CONDITION (continued)

ASSET QUALITY OF SHINSEI FINANCIAL, APLUS FINANCIAL AND SHOWA LEASING

Shinsei Financial, APLUS FINANCIAL and Showa Leasing classify their obligors and assess their asset quality based on the self-assessment guidelines developed in accordance with guidelines published by the FSA. They generally perform their self-assessment quarterly and at least semi-annually. Shinsei Financial's, APLUS FINANCIAL's and Showa Leasing's assessments, where applicable, include, among other things, an assessment of credit extended to credit card customers as well as lease obligors, unsecured personal loans and customer guarantees.

The following tables set forth information concerning consolidated risk-monitored loans and risk-monitored installment receivables held by Shinsei, Shinsei Financial, APLUS FINANCIAL, Showa Leasing and other subsidiaries as of the dates indicated:

TABLE 27. RISK-MONITORED LOANS BREAKDOWN FOR LARGE ENTITIES (CONSOLIDATED)

	Billions of yen				
	Shinsei	Shinsei Financial	APLUS FINANCIAL	Other subsidiaries	Total
As of March 31, 2018:					
Loans to bankrupt obligors	**¥ 0.5**	**¥ 4.6**	**¥ –**	**¥ 0.3**	**¥ 5.6**
Nonaccrual delinquent loans	**4.7**	**12.3**	**9.8**	**4.2**	**31.1**
Loans past due for three months or more	**1.1**	**0.0**	**0.3**	**0.3**	**1.8**
Restructured loans	**1.8**	**25.0**	**9.2**	**–**	**36.2**
Total	**¥ 8.3**	**¥ 42.0**	**¥ 19.5**	**¥ 4.9**	**¥ 74.9**
As of March 31, 2017:					
Loans to bankrupt obligors	¥ 0.7	¥ 3.4	¥ 0.0	¥ 0.3	¥ 4.6
Nonaccrual delinquent loans	5.7	11.3	11.1	5.0	33.3
Loans past due for three months or more	1.1	0.0	0.1	0.4	1.7
Restructured loans	2.6	20.8	8.3	0.0	32.0
Total	¥ 10.3	¥ 35.7	¥ 19.6	¥ 5.9	¥ 71.7

TABLE 28. RISK-MONITORED INSTALLMENT RECEIVABLES INCLUDED IN OTHER ASSETS (CONSOLIDATED)[1]

	Billions of yen				
	Shinsei Financial	APLUS FINANCIAL	Showa Leasing	Other subsidiaries	Total
As of March 31, 2018:					
Credits to bankrupt obligors	**¥ –**	**¥ 0.0**	**¥ 0.0**	**¥ 0.0**	**¥ 0.0**
Nonaccrual delinquent credits	**–**	**4.5**	**2.7**	**–**	**7.2**
Credits past due for three months or more	**–**	**0.3**	**0.0**	**–**	**0.3**
Restructured credits	**–**	**0.0**	**0.0**	**–**	**0.0**
Total	**¥ –**	**¥ 4.9**	**¥ 2.8**	**¥ 0.0**	**¥ 7.7**
As of March 31, 2017:					
Credits to bankrupt obligors	¥ –	¥ 0.0	¥ 0.0	¥ 0.1	¥ 0.1
Nonaccrual delinquent credits	–	5.7	3.5	0.0	9.3
Credits past due for three months or more	–	0.3	0.0	–	0.4
Restructured credits	–	0.1	0.0	–	0.1
Total	¥ –	¥ 6.3	¥ 3.5	¥ 0.1	¥ 10.0

1 Neither Shinsei Bank (nonconsolidated) nor Shinsei Personal Loan had any such installment receivables.

FUNDING AND LIQUIDITY

We continues to optimize its funding base through deposits from retail customers. Total deposits and negotiable certificates of deposit increase from ¥5,862.9 billion as of March 31, 2017 to ¥6,067.0 billion as of March 31, 2018. The retail deposits balance totaled ¥4,884.5 billion as of March 31, 2018, a increase of ¥8.8 billion compared to March 31, 2017. Retail Banking constitutes 80.5% of our total funding through customer deposits. The following table shows changes in the proportion of our overall funding represented by funds raised from deposits in our Retail and Institutional Banking businesses.

FINANCIAL CONDITION (continued)

TABLE 29. DIVERSIFICATION BY FUNDING TYPE (CONSOLIDATED)

As of March 31	Billions of yen 2018	2017
Retail deposits	**¥ 4,884.5**	¥ 4,875.6
Institutional deposits	**1,182.5**	987.2
Total	**¥ 6,067.0**	¥ 5,862.9

DEPOSITS

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

TABLE 30. MATURITY SCHEDULE OF TIME DEPOSITS (CONSOLIDATED)

As of March 31	Billions of yen 2018	2017
Less than three months[1]	**¥ 1,679.3**	¥ 1,589.7
Three months or more, but less than six months	**227.3**	151.1
Six months or more, but less than one year	**467.1**	235.9
One year or more, but less than two years	**76.5**	541.2
Two years or more, but less than three years	**71.0**	73.1
Three years or more	**169.5**	165.3
Total	**¥ 2,691.0**	¥ 2,756.7

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

CORPORATE BONDS

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

TABLE 31. MATURITY SCHEDULE OF CORPORATE BONDS (CONSOLIDATED)

Corporate Bonds

Fiscal year ending March 31	Billions of yen
2019	¥ 10.0
2020	25.0
2021	15.0
2022	10.0
2023 and thereafter	25.0
Total	¥ 85.0

FINANCIAL CONDITION (continued)

OTHER

The securitization of loans and other assets is another component of our funding strategy. We will continue to explore additional issuance opportunities subject to market conditions.

TABLE 32. SHINSEI'S CREDIT RATINGS AS OF JULY 2018

Rating agency	Long-term (Outlook)	Short-term
R&I	A- (Stable)	a-1
JCR	A- (Stable)	J-1
S&P	BBB+ (Positive)	A-2
Moody's	Baa2 (Stable)	Prime-2

OTHER CONTRACTUAL CASH OBLIGATIONS

We use other contractual cash obligations for funding purposes. The following table sets forth a summary of our primary consolidated other contractual cash obligations as of March 31, 2018 and 2017 :

TABLE 33. OTHER CONTRACTUAL CASH OBLIGATIONS (CONSOLIDATED)

	Billions of yen		
Payments due by period as of March 31, 2018	**1 year or less**	**Over 1 year**	**Total**
Borrowed money	**¥ 322.1**	**¥ 417.4**	**¥ 739.5**
Obligations under finance leases	**0.3**	**0.9**	**1.3**
Total	**¥ 322.5**	**¥ 418.4**	**¥ 740.9**

	Billions of yen		
Payments due by period as of March 31, 2017	1 year or less	Over 1 year	Total
Borrowed money	¥ 431.6	¥ 357.9	¥ 789.6
Obligations under finance leases	0.3	1.3	1.7
Total	¥ 432.0	¥ 359.3	¥ 791.4

FINANCIAL CONDITION (continued)

TAXATION

SCHEDULE OF TAX LOSS CARRYFORWARDS

As of March 31, 2018, Shinsei had ¥156.0 billion of tax loss carryforwards based on the consolidated corporate tax system.

TABLE 34. SCHEDULE OF TAX LOSS CARRY-FORWARDS

	Billions of yen	
Year tax loss carry-forwards generated/renewed	Amount	Date of expiry
Shinsei Bank		
March 31, 2011	¥ 20.0	March 31, 2020
March 31, 2012	16.7	March 31, 2021
March 31, 2013	23.2	March 31, 2022
March 31, 2014	18.5	March 31, 2023
March 31, 2015	34.7	March 31, 2024
March 31, 2016	17.6	March 31, 2025
March 31, 2017	16.5	March 31, 2026
March 31, 2018	8.5	March 31, 2027
Total	¥ 156.0	
APLUS FINANCIAL		
March 31, 2011	¥ 1.0	March 31, 2020
March 31, 2012	7.5	March 31, 2021
March 31, 2013	0.8	March 31, 2022
March 31, 2014	9.8	March 31, 2023
March 31, 2017	7.7	March 31, 2026
March 31, 2018	14.6	March 31, 2027
Total	¥ 41.8	

The table above sets forth a schedule of tax loss carryforwards of Shinsei Bank and APLUS FINANCIAL as of March 31, 2018. Because APLUS FINANCIAL is not wholly-owned subsidiaries, we are not supposed to include their results in our consolidated tax returns.

In the event that Shinsei or APLUS FINANCIAL as the case may be, generates less taxable profit in a given fiscal year than the tax loss carryforward that will expire at year-end, the benefit of the unused portion of the expiring tax loss carryforward will be lost.

We record deferred tax assets for tax loss carryforwards and evaluate them in accordance with the ASBJ Guidance. See "—Critical Accounting Policies— Valuation of Deferred Tax Assets" on page 106.

CONSOLIDATED CORPORATE TAX SYSTEM

Shinsei has filed its corporate tax returns under the consolidated corporate tax system since the fiscal year ended March 31, 2004. Under the consolidated corporate tax system, we base corporate tax payments on the combined profits or losses of Shinsei and its wholly-owned domestic subsidiaries.

APLUS FINANCIAL has also adopted the consolidated corporate tax system beginning with the fiscal year ended March 31, 2011, respectively.

FINANCIAL CONDITION (continued)

CAPITAL RESOURCES AND ADEQUACY

EQUITY

The following table sets forth a summary of our equity as of March 31, 2018 and 2017:

TABLE 35. EQUITY (CONSOLIDATED)

As of March 31	Billions of yen (except percentages) 2018	2017
Common stock	**¥ 512.2**	¥ 512.2
Capital surplus	**78.5**	78.5
Stock acquisition rights	**0.3**	0.5
Retained earnings	**361.3**	312.5
Treasury stock, at cost	**(89.5)**	(79.5)
Accumulated other comprehensive income:		
Unrealized gain on available-for-sale securities	**5.1**	10.2
Deferred gain (loss) on derivatives under hedge accounting	**(14.4)**	(13.9)
Foreign currency translation adjustments	**(1.5)**	0.1
Defined retirement benefit plans	**2.0**	(1.3)
Total	**¥ 854.1**	¥ 819.5
Noncontrolling interests	**1.9**	1.2
Total equity	**¥ 856.0**	¥ 820.7
Ratio of total equity to total assets	**9.1%**	8.9%

CAPITAL RATIOS

From the fiscal year ended March 31, 2014, the Basel III methodology has been adopted to calculate capital ratios. For credit risk, the Foundation Internal Ratings Based Approach (FIRB) has been applied. For operational risk, the Standardized Approach (TSA) has been adopted and the Internal Model Method has been used for market risk.

Our total capital adequacy ratio (Basel III) as of March 31, 2018 was 12.83%, compared with 13.06% as of March 31, 2017.

See "COMPOSITION OF CAPITAL DISCLOSURE (CONSOLIDATED)" on Page 199.

FINANCIAL CONDITION (continued)

Subordinated debt and preferred securities are included in eligible capital instruments subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves). In the grandfathering rule, eligible capital instruments can be calculated as capital but the value will decrease due to the amortization and redemption.

Basel III additional capital items which are capital deduction are the following items. The capital deduction will increase gradually in the grandfathering rule.

- Other intangibles other than goodwill and mortgage servicing rights.
- Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability).
- Net defined benefit asset.

OFF-BALANCE SHEET ARRANGEMENTS

We use off-balance sheet arrangements, including investments through special purpose entities, securitizations, lines and letters of credit, loan commitments and loan participations, in the ordinary course of business, including in our securitization and financing businesses, as well as to manage our own liquidity risk. The main purposes of such off-balance sheet arrangements are to develop our institutional banking business as well as to diversify our sources of liquidity. The following is a discussion of the principal off-balance sheet arrangements we use.

SECURITIZATION

We structure, arrange, distribute and service mortgage-backed securities and asset-backed securities both for third-parties and ourselves. Our securitization services utilize special purpose entities, which may be organized in the form of trusts, partnerships or corporations, mainly to protect the securitized assets from creditors of transferors even in bankruptcy. Assets securitized include commercial loans, residential mortgage loans, installment receivables and lease receivables.

REPACKAGING

One aspect of our securitization business involves our repackaging of assets purchased by special purpose entities that we establish into new financial instruments that represent undivided interests in the underlying assets. Repackaging the assets generally entails analyzing the cash flows from the underlying assets, using various means to rearrange the timing and order of cash flows, and then combining them with other cash flows to create new financial instruments that can be tailored to meet the demands of a broad range of investors.

Often the assets are repackaged into residual or subordinated interests, mezzanine interests and senior interests. The residual interests are the first to suffer any losses as a result of any decline in the value of the underlying financial assets, while the senior interests are structured to be the last to absorb such losses. In instances where we repackage assets on our own initiative, rather than for our customers, we generally retain the residual interests and either sell the senior or mezzanine interests immediately to third-parties or hold them temporarily before placing them with investors. Revenues on these transactions consist of gains on sales of the repackaged senior and mezzanine interests, transaction arrangement fees received from the originators of the assets, fees for underwriting the senior instruments, and returns on the residual interests.

The principal risk inherent in these repackagings is credit risk on the securitized financial instruments that is absorbed by the retained residual interests. We may record losses on the residual interests due to declines in the value of the underlying financial assets. We manage this credit risk through quarterly assessing our retained interests and providing valuation allowances for them based on those assessments, taking into consideration how much we believe we will be able to collect on the underlying assets. We generally transfer financial assets to special purpose entities on a "true sale" basis, which means that we would neither be entitled nor required to reacquire the financial assets so transferred.

FINANCIAL CONDITION (continued)

ARRANGEMENT

We also securitize customers' assets on their behalf, drawing on our expertise and experience in establishing securitization vehicles tailored to accommodate clients' needs, analyzing cash flows from the financial assets, structuring them into classes of securitized interests, arranging credit enhancements and locating investors for the securities to be issued. We generally place the securities representing the senior interests from these transactions with third-party investors. We may choose, however, to acquire temporarily a portion of these senior securities for later sale and often structure financial arrangements, including repackaging, that enhance the liquidity of these senior securities in order to attract third-party investors. These securities are recorded in other monetary claims purchased and recorded at fair value.

Our revenue on these transactions consists of fees, generally fixed, for arranging the transaction and for underwriting the sale of the financial instruments. We typically record those fees as having been received at the completion of all arrangements for the customer.

On these transactions, we act as an arranger, an underwriter, a servicer, a trustee or an administrator, or combination of some of these roles, for our corporate customers. As our customers usually retain the residual interests and the related risk of loss on them, we are not exposed to risks of incurring losses inherent in such residual interests.

As of March 31, 2018 and 2017, we held ¥8.8 billion and ¥16.4 billion, respectively, of debt securities and residual interests from securitization transactions.

LOAN PARTICIPATIONS

We have sold or transferred participation interests in certain of our loans. Loan participation involves the original lender transferring economic interests in the loan to others, while the original lender retains title to the loan itself.

Under Japanese GAAP, where substantially all of the economic interest in and risks of the loans are transferred to the participants, the original lenders are not deemed to bear recourse obligations for the participating interests or to have any rights to repurchase such interests. As a result, the original lender may remove the loans from its balance sheet as if the loans were sold to the participants. Because substantially all of the economic interest and risks have been transferred to the participants, we believe that we are not taking any substantial economic risk on the portions of loans in which we have sold participating interests.

As of March 31, 2018 and 2017, the total principal amount of participation interests in loans transferred to third-parties removed from the loan account was ¥7.8 billion and ¥8.3 billion, respectively.

OFF-BALANCE SHEET ARRANGEMENTS TO EXTEND CREDIT, ACCEPTANCES AND GUARANTEES

We have off-balance sheet commitments to extend credit to customers up to certain predetermined amounts at current market rates, in consideration of which we receive fee income that is recorded on an accrual basis for the period of the commitments. The unfulfilled amounts of these commitments and established credit line of overdrafts were ¥3,446.8 billion and ¥3,534.4 billion as of March 31, 2018 and 2017, out of which the amounts with the commitments of the agreements expiring within one year or being able to be cancelled at any time with no condition were ¥3,114.5 billion and ¥3,252.6 billion as of March 31, 2018 and 2017, respectively.

In addition, we provide acceptances and guarantees, which include lines and letters of credit and guarantees on customers' borrowings from other creditors. These acceptances and guarantees require us to satisfy our customers' obligations in the event they fail to do so, although we would have a claim for reimbursement against them. Under Japanese GAAP for banks, these acceptances and guarantees are deemed to be both contingent assets and liabilities, and are recorded as both assets and liabilities in the principal amount of the acceptances and guarantees. We record the fees we earn from providing acceptances and guarantees on an accrual basis over the period of the acceptance or guarantee. As of March 31, 2018 and 2017, we had ¥395.3 billion and ¥346.6 billion, respectively, of outstanding acceptances and guarantees.

APLUS FINANCIAL extends credit in the form of guarantees. The most significant component of its guarantee business is providing guarantees on installment shopping credit provided by other lenders to customers of its partner merchants. APLUS FINANCIAL also offers collection guarantees for foreign automobile dealers. As of March 31, 2018 and 2017, ¥321.9 billion and ¥245.6 billion of our outstanding acceptances or guarantees, respectively, were attributable to its guarantee business.

CONSOLIDATED BALANCE SHEET

Shinsei Bank, Limited, and its Consolidated Subsidiaries
As of March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
ASSETS			
Cash and due from banks (Notes 4, 24, and 38)	**¥ 1,465,663**	¥ 1,398,691	**$ 13,800,977**
Call loans (Note 38)	**–**	4,472	**–**
Receivables under securities borrowing transactions (Note 38)	**2,629**	1,625	**24,760**
Other monetary claims purchased (Notes 5 and 38)	**36,332**	44,243	**342,116**
Trading assets (Notes 6, 24, 38 and 39)	**205,295**	244,113	**1,933,104**
Monetary assets held in trust (Notes 7, 24 and 38)	**234,924**	241,681	**2,212,094**
Securities (Notes 8, 24, 25 and 38)	**1,123,522**	1,014,635	**10,579,306**
Loans and bills discounted (Notes 9, 24, and 38)	**4,895,963**	4,833,452	**46,101,352**
Foreign exchanges (Note 10)	**32,511**	19,617	**306,138**
Lease receivables and leased investment assets (Notes 24, 35 and 38)	**171,429**	191,488	**1,614,217**
Other assets (Notes 11, 24, 25, 38 and 39)	**856,213**	895,158	**8,062,272**
Premises and equipment (Notes 12, 24 and 35)	**50,261**	47,980	**473,274**
Intangible assets (Notes 13 and 35)	**59,484**	52,020	**560,121**
Assets for retirement benefits (Note 21)	**13,261**	7,075	**124,871**
Deferred issuance expenses for debentures	**–**	0	**–**
Deferred tax assets (Note 32)	**14,705**	15,542	**138,469**
Customers' liabilities for acceptances and guarantees (Note 22)	**395,301**	346,675	**3,722,232**
Reserve for credit losses (Note 14)	**(100,840)**	(100,154)	**(949,537)**
Total assets	**¥ 9,456,660**	¥ 9,258,324	**$ 89,045,767**
LIABILITIES AND EQUITY			
Liabilities:			
Deposits, including negotiable certificates of deposit (Notes 15, 24 and 38)	**¥ 6,067,096**	¥ 5,862,922	**$ 57,128,973**
Debentures (Notes 16 and 38)	**423**	6,561	**3,984**
Call money (Notes 38)	**–**	53,600	**–**
Payables under repurchase agreements (Notes 24 and 38)	**55,919**	36,467	**526,546**
Payables under securities lending transactions (Notes 24 and 38)	**433,462**	337,952	**4,081,568**
Trading liabilities (Notes 17, 38 and 39)	**184,582**	212,241	**1,738,070**
Borrowed money (Notes 18, 24, 25 and 38)	**739,578**	789,670	**6,964,018**
Foreign exchanges (Note 10)	**102**	102	**966**
Short-term corporate bonds (Note 38)	**175,700**	168,000	**1,654,426**
Corporate bonds (Notes 19, 24, 25 and 38)	**85,000**	112,600	**800,377**
Other liabilities (Notes 20, 24, 38 and 39)	**367,734**	388,307	**3,462,657**
Accrued employees' bonuses	**8,489**	8,519	**79,943**
Accrued directors' bonuses	**51**	75	**482**
Liabilities for retirement benefits (Note 21)	**8,366**	8,256	**78,777**
Reserve for reimbursement of debentures	**4,130**	3,737	**38,892**
Reserve for losses on interest repayments	**74,687**	101,846	**703,269**
Acceptances and guarantees (Notes 22, 24 and 38)	**395,301**	346,675	**3,722,232**
Total liabilities	**8,600,625**	8,437,537	**80,985,177**
Equity:			
Common stock (Note 26)	**512,204**	512,204	**4,823,018**
Capital surplus	**78,506**	78,506	**739,232**
Stock acquisition rights (Note 27)	**318**	584	**3,004**
Retained earnings	**361,368**	312,538	**3,402,720**
Treasury stock, at cost (Note 26)	**(89,540)**	(79,539)	**(843,135)**
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities (Note 8)	**5,187**	10,299	**48,845**
Deferred gain (loss) on derivatives under hedge accounting	**(14,457)**	(13,925)	**(136,136)**
Foreign currency translation adjustments	**(1,573)**	199	**(14,814)**
Defined retirement benefit plans (Note 21)	**2,089**	(1,344)	**19,675**
Total	**854,103**	819,524	**8,042,409**
Noncontrolling interests	**1,930**	1,262	**18,182**
Total equity	**856,034**	820,786	**8,060,591**
Total liabilities and equity	**¥ 9,456,660**	¥ 9,258,324	**$ 89,045,767**

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

CONSOLIDATED STATEMENT OF INCOME

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Interest income:			
Interest on loans and bills discounted	**¥ 134,858**	¥ 127,482	**$ 1,269,854**
Interest and dividends on securities	**11,705**	8,991	**110,226**
Interest on deposits with banks	**1,069**	1,092	**10,066**
Other interest income	**871**	922	**8,203**
Total interest income	**148,504**	138,488	**1,398,349**
Interest expenses:			
Interest on deposits, including negotiable certificates of deposit	**9,021**	7,814	**84,949**
Interest and discounts on debentures	**3**	10	**34**
Interest on other borrowings	**3,432**	3,407	**32,318**
Interest on corporate bonds	**952**	1,126	**8,970**
Other interest expenses	**6,318**	3,850	**59,501**
Total interest expenses	**19,728**	16,209	**185,771**
Net interest income	**128,775**	122,278	**1,212,578**
Fees and commissions income	**50,129**	49,207	**472,027**
Fees and commissions expenses	**25,059**	23,704	**235,962**
Net fees and commissions	**25,070**	25,502	**236,065**
Net trading income (loss) (Note 28)	**8,542**	7,373	**80,441**
Other business income (loss), net:			
Income on lease transactions and installment receivables, net	**37,030**	38,672	**348,689**
Net gain (loss) on monetary assets held in trust	**2,760**	3,931	**25,992**
Net gain (loss) on foreign exchanges	**9,466**	10,405	**89,143**
Net gain (loss) on securities	**9,936**	13,242	**93,565**
Net gain (loss) on other monetary claims purchased	**1,193**	3,012	**11,239**
Other, net (Note 29)	**9,253**	4,117	**87,133**
Net other business income (loss)	**69,641**	73,380	**655,761**
Total revenue	**232,030**	228,534	**2,184,844**
General and administrative expenses:			
Personnel expenses	**56,249**	56,628	**529,661**
Premises expenses	**20,065**	21,089	**188,942**
Technology and data processing expenses	**20,810**	20,169	**195,957**
Advertising expenses	**11,052**	10,403	**104,068**
Consumption and property taxes	**9,389**	10,112	**88,417**
Deposit insurance premium	**1,775**	2,052	**16,722**
Other general and administrative expenses	**23,637**	23,796	**222,580**
General and administrative expenses	**142,981**	144,253	**1,346,346**
Amortization of goodwill and intangible assets acquired in business combinations	**3,987**	5,243	**37,548**
Total general and administrative expenses	**146,969**	149,497	**1,383,894**
Net business profit (loss)	**85,060**	79,037	**800,950**
Net credit costs (recoveries) (Note 30)	**37,270**	31,898	**350,949**
Other gains (losses), net (Note 31)	**7,621**	4,617	**71,763**
Income (loss) before income taxes	**55,411**	51,755	**521,765**
Income taxes (benefit) (Note 32):			
Current	**1,266**	2,139	**11,928**
Deferred	**2,574**	(900)	**24,241**
Profit	**51,570**	50,517	**485,596**
Profit (loss) attributable to noncontrolling interests	**156**	(242)	**1,470**
Profit attributable to owners of the parent	**¥ 51,414**	¥ 50,759	**$ 484,125**

	Yen		U.S. dollars (Note 1)
Basic earnings per share (Note 33)	**¥ 199.01**	¥ 194.65	**$ 1.87**
Diluted earnings per share (Note 33)	**¥ 198.98**	¥ 194.64	**$ 1.87**

See accompanying "Notes to Consolidated Financial Statements," which are an integral part of these statements.
Shinsei Bank executed a 1-for-10 reverse stock split on October 1, 2017. The above EPS data is calculated as if the reverse stock split had been implemented at the beginning of the fiscal year ended March 31, 2017.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Profit	**¥ 51,570**	¥ 50,517	**$ 485,596**
Other comprehensive income (Note 34):			
Unrealized gain (loss) on available-for-sale securities	**(5,968)**	(273)	**(56,198)**
Deferred gain (loss) on derivatives under hedge accounting	**(532)**	845	**(5,010)**
Foreign currency translation adjustments	**219**	(2,289)	**2,067**
Defined retirement benefit plans	**3,434**	1,625	**32,336**
Share of other comprehensive income in affiliates	**(1,248)**	192	**(11,761)**
Total other comprehensive income	**(4,095)**	100	**(38,565)**
Comprehensive income	**¥ 47,474**	¥ 50,617	**$ 447,030**
Total comprehensive income attributable to:			
Owners of the parent	**¥ 47,430**	¥ 51,455	**$ 446,617**
Noncontrolling interests	**43**	(838)	**414**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal year ended March 31, 2018

Millions of yen

						Accumulated other comprehensive income						
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock, at cost	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Noncontrolling interests	Total equity
BALANCE, April 1, 2016	¥ 512,204	¥ 79,461	¥ 512	¥ 267,716	¥ (72,559)	¥ 11,911	¥ (14,770)	¥ 362	¥ (2,970)	¥ 781,869	¥ 11,254	¥ 793,124
Dividends				(2,653)						(2,653)		(2,653)
Profit attributable to owners of the parent				50,759						50,759		50,759
Purchase of treasury stock					(12,096)					(12,096)		(12,096)
Disposal of treasury stock		(3,258)			5,115					1,856		1,856
Transfer to capital surplus from retained earnings		3,258		(3,258)						–		–
Changes in ownership interest of the parent related to transactions with noncontrolling interests		(955)								(955)		(955)
Changes by forfeit of stock acquisition rights in a consolidated subsidiary				–						–		–
Changes by inclusion of consolidated subsidiaries				(2)						(2)		(2)
Changes by exclusion of consolidated subsidiaries				(22)						(22)		(22)
Net change during the year			71			(1,612)	845	(163)	1,625	768	(9,992)	(9,224)
BALANCE, March 31, 2017	**512,204**	**78,506**	**584**	**312,538**	**(79,539)**	**10,299**	**(13,925)**	**199**	**(1,344)**	**819,524**	**1,262**	**820,786**
Dividends				**(2,588)**						**(2,588)**		**(2,588)**
Profit attributable to owners of the parent				**51,414**						**51,414**		**51,414**
Purchase of treasury stock					**(10,001)**					**(10,001)**		**(10,001)**
Disposal of treasury stock		**–**			**–**					**–**		**–**
Transfer to capital surplus from retained earnings		**–**		**–**						**–**		**–**
Changes in ownership interest of the parent related to transactions with noncontrolling interests		**(0)**								**(0)**		**(0)**
Changes by forfeit of stock acquisition rights in a consolidated subsidiary				**4**						**4**		**4**
Changes by inclusion of consolidated subsidiaries				**(0)**						**(0)**		**(0)**
Changes by exclusion of consolidated subsidiaries				**–**						**–**		**–**
Net change during the year			**(265)**			**(5,112)**	**(532)**	**(1,772)**	**3,433**	**(4,248)**	**668**	**(3,580)**
BALANCE, March 312018	**¥ 512,204**	**¥ 78,506**	**¥ 318**	**¥ 361,368**	**¥ (89,540)**	**¥ 5,187**	**¥ (14,457)**	**¥ (1,573)**	**¥ 2,089**	**¥ 854,103**	**¥ 1,930**	**¥ 856,034**

Thousands of U.S. dollars (Note 1)

						Accumulated other comprehensive income						
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock, at cost	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Noncontrolling interests	Total equity
BALANCE, March 31, 2017	**$ 4,823,018**	**$ 739,232**	**$ 5,504**	**$ 2,942,927**	**$ (748,960)**	**$ 96,984**	**$ (131,127)**	**$ 1,877**	**$ (12,656)**	**$ 7,716,800**	**$ 11,887**	**$ 7,728,687**
Dividends				**(24,373)**						**(24,373)**		**(24,373)**
Profit attributable to owners of the parent				**484,125**						**484,125**		**484,125**
Purchase of treasury stock					**(94,175)**					**(94,175)**		**(94,175)**
Disposal of treasury stock		**–**			**–**					**–**		**–**
Transfer to capital surplus from retained earnings		**–**		**–**						**–**		**–**
Changes in ownership interest of the parent related to transactions with noncontrolling interests		**(0)**								**(0)**		**(0)**
Changes by forfeit of stock acquisition rights in a consolidated subsidiary				**42**						**42**		**42**
Changes by inclusion of consolidated subsidiaries				**(1)**						**(1)**		**(1)**
Changes by exclusion of consolidated subsidiaries				**–**						**–**		**–**
Net change during the year			**(2,500)**			**(48,139)**	**(5,010)**	**(16,690)**	**32,331**	**(40,008)**	**6,295**	**(33,714)**
BALANCE, March 31, 2018	**$ 4,823,018**	**$ 739,232**	**$ 3,004**	**$ 3,402,720**	**$ (843,135)**	**$ 48,845**	**$ (136,136)**	**$ (14,814)**	**$ 19,675**	**$ 8,042,409**	**$ 18,182**	**$ 8,060,591**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Cash flows from operating activities:			
Income (loss) before income taxes	**¥ 55,411**	¥ 51,755	**$ 521,765**
Adjustments for:			
Income taxes paid	**(825)**	(2,548)	**(7,772)**
Depreciation (other than leased assets as lessor)	**10,973**	12,517	**103,329**
Amortization of goodwill and intangible assets acquired in business combinations	**3,987**	5,243	**37,548**
Impairment losses on long-lived assets	**1,834**	450	**17,275**
Net change in reserve for credit losses	**686**	8,788	**6,466**
Net change in reserve for losses on interest repayments	**(27,159)**	(31,849)	**(255,735)**
Net change in other reserves	**338**	946	**3,183**
Interest income	**(148,504)**	(138,488)	**(1,398,349)**
Interest expenses	**19,728**	16,209	**185,771**
Investment (gains) losses	**(12,690)**	(16,234)	**(119,492)**
Net exchange (gain) loss	**2,306**	1,768	**21,720**
Net change in trading assets	**38,818**	92,231	**365,520**
Net change in trading liabilities	**(27,658)**	(82,085)	**(260,435)**
Net change in loans and bills discounted	**(62,490)**	(270,492)	**(588,422)**
Net change in deposits, including negotiable certificates of deposit	**204,252**	61,909	**1,923,277**
Net change in debentures	**(6,138)**	(10,178)	**(57,804)**
Net change in borrowed money (other than subordinated debt)	**(50,987)**	36,428	**(480,104)**
Net change in corporate bonds (other than subordinated corporate bonds)	**(21,200)**	17,478	**(199,623)**
Net change in interest-bearing deposits with banks (other than due from the Bank of Japan)	**37,444**	(21,747)	**352,584**
Net change in call loans, receivables under resale agreements, receivables under securities borrowing transactions and other monetary claims purchased	**11,379**	35,827	**107,156**
Net change in call money, payables under repurchase agreements, payables under securities lending transactions, and short-term corporate bonds (liabilities)	**69,061**	284,701	**650,300**
Net change in foreign exchange assets and liabilities	**(12,894)**	(2,566)	**(121,414)**
Interest received	**147,408**	140,878	**1,388,029**
Interest paid	**(20,104)**	(14,216)	**(189,312)**
Net change in securities for trading purposes	**(0)**	7	**(0)**
Net change in monetary assets held in trust for trading purposes	**4,541**	12,269	**42,767**
Net change in lease receivables and leased investment assets	**20,060**	9,271	**188,891**
Other, net	**(70,166)**	(22,600)	**(660,703)**
Total adjustments	**112,003**	123,920	**1,054,652**
Net cash provided by (used in) operating activities	**167,415**	175,676	**1,576,416**
Cash flows from investing activities:			
Purchase of investments	**(1,531,992)**	(1,794,568)	**(14,425,539)**
Proceeds from sales of investments	**1,363,117**	1,781,961	**12,835,379**
Proceeds from maturity of investments	**147,769**	164,298	**1,391,430**
Purchase of premises and equipment (other than leased assets as lessor)	**(3,441)**	(4,799)	**(32,403)**
Purchase of intangible assets (other than leased assets as lessor)	**(20,742)**	(14,064)	**(195,312)**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**–**	(443)	**–**
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation	**–**	3,062	**–**
Other, net	**1,001**	(38)	**9,430**
Net cash provided by (used in) investing activities	**(44,287)**	135,407	**(417,015)**
Cash flows from financing activities:			
Repayment of subordinated debt	**–**	(38,600)	**–**
Payment for redemption of subordinated corporate bonds	**(6,400)**	–	**(60,264)**
Proceeds from noncontrolling shareholders	**838**	50	**7,891**
Payment for capital returned to noncontrolling shareholders	**–**	(6,439)	**–**
Dividends paid	**(2,588)**	(2,653)	**(24,373)**
Dividends paid to noncontrolling shareholders	**–**	(451)	**–**
Payment for purchase of treasury stock	**(10,001)**	(12,096)	**(94,175)**
Purchase of investments in subsidiaries not resulting in change in scope of consolidation	**(185)**	(1,321)	**(1,750)**
Net cash provided by (used in) financing activities	**(18,337)**	(61,512)	**(172,671)**
Foreign currency translation adjustments on cash and cash equivalents	**(84)**	(60)	**(791)**
Net change in cash and cash equivalents	**104,706**	249,510	**985,939**
Cash and cash equivalents at beginning of year	**1,329,867**	1,080,357	**12,522,294**
Cash and cash equivalents at end of year (Note 4)	**¥ 1,434,574**	¥ 1,329,867	**$ 13,508,233**

Note: Investments consist of securities and monetary assets held in trust for other than trading purposes.
See accompanying "Notes to Consolidated Financial Statements," which are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal year ended March 31, 2018

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS CONSOLIDATED

The accompanying consolidated financial statements of Shinsei Bank, Limited (the "Bank") and its consolidated subsidiaries (collectively, the "Group"), stated in Japanese yen, have been prepared on the basis of generally accepted accounting principles in Japan ("Japanese GAAP") and in accordance with the Banking Act of Japan (the "Banking Act"), and compiled from the consolidated financial statements prepared under the provisions set forth in the Financial Instruments and Exchange Act of Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards ("IFRS").

Certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, the accompanying notes include information that is not required under Japanese GAAP, but is presented herein for the convenience of readers.

The preparation of consolidated financial statements in conformity with Japanese GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106.20 to U.S. $1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2018. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Amounts of less than one million yen and one thousand U.S. dollars have been rounded down to the nearest million and rounded to the nearest thousand, respectively except for per share amounts in the presentation of the accompanying consolidated financial statements and the notes thereto. As a result, the totals in yen and U.S. dollars do not necessarily equal the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONSOLIDATED

(A) PRINCIPLES OF CONSOLIDATION

The Group determines its scope of consolidation under the concepts of control and influence. Those companies over which the Bank is able to directly or indirectly exercise control are fully consolidated, except if they are immaterial, judging from the financial position or 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, or the control over the subsidiary is temporary, and those companies over which the Bank is able to directly or indirectly exercise significant influence are accounted for through the equity method, except if they are immaterial, judging from the financial position or 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.

The numbers of subsidiaries and affiliates as of March 31, 2018 and 2017 were as follows:

	2018	2017
Consolidated subsidiaries	**83**	124
Unconsolidated subsidiaries	**104**	97
Affiliates accounted for by the equity method	**30**	20
Affiliates accounted for not applying the equity method	–	–

Femto LLC and 1 other company were newly consolidated due to their formation and SL SIERRA CO., LTD. and 2 other companies were newly consolidated due to their increased materiality.

Additionally, Peninsula LLP and 32 other companies were excluded from the scope of consolidation due to liquidation, SCP Capital I Ltd. was excluded from the scope of consolidation due to the sale of shares, Shinsei Servicing & Consulting Limited was excluded from the scope of consolidation due to a merger with Alpha Servicer Co., Ltd., Shinsei Investment & Finance Limited and Shinsei Property Finance Co., Ltd. were excluded from the scope of consolidation due to mergers with Shinsei Principal Investments Ltd., and Shinsei Investment II Limited and 8 other companies were excluded from the scope of consolidation due to their decreased materiality in the fiscal year ended March 31, 2018. Shinsei Principal Investments Ltd. changed its company name to Shinsei Investment & Finance Limited on October 1, 2017.

Femto Growth Fund II L.P. and 10 other companies were newly included in the scope of application of the equity method due to their formation, MB Shinsei Finance Limited Liability Company was newly included in the scope of application of the equity method due to the acquisition of interest, and ES Shipping Corporation and 1 other company were excluded from the scope of application of the equity method due to liquidation in the fiscal year ended March 31, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) CONSOLIDATED

Unconsolidated subsidiaries are primarily operating companies that are engaged in the leasing business under the Tokumei Kumiai (anonymous partnership) system.

Under the Tokumei Kumiai system assets, profits and losses essentially do not belong to individual operating companies or their parent companies but to the members of the anonymous partnership, and furthermore, as the Group does not have any material transactions with these subsidiaries, pursuant to Article 5, Paragraph 1, Section 2 and Article 10, Paragraph 1, Section 2 of the regulations concerning consolidated financial statements, respectively, these subsidiaries are excluded from the scope of consolidation and the scope of application of the equity method.

Other unconsolidated subsidiaries are excluded from the scope of consolidation and the scope of application of the equity method due to their immateriality to the financial position or operational results of the Group.

ORTHOREBIRTH CO., LTD. was not treated as an affiliate even though the Group owns 20% to 50% of its voting rights because the objective for the Group to own the voting rights is merely to obtain capital gains and the investment meets the requirement according to Paragraph 24 of the Accounting Standards Board of Japan (the "ASBJ") guidance No. 22 "Implementation Guidance on Determining a Subsidiary and an Affiliate."

Major consolidated subsidiaries as of March 31, 2018 were listed below:

Name	Location	Percentage ownership
APLUS FINANCIAL Co., Ltd.	Japan	95.0%
Showa Leasing Co., Ltd.	Japan	100.0%
Shinsei Personal Loan Co., Ltd.	Japan	100.0%
Shinsei Financial Co., Ltd.	Japan	100.0%
Shinsei Trust & Banking Co., Ltd.	Japan	100.0%
Shinsei Securities Co., Ltd.	Japan	100.0%
Shinsei Investment & Finance Ltd.	Japan	100.0%

All significant inter-company transactions, related account balances and unrealized gains have been eliminated upon consolidation. As of March 31, 2018, the fiscal year ending dates were March 31 for 54 subsidiaries, September 30 for 3 subsidiaries, December 31 for 25 subsidiaries and February 28 for 1 subsidiary. Regarding the 4 companies of the Bank's consolidated subsidiaries which have fiscal year end dates other than March 31, consolidation was performed utilizing its respective fiscal year-end financial statements prepared in accordance with the provisional settlements of accounts performed on March 31 and other consolidated subsidiaries have been consolidated utilizing their respective statements. Appropriate adjustments have been made for significant transactions that occurred during the period from the ending dates of their fiscal year to March 31, 2018.

A major affiliate accounted for by the equity method as of March 31, 2018 was listed below:

Name	Location	Percentage ownership
Jih Sun Financial Holding Co., Ltd.	Taiwan	36.2%

(B) GOODWILL AND INTANGIBLE ASSETS ACQUIRED IN BUSINESS COMBINATIONS

The Bank recognized certain identifiable intangible assets in connection with the acquisition of Showa Leasing Co., Ltd. ("Showa Leasing"), Shinsei Financial Co., Ltd. ("Shinsei Financial") and their consolidated subsidiaries, because they were separable such as contractual or other legal rights.

The identified intangible assets with amortization method and period are listed below:

Showa Leasing

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

Shinsei Financial

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

The excess of the purchase price over the fair value of the net assets acquired, including identified intangible assets, was recorded as goodwill and is being amortized on a consistent basis primarily over 20 years. The amortization period of 20 years is the maximum period allowed under Japanese GAAP and was determined based upon the Bank's business strategy.

With regard to the acquisitions executed before April 1, 2010, recorded with the previous accounting standard, when the purchase price was lower than the fair value of the net assets acquired, including identified intangible assets, the difference was recorded as negative goodwill and has been amortized on a straight-line basis primarily over 20 years, which is the maximum period allowed under the previous accounting standard.

(C) IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS ACQUIRED IN BUSINESS COMBINATIONS

The Bank conducts impairment testing for goodwill and intangible assets acquired in business combinations as a result of certain triggering events including:

- A result or an indication of an operating loss or negative cash flow for two consecutive years
- Impairment of underlying investment securities is recognized

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) CONSOLIDATED

- A material adverse change in the business environment surrounding subsidiaries, such as a change in law which significantly and negatively impacts their business
- Management decisions that could have an adverse effect on the value of goodwill and intangible assets which were acquired in business combination

As the first step of the impairment test, we estimate the undiscounted future cash flows of the business. If the value of the undiscounted future cash flows is less than the book value of the net assets, including goodwill and intangible assets acquired in business combination, of the business, it is determined that impairment exists.

The next step of the impairment test is to measure the amount of the impairment loss, which is to compare the "value in use," which is recoverable amount calculated as the discounted value of future cash flows of the business, with the net asset book value which includes unamortized balances of goodwill and intangible assets acquired in business combination.

Finally, the impairment loss on goodwill is calculated as the residual, (i) less (ii) below.

(i) Impairment loss for the total of goodwill and intangible assets acquired in business combination is recognized as an amount by which the net asset book value exceeds the "value in use." The recoverable amount of intangible assets acquired in business combination is determined by discounted cash flow method ("DCF method"), which is also used to measure the acquired assets, and (ii) the impairment loss of intangible assets acquired in business combinations, is determined as the difference between the recoverable amount and book value.

(D) TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS AND TRANSACTIONS

(a) The financial statements of consolidated foreign subsidiaries are translated into Japanese yen at exchange rates as of their respective balance sheet dates, except for equity, which is translated at historical exchange rates. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity in the accompanying consolidated balance sheets.

(b) Foreign currency accounts held by consolidated foreign subsidiaries are translated into functional currency of each subsidiary at exchange rates as of their respective balance sheet dates.

(c) Foreign currency-denominated assets and liabilities of the Bank and consolidated domestic subsidiaries are translated into Japanese yen at exchange rates as of their respective balance sheet dates, except for investments in unconsolidated subsidiaries and affiliates which are translated at the relevant historical exchange rates.

(E) CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the consolidated statements of cash flows, consist of cash on hand, due from the Bank of Japan and noninterest-bearing deposits.

(F) OTHER MONETARY CLAIMS PURCHASED

Other monetary claims purchased held for trading purposes, except for those included in trading accounts, are recorded at fair value and unrealized gains and losses are recorded in "Other business income (loss), net."

(G) VALUATION OF TRADING ACCOUNT ACTIVITIES

Trading account positions entered into to generate gains arising from short-term changes in interest rates, currency exchange rates or market prices of financial instruments and other market-related indices, or from price differences among markets, are included in "Trading assets" and "Trading liabilities" on a trade-date basis.

Trading securities and monetary claims purchased for trading purposes are stated at market value and derivative financial instruments related to trading positions are stated at fair value based on estimated amounts that would be settled in cash if such positions were terminated at the end of the fiscal year, which reflects liquidity and credit risks.

Trading 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, monetary claims purchased, and derivatives between the beginning and the end of the fiscal year.

(H) MONETARY ASSETS HELD IN TRUST

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

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

(I) SECURITIES

Securities other than securities in (G) VALUATION OF TRADING ACCOUNT ACTIVITIES are classified into the four categories, principally based on management's intent to own the security, as follows:

(i) Trading securities are securities held in anticipation of gains arising from short-term changes in market value and/or held for resale to customers. Trading securities

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) CONSOLIDATED

are carried at fair value with corresponding unrealized gains and losses recorded in "Other business income (loss), net."

(ii) Securities being held to maturity are debt securities which management has both a positive intent and ability to hold until maturity. Securities being held to maturity are carried at amortized cost determined by the moving average method.

(iii) Available-for-sale securities are securities other than (i) trading securities and (ii) securities being held to maturity. Available-for-sale securities are carried at fair value with the corresponding unrealized gains and losses, net of applicable taxes, recorded directly in a separate component of equity, after deducting the amount charged to profit or loss by applying fair value hedge accounting. The cost of these securities upon sale is determined by the moving average method. Available-for-sale securities for which fair value cannot be reliably determined are carried at cost determined by the moving average method.

(iv) Investments in unconsolidated subsidiaries and affiliates that are not accounted for by the equity method are carried at cost determined by the moving average method. In addition, investments in partnerships and others are carried at the amount of the Group's share of net asset value in their most recent financial statements.

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

(J) PREMISES AND EQUIPMENT

"Premises and equipment" are stated at cost less accumulated depreciation.

Depreciation of the Group's buildings and the Bank's computer equipment (including ATMs) other than personal computers is computed principally using the straight-line method, and depreciation of other equipment is computed principally using the declining-balance method. Estimated useful lives of buildings and equipment as of March 31, 2018 were principally as follows:

Buildings........... 3 years to 50 years
Equipment ...... 2 years to 20 years

(K) SOFTWARE

Capitalized software for internal use is depreciated using the straight-line method based on the Group's estimated useful lives (primarily 5–10 years).

(L) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of an asset or asset group. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the sum of discounted cash flows from the continuing use and eventual disposition of the asset, or the net selling price at disposition.

(M) DEFERRED CHARGES

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

(N) RESERVE FOR CREDIT LOSSES

The reserve for credit losses of the Bank and the consolidated domestic trust and banking subsidiary has been established as described below based on the Bank's internal rules for establishing the reserve.

For claims to obligors who are undergoing bankruptcy, special liquidation proceedings or similar legal proceedings ("legally bankrupt obligors") or to obligors who have not yet legally or formally gone bankrupt but who are substantially in bankruptcy because they are in serious financial difficulties and are not deemed to be capable of restructuring ("virtually bankrupt obligors"), a specific reserve is provided based on the amount of claims, after the charge-off stated below, net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

For claims to obligors who are not yet in bankruptcy but are in financial difficulties and are very likely to go bankrupt in the future ("possibly bankrupt obligors"), except for claims to obligors with larger amount than predetermined one, a specific reserve is provided for the amount considered to be necessary based on an overall solvency assessment performed for the amount of claims net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) CONSOLIDATED

reasonably estimate future cash flows, the reserve is provided based on the expected loss amount for the remaining term of respective claims.

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

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

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

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

For collateralized or guaranteed claims of the Bank and certain consolidated subsidiaries to legally bankrupt obligors or virtually bankrupt obligors, the amount of claims exceeding the estimated value of collateral or guarantees, which is deemed uncollectible, has been charged off in principal and totaled ¥63,418 million (U.S. $597,158 thousand) and ¥109,727 million as of March 31, 2018 and 2017, respectively.

(O) ACCRUED BONUSES FOR EMPLOYEES AND DIRECTORS

Accrued bonuses for employees and directors are provided in the amount of the estimated bonuses which are attributable to each fiscal year.

(P) EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN ASSETS

The Bank has a noncontributory defined benefit pension plan. APLUS Co., Ltd. (“APLUS”) and Showa Leasing have a noncontributory defined benefit pension plan and an unfunded severance indemnity plan. Shinsei Financial and certain consolidated domestic subsidiaries have unfunded severance indemnity plans. These plans cover substantially all of the Group's employees.

The Group accounts for liabilities or assets for retirement benefits based on the projected benefit obligations and plan assets at the consolidated balance sheet date. The projected benefit obligations are allocated over the periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized as “Accumulated other comprehensive income” in equity after tax effects, and are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees.

Certain consolidated subsidiaries recognize retirement benefit obligations at the amount that would be payable if employees retired voluntarily at the consolidated balance sheet date.

(Q) 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.

(R) RESERVE FOR LOSSES ON INTEREST REPAYMENTS

The reserve for losses on interest repayments is provided for estimated losses on reimbursements of excess interest payments and loan losses related to consumer finance loans extended at interest rates in excess of the maximum interest rate prescribed in the Interest Rate Restriction Act of Japan. The reserve is established in the amount of the estimated future reimbursement requests based on past experience.

(S) ASSET RETIREMENT OBLIGATIONS

An asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset. The asset retirement obligation is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability.

The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

(T) STOCK OPTIONS

The Group measures the cost of employee stock options based on the fair value at the grant date and recognizes compensation expense over the vesting period as consideration for receiving goods or services. In the consolidated balance sheet, stock options are presented as “Stock acquisition rights” in a component of equity

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

until the exercise of the right or the expiration of the period.

(U) LEASE TRANSACTIONS

(As lessee)

Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the consolidated balance sheets.

Depreciation of lease assets from finance lease transactions that are deemed to transfer ownership of the leased property to the lessee, is computed using the same method as the one applied to owned assets. Depreciation of lease assets from finance lease transactions that are not deemed to transfer ownership of the leased property to the lessee is computed using the straight-line method over the leasing period. Residual values of lease assets are the guaranteed value determined in the lease contracts or zero for assets without such guaranteed value.

(As lessor)

The Group recognizes the finance leases that are deemed to transfer ownership of the leased property to the lessee as lease receivables, and the finance leases that are not deemed to transfer ownership of the leased property to the lessee as leased investment assets.

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

Profit on each finance lease transaction is calculated on the basis of the internal rate of return of each transaction.

With regard to finance lease transactions entered into prior to April 1, 2008, that are not deemed to transfer ownership of the leased property to the lessee, leased investment assets are recognized at those book values of leased properties as of March 31, 2008, according to the transitional provision of the accounting standard.

As a result of this transitional treatment, "Income before income taxes" increased by ¥103 million (U.S.$971 thousand) and ¥122 million for the fiscal years ended March 31, 2018 and 2017, respectively, as compared to what would have been reported if the revised accounting standard was applied retroactively to all finance lease transactions as lessor.

(V) INSTALLMENT SALES FINANCE AND CREDIT GUARANTEES

Fees from installment sales finance have principally been prorated over the respective installment periods by using the sum-of-the-months digits method, or by using the credit-balance method.

Fees from credit guarantees have been recognized by the sum-of-the-months digits method, the straight-line method or the credit-balance method over the contract terms.

(W) REVENUE RECOGNITION FOR INTEREST ON CONSUMER LENDING BUSINESS

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

(X) INCOME TAXES

Deferred income taxes relating to temporary differences between financial reporting and tax bases of assets and liabilities and tax loss carryforwards have been recognized. The asset and liability approach is used to recognize deferred income taxes.

The Bank files its corporate income tax return under the consolidated corporate tax system, which allows companies to base tax payments on the combined profits and losses of the Bank and its wholly-owned domestic subsidiaries.

A valuation allowance is deducted from the carrying amount of deferred tax assets to the extent that it is not considered that taxable profit will be estimated to be sufficient enough to allow the benefit of part or all of the deferred tax assets to be realized.

(Y) DERIVATIVES AND HEDGE ACCOUNTING

Derivatives are stated at fair value. Except for derivatives in (G) VALUATION OF TRADING ACCOUNT ACTIVITIES, derivative transactions that meet the hedge accounting criteria are primarily accounted for using the deferral method whereby unrealized gains and losses are deferred in a separate component of equity until the gains and losses on the hedged items are realized.

(a) Hedge of interest rate risks

Derivative transactions that meet the hedge accounting criteria for mitigating interest rate risks of the Bank's financial assets and liabilities are accounted for using the deferral method. The Bank adopted portfolio hedging to determine the effectiveness of its hedging instruments in accordance with Industry Audit Committee Report No. 24 issued, on February 13, 2002, by the Japanese Institute of Certified Public Accountants (JICPA). Under portfolio hedging activities to mitigate the change in fair value, a portfolio of hedged items with common maturities such as deposits or loans is designated and matched with a group of hedging instruments such as interest rate swaps, which offset the effect of fair value fluctuations of the hedged items by identified maturities. The effectiveness of the portfolio hedging is assessed by each group.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) CONSOLIDATED

cash flow and that of the hedging instrument.

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

(b) Hedge of foreign exchange fluctuation risks

The Bank applies either deferral hedge accounting or fair value hedge accounting in accordance with Industry Audit Committee Report No. 25 issued, on July 29, 2002, by of the JICPA, to the derivative transactions that meet the hedge accounting criteria for mitigating foreign currency fluctuation risks of its financial assets and liabilities.

Funding swap transactions are foreign exchange swaps, and consist of spot foreign exchange contracts bought or sold and forward foreign exchange contracts bought or sold. Such transactions are contracted for the purpose of lending or borrowing in a different currency and converting the corresponding principal equivalents and foreign currency equivalents to pay and receive, whose amounts and due dates are predetermined at the time of the transactions, into forward foreign exchange contracts bought or sold.

Under deferral hedge accounting, 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 assessed by confirming that the total foreign currency position of the hedged items is equal to or larger than that of hedging instruments.

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

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

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

(Z) PER SHARE INFORMATION

Basic earnings per share ("EPS") calculations represent profit attributable to owners of the parent which is available to common shareholders, divided by the weighted average number of outstanding shares of common stock during the respective period, retroactively adjusted for stock splits and reverse stock splits.

Diluted EPS calculations consider the dilutive effect of common stock equivalents, which include stock acquisition rights, assuming that stock acquisition rights were fully exercised at the time of issuance for those issued during the period and at the beginning of the period for those previously issued and outstanding at the beginning of the period.

(AA) NEW ACCOUNTING PRONOUNCEMENTS

On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." This statement and guidance were established taking the core principles of IFRS 15 "Revenue from contracts with customers" and adding alternative treatments, to the extent that comparability is not impaired, for any practices which have been applied in Japan. The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) 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

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Group expects to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

(AB) A SUMMARY OF RESTATED ITEMS

The following errors were discovered subsequent to the issuance of the Bank's 2018 Financial Statements. The amounts, which were previously reported and restated, are as follows;

Notes	Items	Date	As restated Millions of yen	As restated Thousands of U.S. dollars	As previously Reported Millions of yen	As previously Reported Thousands of U.S. dollars
5. OTHER MONETARY CLAIMS PURCHASED	(b) Trading purposes "Unrealized loss"	As of March 31, 2018	¥ 635	$ 5,982	¥ 123	$ 1,161
9. LOANS AND BILLS DISCOUNTED	(d) Loan commitments "Unfulfilled amounts of these commitments"	As of March 31, 2018	¥ 3,348,354	$ 31,528,764	¥ 3,446,847	$ 32,456,191
9. LOANS AND BILLS DISCOUNTED	(d) Loan commitments "Unfulfilled amounts of these commitments expiring within one year or being able to be cancelled at any time with no condition"	As of March 31, 2018	¥ 3,016,034	$ 28,399,568	¥ 3,114,526	$ 29,326,994
32. INCOME TAXES	(b) The tax effects of significant temporary differences "Deferred tax assets": "Reserve for credit losses"	As of March 31, 2018	¥ 71,817	$ 676,245	¥ 72,188	$ 679,742
32. INCOME TAXES	(b) The tax effects of significant temporary differences "Deferred tax assets": "Securities"	As of March 31, 2018	¥ 5,747	$ 54,117	¥ 17,988	$ 169,383
32. INCOME TAXES	(b) The tax effects of significant temporary differences "Deferred tax assets": "Deferred loss on derivatives under hedge accounting"	As of March 31, 2018	¥ 5,305	$ 49,958	¥ 5,864	$ 55,226
32. INCOME TAXES	(b) The tax effects of significant temporary differences "Deferred tax assets": "Subtotal"	As of March 31, 2018	¥ 208,957	$ 1,967,585	¥ 222,129	$ 2,091,615
32. INCOME TAXES	(b) The tax effects of significant temporary differences "Deferred tax assets": "Valuation allowance"	As of March 31, 2018	¥ (185,443)	$ (1,746,177)	¥ (198,616)	$ (1,870,207)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) CONSOLIDATED

Notes	Items	Date	As restated				As previously Reported			
				Millions of yen		Thousands of U.S. dollars		Millions of yen		Thousands of U.S. dollars
34. OTHER COMPREHENSIVE INCOME	Share of other comprehensive income in affiliates: "Gains (losses) arising during the fiscal year"	Fiscal year ended March 31, 2018	¥	(1,027)	$	(9,672)	¥	(1,470)	$	(13,849)
34. OTHER COMPREHENSIVE INCOME	Share of other comprehensive income in affiliates: " Reclassification adjustment to profit or loss"	Fiscal year ended March 31, 2018	¥	(221)	$	(2,089)	¥	221	$	2,089
35. LEASE TRANSACTIONS	(B) OPERATING LEASE TRANSACTIONS AS LESSEE "Lease obligations: Due within one year"	As of March 31, 2018	¥	4,587	$	43,195	¥	4,612	$	43,432
35. LEASE TRANSACTIONS	(B) OPERATING LEASE TRANSACTIONS AS LESSEE "Lease obligations: Due after one year"	As of March 31, 2018	¥	4,282	$	40,326	¥	4,381	$	41,257
35. LEASE TRANSACTIONS	(B) OPERATING LEASE TRANSACTIONS AS LESSEE "Total"	As of March 31, 2018	¥	8,869	$	83,521	¥	8,994	$	84,689
35. LEASE TRANSACTIONS	(B) OPERATING LEASE TRANSACTIONS AS LESSOR "Lease payment receivables: Due within one year"	As of March 31, 2018	¥	5,036	$	47,420	¥	4,556	$	42,904
35. LEASE TRANSACTIONS	(B) OPERATING LEASE TRANSACTIONS AS LESSOR "Lease payment receivables: Due after one year"	As of March 31, 2018	¥	24,487	$	230,578	¥	19,654	$	185,073
35. LEASE TRANSACTIONS	(B) OPERATING LEASE TRANSACTIONS AS LESSOR "Total"	As of March 31, 2018	¥	29,523	$	277,998	¥	24,211	$	227,977
36. SEGMENT INFORMATION	(c) REVENUE, PROFIT (LOSS), ASSETS, LIABILITIES AND OTHER ITEMS BY REPORTABLE SEGMENTS: Corporate business_"Expenses"	Fiscal year ended March 31, 2018	¥	11,848	$	111,572	¥	11,944	$	112,472
36. SEGMENT INFORMATION	(c) REVENUE, PROFIT (LOSS), ASSETS, LIABILITIES AND OTHER ITEMS BY REPORTABLE SEGMENTS: Corporate business_"Segment Profit (Loss)"	Fiscal year ended March 31, 2018	¥	6,639	$	62,517	¥	6,543	$	61,617

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

Notes	Items	Date	As restated				As previously Reported			
				Millions of yen		Thousands of U.S. dollars		Millions of yen		Thousands of U.S. dollars
36. SEGMENT INFORMATION	(c) REVENUE, PROFIT (LOSS), ASSETS, LIABILITIES AND OTHER ITEMS BY REPORTABLE SEGMENTS: Retail Banking_"Expenses"	Fiscal year ended March 31, 2018	¥	29,210	$	275,055	¥	29,157	$	274,556
36. SEGMENT INFORMATION	(c) REVENUE, PROFIT (LOSS), ASSETS, LIABILITIES AND OTHER ITEMS BY REPORTABLE SEGMENTS: Retail Banking_"Segment Profit (Loss)"	Fiscal year ended March 31, 2018	¥	(5,874)	$	(55,320)	¥	(5,821)	$	(54,821)
36. SEGMENT INFORMATION	(c) REVENUE, PROFIT (LOSS), ASSETS, LIABILITIES AND OTHER ITEMS BY REPORTABLE SEGMENTS: Shinsei Financial_"Revenue"	Fiscal year ended March 31, 2018	¥	68,930	$	-	¥	68,929	$	-
36. SEGMENT INFORMATION	(c) REVENUE, PROFIT (LOSS), ASSETS, LIABILITIES AND OTHER ITEMS BY REPORTABLE SEGMENTS: Other_"Expenses"	Fiscal year ended March 31, 2018	¥	1,613	$	15,192	¥	1,570	$	14,791
36. SEGMENT INFORMATION	(c) REVENUE, PROFIT (LOSS), ASSETS, LIABILITIES AND OTHER ITEMS BY REPORTABLE SEGMENTS: Other_"Segment Profit (Loss)"	Fiscal year ended March 31, 2018	¥	(846)	$	(7,966)	¥	(803)	$	(7,566)
38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES	(i) Amount of market risk associated with the trading business "The VaR in the Group's trading business"	As of March 31, 2018	¥	1,275	$	12,002	¥	1,423	$	13,396
38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES	Fair values of financial instruments (8) Loans and bills discounted, "Net" "Fair value"	As of March 31, 2018	¥	4,997,458	$	47,057,047	¥	4,998,499	$	47,066,854
38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES	Fair values of financial instruments (8) Loans and bills discounted, "Net" "Unrealized gain (loss)"	As of March 31, 2018	¥	168,655	$	1,588,090	¥	169,696	$	1,597,898
38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES	Fair values of financial instruments (9) Lease receivables and leased investment assets, "Net" "Fair value"	As of March 31, 2018	¥	168,611	$	1,587,675	¥	168,677	$	1,588,300
38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES	Fair values of financial instruments (9) Lease receivables and leased investment assets, "Net" "Unrealized gain (loss)"	As of March 31, 2018	¥	4,172	$	39,285	¥	4,238	$	39,910
38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES	Fair values of financial instruments (10) Other assets, "Net" "Fair value"	As of March 31, 2018	¥	581,827	$	5,478,603	¥	584,016	$	5,499,211

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

Notes	Items	Date	As restated Millions of yen	As restated Thousands of U.S. dollars	As previously Reported Millions of yen	As previously Reported Thousands of U.S. dollars
38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES	Fair values of financial instruments (10) Other assets, "Net" "Unrealized gain (loss)"	As of March 31, 2018	¥ 44,669	$ 420,617	¥ 46,858	$ 441,225
38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES	Fair values of financial instruments Assets, "Total" "Fair value"	As of March 31, 2018	¥ 8,554,414	$ 80,550,045	¥ 8,557,711	$ 80,581,084
38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES	Fair values of financial instruments Assets, "Total" "Unrealized gain (loss)"	As of March 31, 2018	¥ 212,836	$ 2,004,111	¥ 216,132	$ 2,035,151
38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES	Fair values of financial instruments (1) Deposits, including negotiable certificates of deposit "Fair value"	As of March 31, 2018	¥ 6,065,652	$ 57,115,368	¥ 6,064,777	$ 57,107,132
38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES	Fair values of financial instruments (1) Deposits, including negotiable certificates of deposit "Unrealized gain (loss)"	As of March 31, 2018	¥ 1,444	$ 13,605	¥ 2,319	$ 21,840
38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES	Fair values of financial instruments (7) Borrowed money "Fair value"	As of March 31, 2018	¥ 739,603	$ 6,964,247	¥ 741,332	$ 6,980,533
38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES	Fair values of financial instruments (7) Borrowed money "Unrealized gain (loss)"	As of March 31, 2018	¥ (24)	$ (229)	¥ (1,753)	$ (16,515)
38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES	Fair values of financial instruments Liabilities, "Total" "Fair value"	As of March 31, 2018	¥ 7,558,613	$ 71,173,385	¥ 7,559,468	$ 71,181,435
38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES	Fair values of financial instruments Liabilities, "Total" "Unrealized gain (loss)"	As of March 31, 2018	¥ 1,191	$ 11,224	¥ 337	$ 3,174

3. BUSINESS COMBINATION

CONSOLIDATED

As a result of reviewing the business operation structure, on October 1, 2017, two consolidated subsidiaries in the servicer area have merged, at the same time, three consolidated subsidiaries in the real estate secured loan business area have also merged in order to optimize the Group's existing business functions.

Prior to the following mergers, the Bank purchased all the shares of Alfa Servicer Co., Ltd. from APLUS, and the Bank received all the shares of Shinsei Servicing & Consulting Limited as a dividend in kind from Shinsei Principal Investments Limited, both transactions were effective on July 1, 2017. As a result, Alfa Servicer Co., Ltd. and Shinsei Servicing & Consulting Limited became directly wholly-owned subsidiaries of the Bank.

(A) Transaction outline of realignment in the servicer business

(a) Names and business descriptions of the companies

・Surviving company

Name: Alfa Servicer Co., Ltd.

Business: Claim management and collection business

・Absorbed company

Name: Shinsei Servicing & Consulting Limited

Business: Claim management and collection business

(b) Date of business combination

October 1, 2017

(c) Legal form of the business combination

Absorption-type merger

(d) Name of the company after the business combination

Alfa Servicer Co., Ltd.

(B) Transaction outline of realignment in the real estate secured loan business

(a) Names and business descriptions of the companies

・Surviving company

Name: Shinsei Principal Investments Limited

Business: Financial instruments business

・Absorbed companies

Name: Shinsei Investment & Finance Limited

Business: Finance business

Name: Shinsei Property Finance Co., Ltd.

Business: Real estate secured loan business

(b) Date of business combination

October 1, 2017

(c) Legal form of the business combination

Absorption-type merger

(d) Name of the company after the business combination

Shinsei Investment & Finance Limited

Note: On October 1 2017, Shinsei Principal Investments Limited, the surviving company, changed its name to Shinsei Investment & Finance Limited.

(C) Overview of the accounting treatment

Based on "Accounting Standard for Business Combinations (ASBJ Statement No. 21 of September 13, 2013)" and "Guidance on Accounting Standards for Business Combinations and Business Divestitures (ASBJ Guidance No. 10 of September 13, 2013)," the Bank treated a series of transactions as a transaction under common control.

4. CASH AND CASH EQUIVALENTS — CONSOLIDATED

The reconciliation of cash and cash equivalents and cash and due from banks in the consolidated balance sheets as of March 31, 2018 and 2017 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Cash and due from banks	**¥ 1,465,663**	¥ 1,398,691	**$ 13,800,977**
Interest-bearing deposits included in due from banks (other than due from the Bank of Japan)	**(31,089)**	(68,824)	**(292,745)**
Cash and cash equivalents	**¥ 1,434,574**	¥ 1,329,867	**$ 13,508,233**

5. OTHER MONETARY CLAIMS PURCHASED (Restated) ※ — CONSOLIDATED

(a) Other monetary claims purchased as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Trading purposes	**¥ 1,705**	¥ 4,213	**$ 16,062**
Other	**34,626**	40,030	**326,054**
Total	**¥ 36,332**	¥ 44,243	**$ 342,116**

(b) The fair value and the unrealized loss which is included in net gain (loss) on other monetary claims purchased for trading purposes as of March 31, 2018 and 2017 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		**2018**	
	Fair value	**Unrealized loss**	Fair value	Unrealized loss	**Fair value**	**Unrealized loss**
Trading purposes	**¥ 1,705**	**¥ 635**	¥ 4,213	¥ 1,110	**$ 16,062**	**$ 5,982**

※See Note2 (AB)

6. TRADING ASSETS — CONSOLIDATED

Trading assets as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Trading securities	**¥ 4,589**	¥ 1,743	**$ 43,220**
Derivatives for trading securities	**1,928**	1,531	**18,157**
Derivatives for securities held to hedge trading transactions	**13,134**	21,812	**123,681**
Trading-related financial derivatives	**185,642**	205,290	**1,748,046**
Other	**–**	13,736	**–**
Total	**¥ 205,295**	¥ 244,113	**$ 1,933,104**

7. MONETARY ASSETS HELD IN TRUST — CONSOLIDATED

(a) Monetary assets held in trust as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Trading purposes	**¥ 17,255**	¥ 21,797	**$ 162,481**
Other	**217,668**	219,883	**2,049,613**
Total	**¥ 234,924**	¥ 241,681	**$ 2,212,094**

7. MONETARY ASSETS HELD IN TRUST (CONTINUED) CONSOLIDATED

(b) The fair value and the unrealized gain or loss which is included in net gain (loss) on monetary assets held in trust for trading purposes as of March 31, 2018 and 2017 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		**2018**	
	Fair value	**Unrealized gain**	Fair value	Unrealized loss	**Fair value**	**Unrealized gain**
Trading purposes	**¥ 17,255**	**¥ 13**	¥ 21,797	¥ 58	**$ 162,481**	**$ 129**

(c) The acquisition cost and the carrying amount of monetary assets held in trust for other than trading purposes as of March 31, 2018 and 2017 were as follows:

	Millions of yen							
	2018				2017			
	Acquisition cost	**Gross unrealized gain**	**Gross unrealized loss**	**Carrying amount**	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying amount
Other	**¥ 218,191**	**¥ 104**	**¥ 626**	**¥ 217,668**	¥ 220,543	¥ 47	¥ 706	¥ 219,883

	Thousands of U.S. dollars			
	2018			
	Acquisition cost	**Gross unrealized gain**	**Gross unrealized loss**	**Carrying amount**
Other	**$2,054,535**	**$ 982**	**$ 5,904**	**$2,049,613**

8. SECURITIES CONSOLIDATED

(a) Securities as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Trading securities	**¥ 0**	¥ 0	**$ 0**
Securities being held to maturity	**481,303**	496,268	**4,532,045**
Securities available for sale:			
Securities carried at fair value	**534,752**	424,032	**5,035,335**
Securities carried at cost whose fair value cannot be reliably determined	**42,757**	41,573	**402,616**
Investments in unconsolidated subsidiaries and affiliates	**64,708**	52,760	**609,309**
Total	**¥ 1,123,522**	¥ 1,014,635	**$ 10,579,306**

The above balances do not include securities held in connection with securities borrowing transactions with or without cash collateral, securities purchased under resale agreements or securities accepted as collateral for derivative transactions, where the Group has the right to sell or pledge such securities without restrictions. The balances of those securities as of March 31, 2018 and 2017 were ¥6,960 million (U.S.$65,539 thousand) and ¥6,667 million, respectively.

The amount of guarantee obligations for privately-placed bonds (Paragraph 3 of Article 2 of the Financial Instruments and Exchange Act) included in securities as of March 31, 2018 and 2017 were ¥1,000 million (U.S.$9,416 thousand) and ¥1,000 million, respectively.

8. SECURITIES (CONTINUED) CONSOLIDATED

(b) The amortized/acquisition cost and the fair values of securities (other than trading securities) as of March 31, 2018 and 2017 were as follows:

	Millions of yen							
	2018				2017			
	Amortized/ Acquisition cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized/ Acquisition cost	Gross unrealized gain	Gross unrealized loss	Fair value
Securities being held to maturity:								
Japanese national government bonds	**¥ 481,303**	**¥ 3,372**	**¥ –**	**¥ 484,676**	¥ 493,562	¥ 5,593	¥ –	¥ 499,156
Other	**–**	**–**	**–**	**–**	2,706	164	–	2,870
Total	**¥ 481,303**	**¥ 3,372**	**¥ –**	**¥ 484,676**	¥ 496,268	¥ 5,758	¥ –	¥ 502,026
Securities available for sale:								
Equity securities	**¥ 10,533**	**¥ 10,885**	**¥ 265**	**¥ 21,152**	¥ 12,916	¥ 14,785	¥ 255	¥ 27,446
Japanese national government bonds	**23,231**	**18**	**–**	**23,249**	2,036	18	–	2,055
Japanese local government bonds	**2,300**	**15**	**–**	**2,315**	–	–	–	–
Japanese corporate bonds	**159,168**	**215**	**1,951**	**157,433**	118,562	330	1,023	117,869
Foreign securities	**328,459**	**1,458**	**3,757**	**326,160**	270,042	1,519	2,314	269,247
Other[1]	**3,874**	**598**	**20**	**4,452**	11,360	1,221	37	12,543
Total	**¥ 527,567**	**¥ 13,191**	**¥ 5,994**	**¥ 534,763**	¥ 414,918	¥ 17,875	¥ 3,631	¥ 429,162

	Thousands of U.S. dollars			
	2018			
	Amortized/ Acquisition cost	Gross unrealized gain	Gross unrealized loss	Fair value
Securities being held to maturity:				
Japanese national government bonds	**$ 4,532,045**	**$ 31,759**	**$ –**	**$ 4,563,804**
Other	**–**	**–**	**–**	**–**
Total	**$ 4,532,045**	**$ 31,759**	**$ –**	**$ 4,563,804**
Securities available for sale:				
Equity securities	**$ 99,186**	**$ 102,497**	**$ 2,505**	**$ 199,179**
Japanese national government bonds	**218,748**	**174**	**–**	**218,922**
Japanese local government bonds	**21,657**	**143**	**–**	**21,800**
Japanese corporate bonds	**1,498,763**	**2,034**	**18,371**	**1,482,426**
Foreign securities	**3,092,836**	**13,729**	**35,379**	**3,071,187**
Other[1]	**36,485**	**5,634**	**192**	**41,926**
Total	**$ 4,967,676**	**$ 124,211**	**$ 56,447**	**$ 5,035,440**

Note:1 This includes other monetary claims purchased whose fair value can be reliably determined.

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

Impairment loss on such securities for the fiscal year ended March 31, 2018, was ¥0 million (U.S. $3 thousand), which was related to foreign securities.

Impairment loss on such securities for the fiscal year ended March 31, 2017, was ¥27 million, which was related to equity securities.

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

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

8. SECURITIES (CONTINUED) CONSOLIDATED

"Legally bankrupt" obligors are those who have already gone bankrupt from a legal and/or formal perspective.
"Virtually bankrupt" obligors are those who have not yet legally or formally gone bankrupt but who are substantially in bankruptcy because they are in serious financial difficulties and are not deemed to be capable of restructuring.
"Possibly bankrupt" obligors are those who are not yet in bankruptcy but are in financial difficulties and are very likely to go bankrupt in the future.
"Need caution" obligors are those who are in need of close attention because there are problems with their borrowings.
"Normal" obligors are those whose business conditions are favorable and who are deemed not to have any particular problems in their financial position.

(c) Unrealized gain (loss) on available-for-sale securities as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Unrealized gain (loss) before deferred tax on:			
Available-for-sale securities	**¥ 7,196**	¥ 14,244	**$ 67,764**
The Group's interests in available-for-sale securities held by partnerships recorded as securities whose fair value cannot be reliably determined and other adjustments	**283**	1,246	**2,670**
Securities being held to maturity, reclassified from available-for-sale in the past, under extremely illiquid market conditions	**–**	(172)	**–**
Other monetary assets held in trust	**(522)**	(659)	**(4,922)**
Deferred tax liabilities	**(1,377)**	(3,110)	**(12,971)**
Unrealized gain (loss) on available-for-sale securities before interest adjustments	**5,579**	11,548	**52,542**
Noncontrolling interests	**(13)**	(20)	**(131)**
The Group's interests in unrealized gain (loss) on available-for-sale securities held by affiliates to which the equity method is applied	**(378)**	(1,227)	**(3,566)**
Unrealized gain (loss) on available-for-sale securities	**¥ 5,187**	¥ 10,299	**$ 48,845**

(d) Available-for-sale securities sold during the fiscal year ended March 31, 2018 and 2017 were as follows:

	Millions of yen					
	2018			2017		
	Proceeds from sales	**Gains on sales**	**Losses on sales**	Proceeds from sales	Gains on sales	Losses on sales
Available-for-sale securities sold:						
Equity securities	**¥ 11,521**	**¥ 7,032**	**¥ 18**	¥ 4,499	¥ 2,713	¥ 6
Japanese national government bonds	**330,840**	**692**	**11**	1,007,195	6,412	2,808
Japanese local government bonds	**26,103**	**12**	**27**	24,055	9	19
Japanese corporate bonds	**95,075**	**212**	**7**	50,785	4,979	28
Foreign securities	**662,215**	**3,370**	**1,061**	609,794	4,832	2,762
Other	**28,737**	**1,223**	**427**	48,843	1,510	914
Total	**¥ 1,154,493**	**¥ 12,545**	**¥ 1,552**	¥ 1,745,173	¥ 20,460	¥ 6,540

	Thousands of U.S. dollars		
	2018		
	Proceeds from sales	**Gains on sales**	**Losses on sales**
Available-for-sale securities sold:			
Equity securities	**$ 108,487**	**$ 66,221**	**$ 170**
Japanese national government bonds	**3,115,257**	**6,524**	**108**
Japanese local government bonds	**245,793**	**122**	**259**
Japanese corporate bonds	**895,246**	**2,004**	**72**
Foreign securities	**6,235,552**	**31,741**	**9,991**
Other	**270,599**	**11,519**	**4,021**
Total	**$ 10,870,935**	**$ 118,131**	**$ 14,621**

9. LOANS AND BILLS DISCOUNTED (Restated) ※ CONSOLIDATED

Loans and bills discounted as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Loans on deeds	**¥ 4,126,777**	¥ 4,053,330	**$ 38,858,546**
Loans on bills	**10,686**	20,070	**100,622**
Bills discounted	**2,603**	3,265	**24,512**
Overdrafts	**755,896**	756,786	**7,117,671**
Total	**¥ 4,895,963**	¥ 4,833,452	**$ 46,101,352**

(a) Risk-monitored loans
Loans and bills discounted include loans to bankrupt obligors of ¥5,622 million (U.S.$52,939 thousand) and ¥4,618 million as of March 31, 2018 and 2017, respectively, as well as nonaccrual delinquent loans of ¥31,178 million (U.S.$293,582 thousand) and ¥33,358 million as of March 31, 2018 and 2017, respectively.

Nonaccrual delinquent loans include loans classified as "possibly bankrupt" and "virtually bankrupt" under the Group's self-assessment guidelines.

In addition to nonaccrual delinquent loans as defined, certain other loans classified as "substandard" under the Group's self-assessment guidelines include loans past due for three months or more.

Loans past due for three months or more consist of loans for which the principal and/or interest is three months or more past due, but excluding loans to bankrupt obligors and nonaccrual delinquent loans. The balances of loans past due for three months or more as of March 31, 2018 and 2017 were ¥1,842 million (U.S.$17,349 thousand) and ¥1,728 million, respectively.

Restructured loans are loans where the Group relaxes lending conditions, such as by reducing the original interest rate, or by forbearing interest payments or principal repayments to support the borrower's reorganization, but excluding loans to bankrupt obligors, nonaccrual delinquent loans or loans past due for three months or more. The outstanding balances of restructured loans as of March 31, 2018 and 2017 were ¥36,257 million (U.S.$341,412 thousand) and ¥32,023 million, respectively.

(b) Loan participations
The total amounts accounted for as the transfer of loans by loan participations as of March 31, 2018 and 2017 were ¥7,811 million (U.S.$73,551 thousand) and ¥8,359 million, respectively. This "offbalance sheet" treatment is in accordance with guidelines issued by the JICPA. The total amounts of such loans in which the Bank participated were ¥12,974 million (U. S. $122,174 thousand) and ¥5,927 million as of March 31, 2018 and 2017, respectively.

(c) Bills discounted
Bills discounted, such as bank acceptances bought, commercial bills discounted, documentary bills and foreign exchange contracts bought, are accounted for as financing transactions in accordance with Industry Audit Committee Report No. 24 issued by the JICPA, although the Group has the right to sell or pledge them without restrictions. The face amounts of such bills discounted held as of March 31, 2018 and 2017 were ¥2,603 million (U.S. $24,512 thousand) and ¥3,265 million, respectively.

(d) Loan commitments
The Bank and certain consolidated subsidiaries set credit lines of overdrafts and issue commitments to extend credit to meet the financing needs of customers. The unfulfilled amounts of these commitments were ¥3,348,354 million (U.S.$31,528,764 thousand) and ¥3,534,470 million as of March 31, 2018 and 2017, out of which the amounts with the commitments of the agreements expiring within one year or being able to be cancelled at any time with no condition were ¥3,016,034 million (U.S.$28,399,568 thousand) and ¥3,252,609 million as of March 31, 2018 and 2017, respectively. Since a large majority of these commitments expire without being drawn upon, the unfulfilled amounts do not necessarily represent future cash requirements. Many such agreements include conditions granting the Bank and its 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.

※See Note2 (AB)

10. FOREIGN EXCHANGES CONSOLIDATED

Foreign exchange assets and liabilities as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Foreign exchange assets:			
Foreign bills receivable	**¥ 1,777**	¥ 3,028	**$ 16,738**
Due from foreign banks	**30,734**	16,589	**289,400**
Total	**¥ 32,511**	¥ 19,617	**$ 306,138**
Foreign exchange liabilities:			
Foreign bills sold	**¥ 80**	¥ –	**$ 756**
Foreign bills payable	**22**	102	**210**
Total	**¥ 102**	¥ 102	**$ 966**

11. OTHER ASSETS CONSOLIDATED

Other assets as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Accrued income	**¥ 15,522**	¥ 14,081	**$ 146,161**
Prepaid expenses	**3,991**	4,098	**37,586**
Fair value of derivatives	**73,656**	80,443	**693,568**
Accounts receivable	**30,608**	114,350	**288,220**
Installment receivables	**558,843**	541,401	**5,262,184**
Security deposits	**11,028**	11,332	**103,847**
Suspense payments	**20,474**	18,561	**192,791**
Margin deposits for futures transactions	**4,582**	3,832	**43,146**
Cash collateral paid for financial instruments	**50,527**	48,856	**475,778**
Other	**86,976**	58,200	**818,992**
Total	**¥ 856,213**	¥ 895,158	**$ 8,062,272**

Installment receivables in "Other assets" as of March 31, 2018 and 2017 include credits to bankrupt obligors of ¥48 million (U.S.$461 thousand) and ¥113 million, nonaccrual delinquent credits of ¥7,244 million (U.S. $68,219 thousand) and ¥9,306 million, credits past due for three months or more of ¥382 million (U.S.$3,599 thousand) and ¥423 million, and restructured credits of ¥98 million (U.S.$928 thousand) and ¥184 million, respectively.

12. PREMISES AND EQUIPMENT CONSOLIDATED

Premises and equipment as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Buildings	**¥ 28,203**	¥ 29,649	**$ 265,571**
Land	**2,680**	3,180	**25,237**
Tangible leased assets as lessor	**56,578**	47,335	**532,750**
Other	**28,286**	28,518	**266,353**
Subtotal	**115,748**	108,684	**1,089,911**
Accumulated depreciation	**(65,486)**	(60,703)	**(616,637)**
Net book value	**¥ 50,261**	¥ 47,980	**$ 473,274**

13. INTANGIBLE ASSETS CONSOLIDATED

Intangible assets as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Software			
Software	**¥ 17,605**	¥ 15,733	**$ 165,777**
Software in progress	**27,692**	18,365	**260,761**
Goodwill, net:			
Goodwill	**15,355**	18,492	**144,593**
Negative goodwill	**(3,445)**	(3,808)	**(32,445)**
Intangible assets acquired in business combinations	**1,290**	2,504	**12,155**
Intangible leased assets as lessor	**0**	0	**3**
Other	**985**	732	**9,278**
Total	**¥ 59,484**	¥ 52,020	**$ 560,121**

14. RESERVE FOR CREDIT LOSSES CONSOLIDATED

Reserve for credit losses as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Reserve for loan losses:			
General reserve for loan losses	**¥ 75,545**	¥ 68,947	**$ 711,350**
Specific reserve for loan losses	**25,295**	27,093	**238,187**
Reserve for loan losses to restructuring countries	**–**	0	**–**
Subtotal	**100,840**	96,041	**949,537**
Specific reserve for other credit losses	**–**	4,112	**–**
Total	**¥ 100,840**	¥ 100,154	**$ 949,537**

15. DEPOSITS, INCLUDING NEGOTIABLE CERTIFICATES OF DEPOSIT CONSOLIDATED

Deposits, including negotiable certificates of deposit, as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Current	**¥ 37,299**	¥ 14,023	**$ 351,215**
Ordinary	**2,370,073**	2,230,883	**22,317,074**
Notice	**15,712**	17,629	**147,954**
Time	**2,691,014**	2,756,729	**25,339,116**
Negotiable certificates of deposit	**438,927**	373,673	**4,133,030**
Other	**514,069**	469,982	**4,840,583**
Total	**¥ 6,067,096**	¥ 5,862,922	**$ 57,128,973**

16. DEBENTURES CONSOLIDATED

(a) Debentures as of March 31, 2018 and 2017 consisted of the following:

Issuer	Description	Issue	Maturity	Interest Rate (%)	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars 2018
Shinsei Bank, Limited	Five-year coupon debentures[1]	Apr. 2012 to Apr. 2013	Apr. 2017 to Apr. 2018	0.08	**¥ 423**	¥ 6,561	**$ 3,984**
Total					**¥ 423**	¥ 6,561	**$ 3,984**

1 This includes a series of five-year Long-Term Credit Debentures.

(b) Annual maturities of debentures as of March 31, 2018 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	**¥ 423**	**$ 3,984**
2020 and thereafter	**–**	**–**
Total	**¥ 423**	**$ 3,984**

17. TRADING LIABILITIES CONSOLIDATED

Trading liabilities as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars 2018
Derivatives for trading securities	**¥ 1,205**	¥ 952	**$ 11,349**
Derivatives for securities held to hedge trading transactions	**9,630**	16,329	**90,685**
Trading-related financial derivatives	**171,121**	193,338	**1,611,317**
Trading securities sold for short sales	**2,625**	1,621	**24,718**
Total	**¥ 184,582**	¥ 212,241	**$ 1,738,070**

18. BORROWED MONEY CONSOLIDATED

(a) Borrowed money as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars 2018
Subordinated debt	**¥ 12,400**	¥ 12,400	**$ 116,761**
Other	**727,178**	777,270	**6,847,257**
Total	**¥ 739,578**	¥ 789,670	**$ 6,964,018**

(b) The weighted average interest rate applicable to the total balance of borrowed money as of March 31, 2018 was 0.47%.

(c) Annual maturities of borrowed money as of March 31, 2018 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	**¥ 322,167**	**$ 3,033,595**
2020	**97,949**	**922,314**
2021	**67,984**	**640,154**
2022	**58,650**	**552,262**
2023 and thereafter	**192,826**	**1,815,693**
Total	**¥ 739,578**	**$ 6,964,018**

19. CORPORATE BONDS CONSOLIDATED

(a) Corporate bonds as of March 31, 2018 and 2017 consisted of the following:

Issuer	Description	Issue	Maturity	Interest Rate (%)	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars 2018
Shinsei Bank, Limited	Unsecured straight bonds, payable in Euroyen[1]	May 2007	May 2037	0.10 to 3.10[4]	**¥ –**	¥ 200	**$ –**
	Unsecured subordinated bonds, payable in Yen[2]	Oct. 2012 to Dec. 2013	Oct. 2022 to Dec. 2023	2.02 to 4.00	**25,000**	31,400	**235,405**
	Unsecured straight bond, payable in Yen[3]	Jul. 2014 to Oct. 2016	Jul. 2017 to Oct. 2021	0.250 to 0.416	**20,000**	26,000	**188,324**
Tsumagoi GK	Unsecured straight bond, payable in Yen	Apr. 2012	Jun. 2017	2.25	**–**	2,000	**–**
Showa Leasing Co., Ltd.	Unsecured straight bond, payable in Yen[3]	Feb. 2015 to Sept. 2016	Feb. 2018 to Sept. 2019	0.19 to 0.50	**20,000**	23,000	**188,324**
APLUS FINANCIAL Co., Ltd.	Unsecured straight bond, payable in Yen[3]	Sept. 2014 and Jun. 2016	Sept. 2017 and Jun. 2020	0.24 to 0.64	**20,000**	30,000	**188,324**
Total					**¥ 85,000**	¥ 112,600	**$ 800,377**

1 This includes a series of straight bonds issued under Euro Medium Term Note Programme. These bonds have been redeemed on November, 2017, before maturity.
2 This includes a series of subordinated bonds, payable in Yen.
3 These include series of straight bonds, payable in Yen.
4 The maximum and minimum rates under contracts are presented if the interest rates were not decided as of March 31, 2018 and 2017.

(b) Annual maturities of corporate bonds as of March 31, 2018 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	**¥ 10,000**	**$ 94,162**
2020	**25,000**	**235,405**
2021	**15,000**	**141,243**
2022	**10,000**	**94,162**
2023 and thereafter	**25,000**	**235,405**
Total	**¥ 85,000**	**$ 800,377**

20. OTHER LIABILITIES CONSOLIDATED

Other liabilities as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Accrued expenses	¥ 24,073	¥ 24,461	$ 226,684
Unearned income	24,027	23,379	226,249
Income taxes payable	2,980	3,273	28,067
Fair value of derivatives	74,588	73,604	702,343
Matured debentures, including interest	330	3,807	3,115
Accounts payable	58,548	71,471	551,307
Deferred gains on installment receivables and credit guarantees	30,414	31,468	286,385
Asset retirement obligations	8,954	8,970	84,318
Deposits payable	103,843	99,257	977,815
Cash collateral received for financial instruments	22,078	34,210	207,899
Other	17,892	14,402	168,475
Total	¥ 367,734	¥ 388,307	$ 3,462,657

21. EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN ASSETS CONSOLIDATED

(a) The changes in defined benefit obligation for the fiscal years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of the year	¥ 88,689	¥ 87,925	$ 835,119
Current service cost	4,138	4,084	38,967
Interest cost	983	975	9,264
Actuarial (gains) losses	(737)	450	(6,947)
Benefits paid	(3,847)	(4,099)	(36,227)
Decrease due to termination of retirement benefit plan in a subsidiary	–	(689)	–
Others	–	41	–
Balance at end of the year	¥ 89,226	¥ 88,689	$ 840,177

(b) The changes in plan assets for the fiscal years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of the year	¥ 87,508	¥ 81,528	$ 823,999
Expected return on plan assets	2,052	1,916	19,326
Actuarial gains (losses)	2,825	2,427	26,603
Contributions from the employer	5,227	5,230	49,224
Benefits paid	(3,492)	(3,593)	(32,881)
Balance at end of the year	¥ 94,121	¥ 87,508	$ 886,271

21. EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN ASSETS (CONTINUED) CONSOLIDATED

(c) A reconciliation between the liability and the asset recorded in the consolidated balance sheet and balances of defined benefit obligation and plan assets as of March 31, 2018 and 2017 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Defined benefit obligation	**¥ 82,027**	¥ 81,791	**$ 772,390**
Plan assets	**(94,121)**	(87,508)	**(886,271)**
Subtotal	**(12,094)**	(5,716)	**(113,881)**
Unfunded defined benefit obligation	**7,198**	6,897	**67,787**
Net liability (asset) arising from benefit obligation	**¥ (4,895)**	¥ 1,180	**$ (46,094)**

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Liability for retirement benefits	**¥ 8,366**	¥ 8,256	**$ 78,777**
Asset for retirement benefits	**(13,261)**	(7,075)	**(124,871)**
Net liability (asset) arising from benefit obligation	**¥ (4,895)**	¥ 1,180	**$ (46,094)**

(d) The components of net periodic retirement benefit cost for the fiscal years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Current service cost	**¥ 4,138**	¥ 4,084	**$ 38,967**
Interest cost	**983**	975	**9,264**
Expected return on plan assets	**(2,052)**	(1,916)	**(19,326)**
Amortization of past service cost	**(212)**	(474)	**(1,998)**
Recognized actuarial (gains) losses	**792**	561	**7,466**
Other (primarily consists of extraordinary severance benefit)	**71**	29	**671**
Net periodic retirement benefit cost	**¥ 3,721**	¥ 3,261	**$ 35,044**

(e) Other comprehensive income on defined retirement benefit plans (before adjusting for tax effects) for the fiscal years ended March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Past service cost	**¥ (212)**	¥ (474)	**$ (1,998)**
Actuarial gains (losses)	**4,355**	2,529	**41,015**
Total	**¥ 4,143**	¥ 2,055	**$ 39,017**

(f) Accumulated other comprehensive income on defined retirement benefit plans (before adjusting for tax effects) as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Unrecognized past service cost	**¥ 268**	¥ 480	**$ 2,524**
Unrecognized actuarial gains (losses)	**2,627**	(1,728)	**24,742**
Total	**¥ 2,895**	¥ (1,247)	**$ 27,267**

21. EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN ASSETS (CONTINUED) CONSOLIDATED

(g) Plan assets

(i) Components of plan assets

Plan assets as of March 31, 2018 and 2017 consisted of the following:

	2018	2017
Domestic bonds	**25.5%**	26.4%
Foreign bonds	**11.1**	11.4
Domestic equity securities	**19.6**	18.3
Foreign equity securities	**18.3**	17.7
Life insurance company accounts (general accounts)	**17.4**	18.4
Other	**8.1**	7.8
Total	**100.0%**	100.0%

(ii) Method of determining the long-term expected rate of return on plan assets

The Bank, which dominates a large share of plan assets in the Group, determined 2.20% of long-term expected rate of return on plan assets for the fiscal year ended March 31, 2018, considering the financial condition, policy for asset investment and the asset portfolios of the Bank besides current economic environment and market trend. For major consolidated subsidiaries, the long-term expected rates of return on plan assets were determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(h) Assumptions used for the fiscal years ended March 31, 2018 and 2017 were set forth as follows:

	2018	2017
Discount rate	**0.43 - 1.20%**	0.43 - 1.20%
Long-term expected rate of return on plan assets	**2.00 - 3.50%**	2.00 - 3.50%
Expected future salary increase rate	**1.00 - 5.30%**	1.00 - 5.30%

22. ACCEPTANCES AND GUARANTEES CONSOLIDATED

Acceptances and guarantees as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Guarantees	**¥ 395,301**	¥ 346,675	**$ 3,722,232**

23. CONTINGENT LIABILITIES CONSOLIDATED

Contingent liabilities as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Agreement for the purchase of personal property	**¥ 861**	¥ 777	**$ 8,113**

A subsidiary has made agreements in which it will purchase the personal property collateralized by the creditor at a specified price if the borrower defaults. As a result, there is the possibility that the subsidiary assumes an obligation to purchase the collateral.

24. ASSETS PLEDGED AS COLLATERAL — CONSOLIDATED

Assets pledged as collateral and liabilities collateralized as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Assets pledged as collateral:			
Cash and due from banks	**¥ 10**	¥ 10	**$ 95**
Trading assets	**195**	730	**1,838**
Monetary assets held in trust	**801**	508	**7,546**
Securities	**663,638**	563,096	**6,248,949**
Loans and bills discounted	**103,819**	90,574	**977,582**
Lease receivables and leased investment assets	**10,811**	23,515	**101,806**
Other assets	**105,606**	57,190	**994,411**
Premises and equipment	**5,962**	6,815	**56,144**
Liabilities collateralized:			
Deposits, including negotiable certificates of deposit	**¥ 909**	¥ 1,071	**$ 8,562**
Payables under repurchase agreements	**55,919**	36,467	**526,546**
Payables under securities lending transactions	**433,462**	267,414	**4,081,568**
Borrowed money	**261,947**	329,769	**2,466,550**
Corporate bonds	**–**	2,000	**–**
Other liabilities	**25**	15	**238**
Acceptances and guarantees	**556**	954	**5,237**

In addition, ¥60 million (U.S.$565 thousand) and ¥60 million of cash and due from banks and ¥8,089 million (U.S.$76,170 thousand) and ¥47,770 million of securities as of March 31, 2018 and 2017, were pledged as collateral for transactions, including exchange settlements, swap transactions, replacement of margin for futures transactions and other.

Also, ¥4,582 million (U.S.$43,146 thousand) and ¥3,832 million of margin deposits for futures transactions outstanding, ¥11,028 million (U.S.$103,847 thousand) and ¥11,332 million of security deposits, ¥50,527 million (U.S. $475,778 thousand) and ¥48,856 million of cash collateral paid for financial instruments, ¥155 million (U.S. $1,464 thousand) and ¥92 million of margin on foreign exchange and ¥48,888 million (U.S.$460,343 thousand) and ¥11,994 million of cash collateral for Zengin-net were included in "Other assets" as of March 31, 2018 and 2017, respectively.

25. NONRECOURSE DEBTS — CONSOLIDATED

Nonrecourse debts in consolidated special purpose companies as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Nonrecourse debts:			
Borrowed money	**¥ 5,616**	¥ 49,876	**$ 52,889**
Corporate bonds	**–**	2,000	**–**
Assets corresponding to nonrecourse debts:			
Securities	**¥ 24,263**	66,983	**$ 228,472**
Other assets	**–**	6,987	**–**

The above balances include certain amount of "Assets pledged as collateral" in Note 24.

26. EQUITY

CONSOLIDATED

Shinsei Bank executed a 1-for-10 reverse stock split on October 1, 2017 based on the number of shares held by shareholders, who were recorded in the Register of Shareholders as of the end of the day on September 30, 2017.

In accordance with a decrease in the number of outstanding shares after the above reverse stock split, the aggregate number of authorized shares decreased at the one-tenth on October 1, 2017, and the number as of March 31, 2018 was 400,000 thousand shares.

The following table shows changes in the number of shares of common stock.

	Thousands	
	Issued number of shares	Number of treasury stock
Fiscal year ended March 31, 2017:		
Beginning of year	2,750,346	96,429
Increase[1]	–	75,564
Decrease[2]	–	(10,037)
End of year	2,750,346	161,955
Fiscal year ended March 31, 2018:		
Beginning of year	**2,750,346**	**161,955**
Increase[3]	**–**	**5,971**
Decrease[4,5]	**(2,475,312)**	**(145,761)**
End of year	**275,034**	**22,166**

1 The increase of 75,564 thousand treasury stocks is associated with the repurchase from the market.
2 The decrease of 10,037 thousand treasury stocks is associated with the allocation of treasury stocks in the share exchange transaction.
3 The increase of 5,971 thousand treasury stocks is associated with the repurchase of a total of 1 thousand shares less than one unit and the repurchase of 5,969 thousand shares from market.
4 The decrease of 2,475,312 thousand common stocks is associated with the reverse stock split (1-for-10 reverse stock split on October 1, 2017).
5 The decrease of 145,761 thousand treasury stocks is associated with the reverse stock split noted in 4.

Japanese banks are subject to the Companies Act of Japan (the “Companies Act”) and the Banking Act. The significant provisions in the Companies Act and the Banking Act that affect financial and accounting matters are summarized below:

(a) Dividends
Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

The Bank meets all of the above criteria and its articles of incorporation prescribe the authority for dividend declaration by the Board of Directors.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to certain limitations and additional requirements.

Interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company stipulate it. The Companies Act and the Banking Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock.

(b) Increases/decreases and transfer of common stock, reserve and surplus
The Banking Act requires that an amount equal to 20% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 100% of the common stock.

The Companies Act provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights
The Act also provides for purchasing treasury stock and disposing of such treasury stock by resolution of the Board of Directors. The total carrying amount of the monies, etc. delivered to shareholders for treasury stock purchased may not exceed the surplus available for dividend as at the day on which such act takes effect. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

27. STOCK ACQUISITION RIGHTS

CONSOLIDATED

The Bank and a subsidiary issue stock acquisition rights as a stock option plan to directors, executive officers and employees of the Bank and its subsidiaries.

Some stock acquisition rights provide eligible individuals (the "holders") with the right to purchase stock of the issuers, without any cash consideration, others with offsetting the remuneration claims against the issuers. The amount of money to be paid upon exercising stock acquisition rights is the amount calculated by multiplying the payment amount per share (the "exercise price") by the number of shares that can be purchased through the exercise of one stock acquisition right. Conditions are stipulated in the "Agreement on the Grant of Stock Acquisition Rights" entered between the issuers and the holders to whom stock acquisition rights were allotted based on the resolution of the annual general meeting of shareholders and the meeting of the Board of Directors which resolves the issuance of stock acquisition rights subsequent to the shareholders' meeting.

The following table shows the details of stock acquisition rights issued during the fiscal year ended March 31, 2018.

(a) Stock-based compensation expenses for the fiscal years ended March 31, 2018 and 2017 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
General and administrative expenses	**¥ 39**	¥ 71	**$ 372**

(b) Gains on unexercised and forfeited stock acquisition rights for the fiscal years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Other gains (losses), net	**¥ 293**	¥ –	**$ 2,768**

(c) Details of stock options

Stock options outstanding as of March 31, 2018 and 2017 were as follows:

(i) The Bank

	Date of issuance	Total number of stock options (shares) at the issuance	Total number of holders at the issuance	Exercise period	Exercise price (Yen)	Fair value at the grant date (Yen)
17th	May 25, 2007	330,600	135	June 1, 2009 - May 8, 2017	5,550	1,310 or 1,430
18th	May 25, 2007	148,000	26	June 1, 2009 - May 8, 2017	5,550	1,310 or 1,430
19th	July 2, 2007	14,000	32	July 1, 2009 - June 19, 2017	5,270	1,210 or 1,320
20th	May 30, 2008	283,000	124	June 1, 2010 - May 13, 2018	4,160	1,580 or 1,690
21st	May 30, 2008	208,100	30	June 1, 2010 - May 13, 2018	4,160	1,580 or 1,690
22nd	July 10, 2008	20,300	43	July 1, 2010 - June 24, 2018	4,070	1,270 or 1,370
23rd	December 1, 2008	9,700	17	December 1, 2010 - November 11, 2018	2,210	530 or 570
1st (Share compensation-type) 1	May 26, 2016	13,430	2	May 27, 2016 - May 26, 2046	1	1,620
2nd (Share compensation-type) 1	May 25, 2017	16,730	2	May 26, 2017 - May 25, 2047	1	1,780

※ The above table was stated in terms of the number of shares after considering the Bank executed a one-for-ten reverse stock split of common shares on October 1, 2017.

1 These are the Bank's issuance of equity remuneration type of stock options with JPY 1 of exercise price, only for the Bank's directors (excluding outside directors).

27. STOCK ACQUISITION RIGHTS (CONTINUED) CONSOLIDATED

(ii) OJBC Co. Ltd

	Date of issuance	Total number of stock options (shares) at the issuance	Total number of holders at the issuance	Exercise period	Exercise price (USD)	Fair value at the grant date (USD)
1st[1]	April 28, 2015	2,114,680	8	April 28, 2017 - April 28, 2025	1.10	0.26
2nd[1]	May 25, 2016	72,920	1	May 25, 2018 - May 25, 2026	1.10	0.15

1 These stock acquisition rights allow option holders to acquire Class B Preferred shares of OJBC Co. Ltd.

(d) The number of stock options and movement therein

The number of stock options and price information is as follows:

(i) The Bank

	17th	18th	19th	20th
Fiscal year ended March 31, 2018				
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	122,400	79,900	14,000	113,900
Vested during the year	–	–	–	–
Exercised during the year	–	–	–	–
Forfeited during the year	122,400	79,900	14,000	–
Exercisable at the end of the year	–	–	–	113,900
Exercise price (Yen)	5,550	5,550	5,270	4,160
Weighted average stock price at the date of exercise (Yen)	–	–	–	–

	21st	22nd	23rd	1st (Share compensation-type)
Fiscal year ended March 31, 2018				
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	4,200	17,800	5,400	13,430
Vested during the year	–	–	–	–
Exercised during the year	–	–	–	–
Forfeited during the year	–	–	400	–
Exercisable at the end of the year	4,200	17,800	5,000	13,430
Exercise price (Yen)	4,160	4,070	2,210	1
Weighted average stock price at the date of exercise (Yen)	–	–	–	–

27. STOCK ACQUISITION RIGHTS (CONTINUED)

CONSOLIDATED

	2nd (Share compensation-type)
Fiscal year ended March 31, 2018	
Nonvested (share)	
Outstanding at the beginning of the year	–
Granted during the year	16,730
Forfeited during the year	–
Vested during the year	16,730
Outstanding at the end of the year	–
Vested (share)	
Outstanding at the beginning of the year	–
Vested during the year	16,730
Exercised during the year	–
Forfeited during the year	–
Exercisable at the end of the year	16,730
Exercise price (Yen)	1
Weighted average stock price at the date of exercise (Yen)	–

(*ii*) OJBC Co. Ltd

	1st	2nd
Fiscal year ended March 31, 2018		
Nonvested (share)		
Outstanding at the beginning of the year	2,041,760	72,920
Granted during the year	–	–
Forfeited during the year	–	–
Vested during the year	2,041,760	–
Outstanding at the end of the year	–	72,920
Vested (share)		
Outstanding at the beginning of the year	–	–
Vested during the year	2,041,760	–
Exercised during the year	–	–
Forfeited during the year	255,220	–
Exercisable at the end of the year	1,786,540	–
Exercise price (USD)	1.10	1.10
Weighted average stock price at the date of exercise (USD)	–	–

(e) Measurement of the fair value of stock options

The following shows the assumptions used to measure the fair value of the stock options granted during fiscal years ended March 31, 2018.

(*i*) The Bank

a) Method used: Black-Scholes option pricing model

b) Major inputs and variables to the model

	2nd (Share compensation-type)
Exercise period	From May 26, 2017 to May 25, 2047
Expected volatility[1]	40.694%
Expected life[2]	7.6 years
Expected dividends[3]	¥1.00/Share
Risk-free interest rate[4]	-0.031%

1 Measured based on the historical stock price corresponding to expected life (from October 19, 2009 to May 25, 2017).
2 Estimated based on the retirement data of the director and statutory executive officers of the Bank for the past 10 years, as the reasonable estimate is difficult without enough data.
3 Based on the actual dividend for the fiscal year ended in March, 2017 (¥1.00/Share) and stated in the amount before reserve stock split.
4 Used the average compound yield of Long term JGB with the maturity that is approximate to expected life.

(f) 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.

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28. NET TRADING INCOME (LOSS) CONSOLIDATED

Net trading income (loss) for the fiscal years ended March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Income (loss) from trading securities	**¥ 3,814**	¥ 2,913	**$ 35,915**
Income (loss) from securities held to hedge trading transactions	**49**	86	**464**
Income (loss) from trading-related financial derivatives	**4,627**	4,360	**43,569**
Other, net	**52**	13	**494**
Total	**¥ 8,542**	¥ 7,373	**$ 80,441**

29. OTHER BUSINESS INCOME (LOSS), NET CONSOLIDATED

"Other, net" in other business income (loss), net, for the fiscal years ended March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Income (loss) from derivatives entered into for banking purposes, net	**¥ (46)**	¥ (1,087)	**$ (440)**
Equity in net income (loss) of affiliates	**5,152**	2,821	**48,516**
Gain on lease cancellation and other lease income (loss), net	**2,111**	1,314	**19,885**
Other, net	**2,035**	1,069	**19,171**
Total	**¥ 9,253**	¥ 4,117	**$ 87,133**

30. NET CREDIT COSTS CONSOLIDATED

Net credit costs for the fiscal years ended March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Losses on write-off or sales of loans	**¥ 541**	¥ 2,477	**$ 5,103**
Net provision (reversal) of reserve for loan losses:			
Net provision (reversal) of general reserve for loan losses	**28,051**	21,856	**264,138**
Net provision (reversal) of specific reserve for loan losses	**14,978**	12,765	**141,043**
Net provision (reversal) of reserve for loan losses to restructuring countries	**(0)**	(0)	**(2)**
Subtotal	**43,030**	34,622	**405,179**
Net provision (reversal) of specific reserve for other credit losses	**–**	205	**–**
Other credit costs (recoveries) relating to leasing business	**645**	(63)	**6,075**
Recoveries of written-off claims	**(6,946)**	(5,343)	**(65,408)**
Total	**¥ 37,270**	¥ 31,898	**$ 350,949**

31. OTHER GAINS (LOSSES), NET CONSOLIDATED

Other gains (losses), net for the fiscal years ended March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net gain (loss) on disposal of premises and equipment	¥ 543	¥ (219)	$ 5,119
Gains on write-off of unclaimed debentures	3,189	2,852	30,031
Provision for reimbursement of debentures	(1,211)	(1,083)	(11,412)
Gains on write-off of unclaimed deposits	470	1,284	4,430
Reversal (provision) of reserve for losses on interest repayment	6,052	(5,190)	56,994
Impairment losses on long-lived assets	(1,834)	(450)	(17,275)
Gains on sale of nonperforming loans	–	1,874	–
Gain on purchase of loans	–	4,236	–
Gain on liquidation of subsidiaries	–	1,210	–
Loss on liquidation of subsidiaries	(30)	(153)	(288)
Loss on liquidation of affiliates	–	(528)	–
Gain on sale of investments in subsidiaries	–	257	–
Loss on sale of investments in subsidiaries	–	(154)	–
Loss on change in equity of affiliates	(234)	–	(2,210)
Gains on unexercised and forfeited stock acquisition rights	293	–	2,768
Other, net	383	682	3,607
Total	¥ 7,621	¥ 4,617	$ 71,763

• Impairment losses on long-lived assets

For the fiscal years ended March 31, 2018 and 2017, respectively, “Impairment losses on long-lived assets” of ¥1,834 million (U.S.$17,275 thousand) and ¥450 million were recognized mainly on the properties of the Bank’s branches which were decided to be closed and on the unused IT-related properties. In addition, certain consolidated subsidiaries which belong to Institutional Business transferred to another office mainly due to their corporate reorganization, and recorded impairment losses on the retirement of certain assets resulting from the transfer, judging that those were unrecoverable.

32. INCOME TAXES (Restated) ※ CONSOLIDATED

The Group is subject to a number of taxes based on income, such as corporate tax, inhabitant tax and enterprise tax, which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.8% for the fiscal years ended March 31, 2018 and 2017.

(a) A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the fiscal years ended March 31, 2018 and 2017 was as follows:

	2018	2017
Normal effective statutory tax rate	**30.8%**	30.8%
Increase (decrease) in taxes resulting from:		
Amortization of goodwill	**1.5**	1.9
Equity in net income/loss of affiliates	**(0.6)**	(0.9)
Other nondeductible expenses	**0.5**	0.3
Foreign tax	**0.0**	0.1
Change in valuation allowance	**(90.9)**	(28.1)
Expiration of tax loss carryforwards	**61.5**	–
Other	**3.9**	(1.6)
Actual effective tax rate	**6.9%**	2.3%

(b) The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities, as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Deferred tax assets:			
Tax loss carryforwards	**¥ 74,315**	¥ 98,539	**$ 699,768**
Reserve for credit losses	**71,817**	84,337	**676,245**
Reserve for losses on interest repayments	**25,590**	32,851	**240,963**
Securities	**5,747**	21,113	**54,117**
Monetary assets held in trust	**5,073**	7,581	**47,773**
Deferred loss on derivatives under hedge accounting	**5,305**	7,115	**49,958**
Other	**21,108**	22,307	**198,761**
Subtotal	**208,957**	273,846	**1,967,585**
Valuation allowance	**(185,443)**	(248,572)	**(1,746,177)**
Total deferred tax assets	**23,513**	25,273	**221,408**
Offset with deferred tax liabilities	**(8,808)**	(9,730)	**(82,939)**
Net deferred tax assets	**¥ 14,705**	¥ 15,542	**$ 138,469**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	**¥ 1,777**	¥ 3,250	**$ 16,738**
Deferred gain on derivatives under hedge accounting	**2,038**	2,801	**19,196**
Assets for retirement benefits	**3,428**	1,648	**32,286**
Asset retirement costs included in premises and equipment	**966**	1,030	**9,098**
Temporary differences due to business combination (primarily related to identified intangible assets)	**519**	862	**4,889**
Other	**77**	138	**732**
Total deferred tax liabilities	**8,808**	9,730	**82,939**
Offset with deferred tax assets	**(8,808)**	(9,730)	**(82,939)**
Net deferred tax liabilities	**¥ –**	¥ –	**$ –**

※See Note2 (AB)

32. INCOME TAXES (CONTINUED) (Restated) ※ CONSOLIDATED

(c) The Bank has ¥156,040 million (U.S.$1,469,309 thousand) of tax loss carryforward related to corporate tax as of March 31, 2018. The schedule of tax loss carryforward and its expiration date are as follows:

Fiscal year ended March 31	Amount: Millions of yen	Amount: Thousands of U.S. dollars	Date of expiry
2011	¥ 20,013	$ 188,452	March 31, 2020
2012	16,730	157,541	March 31, 2021
2013	23,214	218,596	March 31, 2022
2014	18,589	175,045	March 31, 2023
2015	34,702	326,770	March 31, 2024
2016	17,646	166,166	March 31, 2025
2017	16,582	156,142	March 31, 2026
2018	8,559	80,596	March 31, 2027
Total	¥ 156,040	$ 1,469,309	

In addition, other material tax loss carryforwards of major subsidiaries as of March 31, 2018 are as follows:

Subsidiary	Fiscal period ended	Millions of yen	Thousands of U.S. dollars	Date of expiry
APLUS FINANCIAL	March 31, 2011	¥ 1,076	$ 10,133	March 31, 2020
	March 31, 2012	7,563	71,220	March 31, 2021
	March 31, 2013	887	8,359	March 31, 2022
	March 31, 2014	9,895	93,179	March 31, 2023
	March 31, 2017	7,771	73,177	March 31, 2026
	March 31, 2018	14,669	138,131	March 31, 2027
	Total	¥ 41,863	$ 394,199	

※See Note2 (AB)

33. EARNINGS PER SHARE CONSOLIDATED

A reconciliation of the difference between basic and diluted EARNINGS PER SHARE ("EPS") for the fiscal year ended March 31, 2018 and 2017 was as follows:

	Earnings (Millions of yen)	Weighted average shares (Thousands)	EPS (Yen)	EPS (U.S. dollars)
For the fiscal year ended March 31, 2018:				
Basic EPS				
Profit (loss) attributable to owners of the parent available to common shareholders	**¥ 51,414**	**258,349**	**¥ 199.01**	**$ 1.87**
Effect of dilutive securities				
Stock acquisition rights	**–**	**27**		
Diluted EPS				
Profit (loss) attributable to owners of the parent for computation	**¥ 51,414**	**258,376**	**¥ 198.98**	**$ 1.87**

	Earnings (Millions of yen)	Weighted average shares (Thousands)	EPS (Yen)
For the fiscal year ended March 31, 2017:			
Basic EPS			
Profit (loss) attributable to owners of the parent available to common shareholders	¥ 50,759	260,768	¥ 194.65
Effect of dilutive securities			
Stock acquisition rights	–	11	
Diluted EPS			
Profit (loss) attributable to owners of the parent for computation	¥ 50,759	260,779	¥ 194.64

Notes
Shinsei Bank executed a 1-for-10 reverse stock split on October 1, 2017. The above EPS data is calculated as if the reverse stock split had been implemented at the beginning of the fiscal year ended March 31, 2017.

34. OTHER COMPREHENSIVE INCOME (Restated) ※ CONSOLIDATED

The components of other comprehensive income for the fiscal years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the fiscal year	¥ 3,070	¥ 12,438	$ 28,917
Reclassification adjustment to profit or loss	(10,772)	(13,216)	(101,435)
Amount before income tax effect	(7,701)	(778)	(72,519)
Income tax effect	1,733	504	16,321
Total	(5,968)	(273)	(56,198)
Deferred gain (loss) on derivatives under hedge accounting:			
Gains (losses) arising during the fiscal year	(6,828)	(4,148)	(64,301)
Reclassification adjustment to profit or loss	5,583	3,795	52,577
Amount before income tax effect	(1,245)	(352)	(11,724)
Income tax effect	713	1,198	6,714
Total	(532)	845	(5,010)
Foreign currency translation adjustments:			
Gains (losses) arising during the fiscal year	174	(1,470)	1,645
Reclassification adjustment to profit or loss	44	(818)	422
Amount before income tax effect	219	(2,289)	2,067
Income tax effect	–	–	–
Total	219	(2,289)	2,067
Defined retirement benefit plans:			
Gains (losses) arising during the fiscal year	3,376	1,821	31,792
Reclassification adjustment to profit or loss	767	233	7,225
Amount before income tax effect	4,143	2,055	39,017
Income tax effect	(709)	(429)	(6,681)
Total	3,434	1,625	32,336
Share of other comprehensive income in affiliates:			
Gains (losses) arising during the fiscal year	(1,027)	(494)	(9,672)
Reclassification adjustment to profit or loss	(221)	687	(2,089)
Amount before income tax effect	(1,248)	192	(11,761)
Income tax effect	–	–	–
Total	(1,248)	192	(11,761)
Total other comprehensive income	¥ (4,095)	¥ 100	$ (38,565)

※See Note2 (AB)

35. LEASE TRANSACTIONS (Restated) ※ CONSOLIDATED

(A) FINANCE LEASE TRANSACTIONS

AS LESSEE

(a) For finance lease transactions, where the ownership of the property is deemed to transfer to the lessee, lease assets are software included in “Intangible assets.”

(b) For finance lease transactions, where the ownership of the property is not deemed to transfer to the lessee, lease assets are primarily buildings, tools, equipment and fixtures included in “Premises and equipment.”

(c) Depreciation method is described in “(U) LEASE TRANSACTIONS” in Note 2 “SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.”

※See Note2 (AB)

35. LEASE TRANSACTIONS (CONTINUED) (Restated) ※ CONSOLIDATED

AS LESSOR

(a) Breakdown of "Lease receivables and leased investment assets" as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Lease receivables	**¥ 60,184**	¥ 67,078	**$ 566,707**
Leased investment assets:			
Lease payment receivables	**122,371**	134,320	**1,152,272**
Estimated residual value	**4,971**	5,454	**46,813**
Interest equivalent	**(16,399)**	(15,690)	**(154,417)**
Other	**301**	323	**2,841**
Subtotal	**111,245**	124,409	**1,047,510**
Total	**¥ 171,429**	¥ 191,488	**$ 1,614,217**

(b) Lease payment receivables for "Lease receivables and leased investment assets" as of March 31, 2018 were as follows:

	Lease receivables		Leased investment assets	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Due within one year	**¥ 19,209**	**$ 180,877**	**¥ 36,340**	**$ 342,190**
Due after one year within two years	**14,759**	**138,977**	**27,472**	**258,683**
Due after two years within three years	**10,856**	**102,225**	**20,090**	**189,180**
Due after three years within four years	**8,174**	**76,970**	**13,425**	**126,414**
Due after four years within five years	**4,273**	**40,238**	**7,499**	**70,619**
Due after five years	**5,892**	**55,490**	**17,542**	**165,184**
Total	**¥ 63,165**	**$ 594,777**	**¥ 122,371**	**$ 1,152,272**

(B) OPERATING LEASE TRANSACTIONS

Noncancelable operating lease obligations as lessee and lease payment receivables as lessor as of March 31, 2018 and 2017 were as follows:

AS LESSEE

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Lease obligations:			
Due within one year	**¥ 4,587**	¥ 4,609	**$ 43,195**
Due after one year	**4,282**	7,697	**40,326**
Total	**¥ 8,869**	¥ 12,306	**$ 83,521**

AS LESSOR

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Lease payment receivables:			
Due within one year	**¥ 5,036**	¥ 4,544	**$ 47,420**
Due after one year	**24,487**	20,001	**230,578**
Total	**¥ 29,523**	¥ 24,545	**$ 277,998**

※See Note2 (AB)

36. SEGMENT INFORMATION (Restated) ※ CONSOLIDATED

(A) SEGMENT INFORMATION

(a) DESCRIPTION OF REPORTABLE SEGMENTS

Our reportable segments are businesses whose individual financial information is available and regular evaluation by the Executive Committee is made in order to decide how much resources are allocated.

The Businesses provide a wide variety of financial products and services to institutional and individual customers through our Institutional Business, Global Markets Business and Individual Business. These Businesses consist of operating segments which provide their respective financial products and services. The Institutional Business consists of the "Corporate Business," "Structured Finance," "Principal Transactions," and "Showa Leasing" and the Global Markets Business consists of the "Markets," and "Other Global Markets" as reportable segments. The Individual Business consists of "Retail Banking," "Shinsei Financial" and "APLUS FINANCIAL." Also, the business and operations excluding any of the Institutional Business, the Global Markets Business, and the Individual Business are classified as the "Corporate/Other." The "Treasury" in the "Corporate/Other" is a reportable segment.

In the Institutional Business, the "Corporate Business" segment provides financial products and services, advisory services, and trust business for corporate, public, and financial sectors. The "Structured Finance" segment provides real estate finance, such as nonrecourse loans, financial products and services for real estate and construction industries, project finance and specialty finance, such as M&A finance. The "Principal Transactions" segment provides financial products and services related to credit trading and private equity businesses. "Showa Leasing" segment primarily provides financial products and services related to leasing.

In the Global Markets Business, the "Markets" segment engages in foreign exchanges, derivatives, equity-related transactions and other capital markets transactions. The "Other Global Markets" segment consists of securities business provided by Shinsei Securities, asset management and wealth management businesses.

In the Individual Business, the "Retail Banking" segment provides financial products and services for retail customers, "Shinsei Financial" segment, which consists of Shinsei Financial Co., Ltd., Shinsei Personal Loan Co., Ltd. and Shinsei Bank Card Loan—Lake in the Bank, etc., provides consumer finance business, and "APLUS FINANCIAL" segment provides installment sales credit, credit cards, loans and settlement services. The "Other" segment consists of profit and loss attributable to the Consumer Finance Headquarter and other subsidiaries.

In the Corporate/Other, the "Treasury" segment engages in ALM operations and fund raising including capital instruments.

Also, we newly established a "Group Headquarter" in the Bank, integrating indirect functions in the Bank and in group companies, in order to facilitate "selection and concentration" in businesses, which are set as a comprehensive strategy of 3rd Medium-term Management Plan on April 1, 2017 and promote group-wide measures to realize creating values by group integration.

An overview of the revision of reportable segments resulting from organization changes is stated below.

On June 1, 2017, we integrated the business related to the Asset Management Products Division, which was formerly in the Global Markets Business, into the Retail Products Division in the Individual Business. On June 30, 2017, we transferred a part of the business related to the Asset Management Controlling Division in the Global Markets Business to the Principal Investments Department in the Institutional Business. On October 1, 2017, the Bank combined Alpha Servicer whose principal business is servicing small loans to individual borrowers with Shinsei Servicing & Consulting Limited whose principal business is servicing non-performing loans and commercial secured loans. Additionally, the Bank combined Shinsei Investment & Finance Limited with Shinsei Property Finance Co., whose real estate secured loan business are highly compatible, and Shinsei Principal Investments Limited, which is responsible for management operations in the Shinsei PI Group. After the mergers, Shinsei Principal Investment has been renamed as Shinsei Investment & Finance Limited. The Bank also integrated investment businesses of the Institutional Business. As a result, the reporting segment in the first half fiscal year was revised as shown below.

The "Principal Transactions" segment in the Institutional Business includes a part of the business related to asset management, which was formerly included in the "Other Global Markets" segment.

The "Principal Transactions" segment in the Institutional Business includes a business related to Shinsei Property Finance, which was formerly included in "Other" within the Consumer Finance segment.

※See Note2 (AB)

36. SEGMENT INFORMATION (CONTINUED) (Restated) ※ CONSOLIDATED

The "Principal Transactions" segment in the Institutional Business includes a New Business Promotion & Support business, which was formerly included in the "Corporate Business".

The "Other" segment in the Individual Business includes a business related to Shinsei Servicing & Consulting, which was formerly included in the "Principal Transactions" segment in the Institutional Business and a business related to Alpha Servicer, which was formerly included in the "APLUS FINANCIAL" segment in the Individual Business.

The "Retail Banking" segment in the Individual Group includes an asset management product business, which was formerly included in the "Other Global Markets" segment.

As a result of this organizational change, classification of reportable segments has changed, and "REVENUE, PROFIT (LOSS), ASSETS, LIABILITIES AND OTHER ITEMS BY REPORTABLE SEGMENTS" for the fiscal year ended March 31, 2017 was presented based on the new classification of reportable segments.

(b) METHODS OF MEASUREMENT FOR THE AMOUNTS OF REVENUE, PROFIT (LOSS), ASSETS, LIABILITIES AND OTHER ITEMS BY REPORTABLE SEGMENTS

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES," except for interest on inter-segment transactions and indirect expense.

Interest on inter-segment transactions is calculated using an inter-office rate. Indirect expense is allocated, based on a predetermined internal rule, to each reportable segment according to the budget which is set at the beginning of the fiscal year.

During the second quarter, we have changed the allocation method of expenses in order to evaluate performance in each segment properly; expenses of the funding business related to Retail Banking, which were formerly included in the "Retail Banking" segment, have been allocated to each segment in proportion to operating assets, in order to cover costs related to the bank's funding operation. In addition, the amount of profit and loss of reportable segments for the fiscal year ended March 31, 2017 is presented based on the allocation method for the fiscal year ended March 31, 2018.

※See Note2 (AB)

36. SEGMENT INFORMATION (CONTINUED) (Restated) ※ CONSOLIDATED

(c) REVENUE, PROFIT (LOSS), ASSETS, LIABILITIES AND OTHER ITEMS BY REPORTABLE SEGMENTS

	Millions of yen					
	Institutional Business				Global Markets Business	
Fiscal year ended March 31, 2018	Corporate Business	Structured Finance	Principal Transactions	Showa Leasing	Markets	Other Global Markets
Revenue[1]:	¥ 18,781	¥ 17,050	¥ 12,853	¥ 15,985	¥ 8,581	¥ 2,839
Net Interest Income	10,005	9,584	5,022	(147)	1,684	509
Noninterest Income[i]	8,776	7,465	7,831	16,132	6,897	2,329
Expenses[2]	11,848	6,863	4,713	8,984	3,759	3,338
Net Credit Costs (Recoveries)[3]	293	1,754	(1,207)	2,793	(35)	57
Segment Profit (Loss)	¥ 6,639	¥ 8,432	¥ 9,347	¥ 4,207	¥ 4,857	¥ (556)
Segment Assets[4, ii]	¥ 1,592,790	¥ 1,396,630	¥ 193,795	¥ 502,802	¥ 361,331	¥ 46,424
Segment Liabilities[5]	¥ 1,026,134	¥ 76,375	¥ 16,909	¥ 2,064	¥ 185,391	¥ 78,324
Includes:						
i . Equity in net income (loss) of affiliates	¥ –	¥ –	¥ 3,265	¥ (1)	¥ –	¥ –
ii . Investment in affiliates	–	–	57,474	920	–	–
Other:						
Goodwill (Negative Goodwill):						
Amortization	¥ –	¥ –	¥ (0)	¥ 2,146	¥ –	¥ –
Unamortized balance	–	–	(2)	15,025	–	–
Intangible assets acquired in business combinations:						
Amortization	¥ –	¥ –	¥ –	¥ 268	¥ –	¥ –
Unamortized balance	–	–	–	927	–	–
Impairment losses on long-lived assets	¥ –	¥ 0	¥ 34	¥ –	¥ –	¥ –

	Millions of yen						
	Individual Business				Corporate/Other		
		Consumer Finance					
Fiscal year ended March 31, 2018	Retail Banking	Shinsei Financial	APLUS FINANCIAL	Other	Treasury	Other[7]	Total
Revenue[1]:	¥ 23,506	¥ 68,930	¥ 56,446	¥ 3,421	¥ 2,871	¥ 761	¥ 232,030
Net Interest Income	22,414	69,049	11,361	638	(1,340)	(6)	128,775
Noninterest Income[i]	1,092	(119)	45,084	2,783	4,212	767	103,254
Expenses[2]	29,210	32,445	36,670	1,343	1,792	1,613	142,584
Net Credit Costs (Recoveries)[3]	170	22,766	10,614	68	–	(5)	37,270
Segment Profit (Loss)	¥ (5,874)	¥ 13,717	¥ 9,161	¥ 2,009	¥ 1,079	¥ (846)	¥ 52,175
Segment Assets[4, ii]	¥ 1,282,996	¥ 524,077	¥ 1,032,687	¥ 45,041	¥ 671,034	¥ 0	¥ 7,649,612
Segment Liabilities[5]	¥ 4,886,499	¥ 53,296	¥ 321,869	¥ 538	¥ –	¥ 0	¥ 6,647,403
Includes:							
i . Equity in net income (loss) of affiliates	¥ –	¥ –	¥ –	¥ 1,888	¥ –	¥ –	¥ 5,152
ii . Investment in affiliates	–	–	–	7,087	–	–	65,482
Other:							
Goodwill (Negative Goodwill):							
Amortization	¥ –	¥ 627	¥ –	¥ –	¥ –	¥ –	¥ 2,773
Unamortized balance	–	(3,112)	–	–	–	–	11,910
Intangible assets acquired in business combinations:							
Amortization	¥ –	¥ 945	¥ –	¥ –	¥ –	¥ –	¥ 1,213
Unamortized balance	–	363	–	–	–	–	1,290
Impairment losses on long-lived assets	¥ 101	¥ 682	¥ –	¥ –	¥ –	¥ 1,015	¥ 1,834

※See Note2 (AB)

36. SEGMENT INFORMATION (CONTINUED) (Restated) ※ CONSOLIDATED

	Millions of yen					
	Institutional Business				Global Markets Business	
Fiscal year ended March 31, 2017	Corporate Business	Structured Finance	Principal Transactions	Showa Leasing	Markets	Other Global Markets
Revenue[1]:	¥ 16,362	¥ 21,896	¥ 11,286	¥ 13,230	¥ 8,393	¥ 2,607
Net Interest Income	10,573	9,422	4,274	(1,255)	1,967	328
Noninterest Income [i]	5,788	12,473	7,011	14,486	6,426	2,278
Expenses[2]	11,938	6,442	5,051	8,868	3,555	3,543
Net Credit Costs (Recoveries)[3]	410	3,590	60	(1,024)	(92)	1
Segment Profit (Loss)	¥ 4,013	¥ 11,863	¥ 6,174	¥ 5,386	¥ 4,931	¥ (937)
Segment Assets[4, ii]	¥ 1,673,362	¥ 1,253,269	¥ 204,963	¥ 483,932	¥ 414,430	¥ 60,840
Segment Liabilities[5]	¥ 896,190	¥ 71,704	¥ 4,449	¥ –	¥ 218,752	¥ 54,940
Includes:						
i . Equity in net income (loss) of affiliates	¥ –	¥ –	¥ 2,420	¥ –	¥ –	¥ –
ii . Investment in affiliates	–	–	52,189	–	–	–
Other:						
Goodwill (Negative Goodwill):						
Amortization	¥ –	¥ –	¥ (0)	¥ 2,275	¥ –	¥ –
Unamortized balance	–	–	(3)	17,171	–	–
Intangible assets acquired in business combinations:						
Amortization	¥ –	¥ –	¥ –	¥ 299	¥ –	¥ –
Unamortized balance	–	–	–	1,195	–	–
Impairment losses on long-lived assets	¥ –	¥ –	¥ –	¥ –	¥ –	¥ 179

	Millions of yen						
	Individual Business				Corporate/Other		
		Consumer Finance					
Fiscal year ended March 31, 2017	Retail Banking	Shinsei Financial	APLUS FINANCIAL	Other	Treasury	Other[7]	Total
Revenue[1]:	¥ 26,050	¥ 63,283	¥ 54,205	¥ 1,945	¥ 7,089	¥ 2,179	¥ 228,529
Net Interest Income	23,490	64,212	9,076	189	(50)	48	122,278
Noninterest Income [i]	2,560	(928)	45,129	1,755	7,140	2,130	106,251
Expenses[2]	29,467	32,838	36,604	1,257	1,704	1,207	142,479
Net Credit Costs (Recoveries)[3]	(679)	20,515	8,604	306	–	207	31,898
Segment Profit (Loss)	¥ (2,736)	¥ 9,928	¥ 8,996	¥ 381	¥ 5,385	¥ 764	¥ 54,151
Segment Assets[4, ii]	¥ 1,354,865	¥ 485,260	¥ 911,368	¥ 37,927	¥ 599,903	¥ 0	¥ 7,480,125
Segment Liabilities[5]	¥ 4,882,253	¥ 44,929	¥ 254,910	¥ 270	¥ –	¥ 0	¥ 6,428,401
Includes:							
i . Equity in net income (loss) of affiliates	¥ –	¥ –	¥ –	¥ 400	¥ –	¥ –	¥ 2,821
ii . Investment in affiliates	–	–	–	427	–	–	52,617
Other:							
Goodwill (Negative Goodwill):							
Amortization	¥ –	¥ 1,284	¥ –	¥ –	¥ –	¥ –	¥ 3,559
Unamortized balance	–	(2,484)	–	–	–	–	14,683
Intangible assets acquired in business combinations:							
Amortization	¥ –	¥ 1,384	¥ –	¥ –	¥ –	¥ –	¥ 1,684
Unamortized balance	–	1,309	–	–	–	–	2,504
Impairment losses on long-lived assets	¥ 19	¥ 17	¥ 135	¥ –	¥ –	¥ 97	¥ 450

※See Note2 (AB)

36. SEGMENT INFORMATION (CONTINUED) (Restated) ※ CONSOLIDATED

Fiscal year ended March 31, 2018	Thousands of U.S. dollars					
	Institutional Business				Global Markets Business	
	Corporate Business	Structured Finance	Principal Transactions	Showa Leasing	Markets	Other Global Markets
Revenue[1]:	$ 176,853	$ 160,552	$ 121,029	$ 150,522	$ 80,808	$ 26,738
Net Interest Income	94,214	90,252	47,289	(1,386)	15,859	4,798
Noninterest Income [i]	82,639	70,300	73,739	151,908	64,949	21,940
Expenses[2]	111,572	64,626	44,385	84,601	35,402	31,433
Net Credit Costs (Recoveries)[3]	2,764	16,520	(11,371)	26,301	(331)	541
Segment Profit (Loss)	$ 62,517	$ 79,406	$ 88,014	$ 39,620	$ 45,738	$ (5,237)
Segment Assets[4, ii]	$14,998,030	$13,150,944	$ 1,824,814	$ 4,734,487	$ 3,402,368	$ 437,146
Segment Liabilities[5]	$ 9,662,282	$ 719,171	$ 159,225	$ 19,438	$ 1,745,684	$ 737,520
Includes:						
i . Equity in net income (loss) of affiliates	$ –	$ –	$ 30,744	$ (14)	$ –	$ –
ii . Investment in affiliates	–	–	541,191	8,667	–	–
Other:						
Goodwill (Negative Goodwill):						
Amortization	$ –	$ –	$ (5)	$ 20,211	$ –	$ –
Unamortized balance	–	–	(26)	141,479	–	–
Intangible assets acquired in business combinations:						
Amortization	$ –	$ –	$ –	$ 2,525	$ –	$ –
Unamortized balance	–	–	–	8,733	–	–
Impairment losses on long-lived assets	$ –	$ 0	$ 325	$ –	$ –	$ –

Fiscal year ended March 31, 2018	Thousands of U.S. dollars						
	Individual Business				Corporate/Other		
		Consumer Finance					
	Retail Banking	Shinsei Financial	APLUS FINANCIAL	Other	Treasury	Other[7]	Total
Revenue[1]:	$ 221,344	$ 649,058	$ 531,508	$ 32,221	$ 27,043	$ 7,170	$ 2,184,845
Net Interest Income	211,056	650,184	106,979	6,010	(12,620)	(57)	1,212,578
Noninterest Income [i]	10,289	(1,125)	424,528	26,211	39,663	7,228	972,267
Expenses[2]	275,055	305,514	345,295	12,653	16,877	15,192	1,342,605
Net Credit Costs (Recoveries)[3]	1,609	214,374	99,951	647	–	(55)	350,949
Segment Profit (Loss)	$ (55,320)	$ 129,171	$ 86,262	$ 18,921	$ 10,166	$ (7,966)	$ 491,291
Segment Assets[4, ii]	$12,080,947	$ 4,934,813	$ 9,723,984	$ 424,124	$ 6,318,592	$ 0	$72,030,248
Segment Liabilities[5]	$46,012,233	$ 501,849	$ 3,030,782	$ 5,074	$ –	$ 0	$62,593,258
Includes:							
i . Equity in net income (loss) of affiliates	$ –	$ –	$ –	$ 17,786	$ –	$ –	$ 48,516
ii . Investment in affiliates	–	–	–	66,739	–	–	616,597
Other:							
Goodwill (Negative Goodwill):							
Amortization	$ –	$ 5,912	$ –	$ –	$ –	$ –	$ 26,118
Unamortized balance	–	(29,305)	–	–	–	–	112,148
Intangible assets acquired in business combinations:							
Amortization	$ –	$ 8,905	$ –	$ –	$ –	$ –	$ 11,430
Unamortized balance	–	3,422	–	–	–	–	12,155
Impairment losses on long-lived assets	$ 959	$ 6,430	$ –	$ –	$ –	$ 9,561	$ 17,275

1 "Revenue," which represents gross operating profit under our management reporting, is presented as a substitute for sales in other industries. "Revenue" is defined as the total of net interest income, net fees and commissions, net trading income and net other business income on the management reporting basis. "Revenue" represents income and related cost attributable to our core business.
2 "Expenses" are general and administrative expenses deducting amortization of goodwill and intangible assets acquired in business combinations, amortization of actuarial gains or losses of retirement benefit cost and lump-sum payments.
3 "Net Credit Costs (Recoveries)" consists of provision/reversal of reserve for credit losses, losses on write-off/sales of loans and recoveries of written-off claims.
4 "Segment Assets" consists of other monetary claims purchased, trading assets, monetary assets held in trust, securities, loans and bills discounted, lease receivables and leased investment assets, installment receivables, tangible leased assets, intangible leased assets and customer's liabilities for acceptances and guarantees.
5 "Segment Liabilities" consists of deposits, including negotiable certificates of deposit, debentures, trading liabilities and acceptances and guarantees.
6 Regarding assets and liabilities not allocated to each business segment, there are related revenue and expense items which are allocated to each business segment based on a rational allocation method. For example, interest on other borrowings is considered a part of "Revenue" and included in segment income, although borrowed money is not allocated to each "Segment Liabilities." In addition, depreciation is considered a part of "Expenses" and included in segment income, although premises and equipment excluding tangible leased assets and intangible assets excluding intangible leased assets are not allocated to each "Segment Assets."
7 "Other" under the Corporate/Other includes company-wide accounts which are not included in our reportable segments, allocation variance of indirect expense and elimination amount of inter-segment transactions.

※See Note2 (AB)

36. SEGMENT INFORMATION (CONTINUED) (Restated) ※ CONSOLIDATED

(d) RECONCILIATION BETWEEN THE SEGMENT INFORMATION AND THE CONSOLIDATED FINANCIAL STATEMENTS

(i) A reconciliation between total segment profit and income (loss) before income taxes on the consolidated statements of income for the fiscal years ended March 31, 2018 and 2017 was as follows:

	Millions of yen		Thousands of U.S. dollars
Fiscal Year ended March 31	**2018**	2017	**2018**
Total segment profit	**¥ 52,175**	¥ 54,151	**$ 491,291**
Amortization of goodwill acquired in business combinations	**(2,773)**	(3,559)	**(26,118)**
Amortization of intangible assets acquired in business combinations	**(1,213)**	(1,684)	**(11,430)**
Lump-sum payments	**(397)**	(1,769)	**(3,742)**
Other gains (losses), net	**7,621**	4,617	**71,763**
Income (loss) before income taxes	**¥ 55,411**	¥ 51,755	**$ 521,765**

(ii) A reconciliation between total segment assets and total assets on the consolidated balance sheets as of March 31, 2018 and 2017 was as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2018**	2017	**2018**
Total segment assets	**¥ 7,649,612**	¥ 7,480,125	**$ 72,030,248**
Cash and due from banks	**1,465,663**	1,398,691	**13,800,977**
Call loans	**–**	4,472	**–**
Receivables under securities borrowing transactions	**2,629**	1,625	**24,760**
Foreign exchanges	**32,511**	19,617	**306,138**
Other assets excluding installment receivables	**297,369**	353,756	**2,800,088**
Premises and equipment excluding tangible leased assets	**22,263**	25,547	**209,634**
Intangible assets excluding intangible leased assets	**59,484**	52,020	**560,119**
Assets for retirement benefits	**13,261**	7,075	**124,871**
Deferred issuance expenses for debentures	**–**	0	**–**
Deferred tax assets	**14,705**	15,542	**138,469**
Reserve for credit losses	**(100,840)**	(100,154)	**(949,537)**
Total assets	**¥ 9,456,660**	¥ 9,258,324	**$ 89,045,767**

(iii) A reconciliation between total segment liabilities and total liabilities on the consolidated balance sheets as of March 31, 2018 and 2017 was as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2018**	2017	**2018**
Total segment liabilities	**¥ 6,647,403**	¥ 6,428,401	**$ 62,593,258**
Call money	**–**	53,600	**–**
Payables under repurchase agreements	**55,919**	36,467	**526,546**
Payables under securities lending transactions	**433,462**	337,952	**4,081,568**
Borrowed money	**739,578**	789,670	**6,964,018**
Foreign exchanges	**102**	102	**966**
Short-term corporate bonds	**175,700**	168,000	**1,654,426**
Corporate bonds	**85,000**	112,600	**800,377**
Other liabilities	**367,734**	388,307	**3,462,657**
Accrued employees' bonuses	**8,489**	8,519	**79,943**
Accrued directors' bonuses	**51**	75	**482**
Liabilities for retirement benefits	**8,366**	8,256	**78,777**
Reserve for reimbursement of debentures	**4,130**	3,737	**38,892**
Reserve for losses on interest repayments	**74,687**	101,846	**703,269**
Total liabilities	**¥ 8,600,625**	¥ 8,437,537	**$ 80,985,177**

※See Note2 (AB)

36. SEGMENT INFORMATION (CONTINUED) (Restated) ※ CONSOLIDATED

(B) RELATED INFORMATION

(a) INFORMATION BY SERVICES

Income regarding major services for the fiscal years ended March 31, 2018 and 2017 was as follows:

	Millions of yen		Thousands of U.S. dollars
Fiscal Year ended March 31	**2018**	2017	**2018**
Loan Businesses	**¥ 141,804**	¥ 132,825	**$ 1,335,261**
Lease Businesses	**6,105**	7,833	**57,491**
Securities Investment Businesses	**21,642**	22,233	**203,791**
Installment Sales and Guarantee Businesses	**47,926**	46,975	**451,283**

(b) GEOGRAPHICAL INFORMATION

(i) REVENUE

Revenue from external domestic customers exceeded 90% of total revenue on the consolidated statements of income for the fiscal years ended March 31, 2018 and 2017, therefore geographical revenue information is not presented.

(ii) PREMISES AND EQUIPMENT

The balance of domestic premises and equipment exceeded 90% of the total balance of premises and equipment on the consolidated balance sheets as of March 31, 2018 and 2017, therefore geographical premises and equipment information is not presented.

(c) MAJOR CUSTOMER INFORMATION

Revenue to a specific customer did not reach 10% of total revenue on the consolidated statements of income for the fiscal years ended March 31, 2018 and 2017, therefore major customer information is not presented.

※See Note2 (AB)

37. RELATED PARTY TRANSACTIONS CONSOLIDATED

Related party transactions for the fiscal years ended March 31, 2018 and 2017 were as follows:

		Amount of the transaction			Balance at the end of fiscal year			
		Millions of yen		Thousands of U.S. dollars		Millions of yen		Thousands of U.S. dollars
Related party	Description of the transaction	**2018**	2017	**2018**	Account name	**2018**	2017	**2018**
Companies in which a majority of the voting rights is owned by directors (including their subsidiaries)								
J.C. Flowers II L.P.[1]	Investment[2]	**¥ 143**	¥ 23	**$ 1,349**	–	**¥ –**	¥ –	**$ –**
	Dividend	**154**	195	**1,456**	–	**–**	–	**–**
J.C. Flowers III L.P.[1]	Investment[3]	**245**	717	**2,311**	–	**–**	–	**–**
	Dividend	**532**	573	**5,013**	–	**–**	–	**–**
J.C. Flowers Ⅳ L.P.[1]	Investment[4]	**54**	–	**508**	–	**–**	–	**–**

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

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (Restated) ※ CONSOLIDATED

(A) 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.

(B) 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.

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 a risk of fluctuation in market size and price of these assets.

Lease receivables and leased investment assets,
Installment receivables

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

(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.

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

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

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

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

※See Note2 (AB)

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) (Restated) ※ CONSOLIDATED

(C) 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 includes 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 the trading account transactions.

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

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

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

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

※See Note2 (AB)

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) (Restated) ※ CONSOLIDATED

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 the 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, 2018 and 2017 were ¥1,275 million (U. S. $12,002 thousand) and ¥1,835 million in the aggregate, respectively.

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, including negotiable certificates of deposit," "Debentures," "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." As for these financial assets and liabilities, the Group uses the amount of impact on economic values, which is calculated using fluctuation range of interest rates by 100 basis points (1%) for quantitative analysis to manage fluctuation risk of interest rates. The amount of such impact on economic values is calculated by categorizing the exposure amount of these financial assets and liabilities according to the term of interest payments and using the above fluctuation range of interest rates. From the previous fiscal year, the Bank calculates the amount of impact on economic values with reflecting the non-linear risk due to prepayment to appropriately estimate the fluctuation risk of interest rate. Assuming all risk variables except for interest rate are constant, the Group estimated that the economic value would decrease by ¥53,257 million (U.S.$501,483 thousand) and ¥51,429 million in case of an increase of the index interest rates by 100 basis points (1%), and would decrease by ¥3,470 million (U.S.$32,683 thousand) and would increase ¥41,131 million in case of a decrease by 100 basis points (1%),as of March 31, 2018 and 2017, respectively. Such amount of impact on economic value is calculated based on the assumption that all risk variables except for interest rate are constant, and correlation between interest rate and other risk variables is not taken into consideration.

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

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

(D) CONCENTRATION OF CREDIT RISK
As of March 31, 2018, loans to the financial and insurance industry were approximately 11% of the total loans and bills discounted, and those to the real estate industry were approximately 12%, approximately 30% of which are nonrecourse loans for real estate.

As of March 31, 2017, loans to the financial and insurance industry were approximately 12% of the total loans and bills discounted, and those to the real estate industry were approximately 12%, approximately 40% of which are nonrecourse loans for real estate.

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

※See Note2 (AB)

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) (Restated) ※ CONSOLIDATED

Fair values of financial instruments as of March 31, 2018 and 2017 were as follows:

	Millions of yen					
	2018			2017		
	Carrying amount	**Fair value**	**Unrealized gain (loss)**	Carrying amount	Fair value	Unrealized gain (loss)
Assets:						
(1) Cash and due from banks	**¥ 1,465,663**	**¥ 1,465,663**	**¥ –**	¥ 1,398,691	¥ 1,398,691	¥ –
(2) Call loans	**–**	**–**	**–**	4,472	4,472	–
(3) Receivables under securities borrowing transactions	**2,629**	**2,629**	**–**	1,625	1,625	–
(4) Other monetary claims purchased						
Trading purposes	**1,705**	**1,705**	**–**	4,213	4,213	–
Other[1]	**34,322**	**35,078**	**755**	39,731	40,547	815
(5) Trading assets						
Securities held for trading purposes	**4,589**	**4,589**	**–**	15,479	15,479	–
(6) Monetary assets held in trust[1]	**234,249**	**238,341**	**4,092**	240,911	246,403	5,492
(7) Securities						
Trading securities	**0**	**0**	**–**	0	0	–
Securities being held to maturity	**481,303**	**484,676**	**3,372**	496,268	502,026	5,758
Securities available for sale	**534,752**	**534,752**	**–**	424,032	424,032	–
Equity securities of affiliates	**51,960**	**39,079**	**(12,880)**	49,375	33,160	(16,215)
(8) Loans and bills discounted[2]	**4,895,963**			4,833,452		
Reserve for credit losses	**(67,160)**			(60,484)		
Net	**4,828,803**	**4,997,458**	**168,655**	4,772,968	4,931,585	158,616
(9) Lease receivables and leased investment assets	**171,429**			191,488		
Estimated Residual Value[3]	**(4,971)**			(5,425)		
Reserve for credit losses	**(2,019)**			(2,053)		
Net	**164,439**	**168,611**	**4,172**	184,008	187,559	3,550
(10) Other assets						
Installment receivables	**558,843**			541,401		
Deferred gains on installment receivables	**(11,883)**			(14,205)		
Reserve for credit losses	**(9,802)**			(10,446)		
Net	**537,158**	**581,827**	**44,669**	516,750	556,047	39,297
Total	**¥ 8,341,578**	**¥ 8,554,414**	**¥ 212,836**	¥ 8,148,530	¥ 8,345,846	¥ 197,315
Liabilities:						
(1) Deposits, including negotiable certificates of deposit	**¥ 6,067,096**	**¥ 6,065,652**	**¥ 1,444**	¥ 5,862,922	¥ 5,864,410	¥ (1,487)
(2) Debentures	**423**	**423**	**(0)**	6,561	6,564	(2)
(3) Call money	**–**	**–**	**–**	53,600	53,600	–
(4) Payables under repurchase agreements	**55,919**	**55,919**	**–**	36,467	36,467	–
(5) Payables under securities lending transactions	**433,462**	**433,462**	**–**	337,952	337,952	–
(6) Trading liabilities						
Trading securities sold for short sales	**2,625**	**2,625**	**–**	1,621	1,621	–
(7) Borrowed money	**739,578**	**739,603**	**(24)**	789,670	791,278	(1,607)
(8) Short-term corporate bonds	**175,700**	**175,700**	**–**	168,000	167,946	53
(9) Corporate bonds	**85,000**	**85,228**	**(228)**	112,600	113,252	(652)
Total	**¥ 7,559,805**	**¥ 7,558,613**	**¥ 1,191**	¥ 7,369,396	¥ 7,373,093	¥ (3,696)
Derivative instruments[4]:						
Hedge accounting is not applied	**¥ 19,528**	**¥ 19,528**	**¥ –**	¥ 20,095	¥ 20,095	¥ –
Hedge accounting is applied	**(1,712)**	**(1,712)**	**–**	4,758	4,758	–
Total	**¥ 17,815**	**¥ 17,815**	**¥ –**	¥ 24,853	¥ 24,853	¥ –

	Contract amount	**Fair value**	Contract amount	Fair value
Other:				
Guarantee contracts[5]	**¥ 395,301**	**¥ 2,318**	¥ 346,675	¥ (122)

※See Note2 (AB)

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) (Restated) ※ CONSOLIDATED

	Thousands of U.S. dollars		
	2018		
	Carrying amount	Fair value	Unrealized gain (loss)
Assets:			
(1) Cash and due from banks	$ 13,800,977	$ 13,800,977	$ –
(2) Call loans	–	–	–
(3) Receivables under securities borrowing transactions	24,760	24,760	–
(4) Other monetary claims purchased			
Trading purposes	16,062	16,062	–
Other[1]	323,189	330,302	7,114
(5) Trading assets			
Securities held for trading purposes	43,220	43,220	–
(6) Monetary assets held in trust[1]	2,205,741	2,244,274	38,533
(7) Securities			
Trading securities	0	0	–
Securities being held to maturity	4,532,045	4,563,804	31,759
Securities available for sale	5,035,335	5,035,335	–
Equity securities of affiliates	489,271	367,984	(121,287)
(8) Loans and bills discounted[2]	46,101,352		
Reserve for credit losses	(632,396)		
Net	45,468,956	47,057,047	1,588,090
(9) Lease receivables and leased investment assets	1,614,217		
Estimated residual value[3]	(46,813)		
Reserve for credit losses	(19,014)		
Net	1,548,390	1,587,675	39,285
(10) Other assets			
Installment receivables	5,262,184		
Deferred gains on installment receivables	(111,894)		
Reserve for credit losses	(92,303)		
Net	5,057,986	5,478,603	420,617
Total	$ 78,545,934	$ 80,550,045	$ 2,004,111
Liabilities:			
(1) Deposits, including negotiable certificates of deposit	$ 57,128,973	$ 57,115,368	$ 13,605
(2) Debentures	3,984	3,984	(0)
(3) Call money	–	–	–
(4) Payables under repurchase agreements	526,546	526,546	–
(5) Payables under securities lending transactions	4,081,568	4,081,568	–
(6) Trading liabilities			
Trading securities sold for short sales	24,718	24,718	–
(7) Borrowed money	6,964,018	6,964,247	(229)
(8) Short-term corporate bonds	1,654,426	1,654,426	–
(9) Corporate bonds	800,377	802,529	(2,152)
Total	$ 71,184,609	$ 71,173,385	$ 11,224
Derivative instruments[4]:			
Hedge accounting is not applied	$ 183,881	$ 183,881	$ –
Hedge accounting is applied	(16,124)	(16,124)	–
Total	$ 167,757	$ 167,757	$ –

	Contract amount	Fair value
Other:		
Guarantee contracts[5]	$ 3,722,232	$ 21,831

1 Carrying amounts of Other monetary claims purchased and Monetary assets held in trust are presented as the amount net of reserve for credit losses because they are immaterial.
2 For consumer loans held by consolidated subsidiaries included in Loans and bills discounted, reserve for losses on interest repayments of ¥74,687 million (U.S$703,269 thousand) and ¥101,846 million was recognized for estimated losses on reimbursements of excess interest payments as of March 31, 2018 and 2017 respectively, which included the reserve for losses on interest repayments that have a possibility of being appropriated for loan principal in the future.
3 Estimated residual value of leased investment assets arising from finance lease transactions, where the ownership of the property is not deemed to transfer to the lessee, is deducted from leased investment assets.
4 Derivative instruments include derivative transactions both in trading assets and liabilities, and in other assets and liabilities. Derivative instruments are presented as net of assets and liabilities and presented with ( ) when a liability stands on a net basis.
5 Contract amount for guarantee contracts presents the amount of "Acceptances and guarantees" on the consolidated balance sheets. Unearned guarantee fees of ¥22,620 million (U.S.$213,003 thousand) and ¥21,889 million were recognized as "Other liabilities" as of March 31, 2018 and 2017, respectively.

※See Note2 (AB)

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) (Restated) ※ CONSOLIDATED

(Note 1) Valuation methodologies for financial instruments

Assets:
(1) Cash and due from banks
The fair values are measured at carrying amounts because the fair values of due from banks with no maturity are approximate to carrying amounts. Likewise, for due from banks with maturity, the fair values are measured at carrying amounts because most of them are with short maturity of six months or less, therefore the fair values are approximate to the carrying amounts.

(2) Call loans and (3) Receivables under securities borrowing transactions
The fair values are measured at carrying amounts because most of them are with short maturity of three months or less, therefore the fair values are approximate to the carrying amounts.

(4) Other monetary claims purchased
The fair values are measured at quoted prices from third parties or determined using the DCF method.

(5) Trading assets
The fair values are measured at market prices or quoted prices from third parties, or determined using the DCF method.

(6) Monetary assets held in trust
The fair values are determined using the DCF method based on the characteristics of the components of the entrusted assets.

(7) Securities
The fair values of marketable equity securities are measured at closing prices on exchanges. The fair values of bonds and mutual funds are measured at market prices or quoted prices from third parties or determined using the DCF method.

(8) Loans and bills discounted
The fair values of loans and bills discounted with a fixed interest rate are determined by discounting contractual cash flows, and the fair values of loans and bills discounted with a floating interest rate are determined by discounting expected cash flows based on the forward rates (for loans and bills discounted hedged by interest rate swaps which meet specific criteria, summing up the cash flows from the interest rate swaps), using the risk-free rate adjusted to account for credit risk (after consideration of collateral) with CDS spread etc. corresponding to internal credit rating of each borrower. The fair values of housing loans are determined by discounting expected cash flows at the rates that consist of the risk free rate and 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,” fair values are measured at carrying amounts net of reserves for loan losses because the fair values of those loans are approximate to the carrying amounts net of reserves for loan losses, which are calculated based on the DCF method described in “(N) RESERVE FOR CREDIT LOSSES” in Note 2 “SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES” or based on amounts which are expected to be collected through the disposal of collateral or execution of guarantees.

(9) Lease receivables and leased investment assets
The fair values are primarily determined by discounting contractual cash flows at the rates that would be applied for the new contracts by a group of major product categories.

(10) 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.

Liabilities:
(1) Deposits, including negotiable certificates of deposit
The fair values of demand deposits, such as current deposits and ordinary deposits are recognized as the payment amount at the consolidated balance sheet date.

The fair values of the deposits with maturity of six months or less are approximate to carrying amounts because of their short term maturity. The fair values of time deposits and negotiable certificates of deposit are determined by discounting expected cash flows 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.

(2) Debentures and (9) Corporate bonds
The fair values of marketable corporate bonds are measured at market prices.

The fair values of nonmarketable corporate bonds under the Medium Term Note program are determined by discounting expected cash flows at the actual average funding rates of corporate time deposits etc. funded within the past three months of the consolidated balance sheet date. The fair values of retail debentures are determined by discounting contractual cash flows at the latest actual funding rate of large-denomination (¥10 million or more) time deposits.

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

※See Note2 (AB)

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38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) (Restated) ※ CONSOLIDATED

(3) Call money, (4) Payables under repurchase agreements and (5) Payables under securities lending transactions
The fair values are approximate to carrying amounts for call money and bills sold, payables under repurchase agreements, and payables under securities lending transactions with short maturities of three months or less.

(6) Trading liabilities
The fair values are measured at market prices.

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

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

(8) Short-term corporate bonds
The fair values are approximate to carrying amounts because most of them are with short maturities of one year or less.

Derivative instruments:
The fair values are primarily measured at closing prices on exchanges or determined using the DCF method or option-pricing models.

Other:
Guarantee contracts
The fair values are determined by discounting the amount of difference between the original contractual cash flows and the expected cash flows that would be applied for the new contracts with the same terms at the risk-free rate.

(Note 2) Carrying amount of the financial instruments whose fair value cannot be reliably determined

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2018**	2017	**2018**
Equity securities without readily available market price[1,2]	**¥ 13,579**	¥ 9,641	**$ 127,872**
Investment in partnerships and others[1,2]	**41,925**	35,316	**394,782**
Total	**¥ 55,505**	¥ 44,958	**$ 522,654**

1 Equity securities without readily available market price are out of the scope of fair value disclosure because their fair values cannot be reliably determined. Investments in partnerships and others, the assets of which comprise equity securities without readily available market price, are out of the scope of fair values disclosure because fair values of those investments cannot be reliably determined.
2 For the fiscal years ended March 31, 2018 and 2017, impairment losses on equity securities without readily available market price of ¥661 million (U.S.$6,226 thousand) and ¥102 million, and on investment in partnerships and others of ¥170 million (U.S.$1,606 thousand) and ¥67 million were recognized, respectively.

(Note 3) Maturity analysis for financial assets with contractual maturities

	Millions of yen			
As of March 31, 2018	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years
Due from banks	**¥1,460,143**	**¥ –**	**¥ –**	**¥ –**
Call loans	**–**	**–**	**–**	**–**
Receivables under securities borrowing transactions	**2,629**	**–**	**–**	**–**
Other monetary claims purchased				
Other than trading purposes	**15,631**	**3,000**	**1,000**	**14,983**
Securities				
Held-to-maturity	**120,000**	**240,000**	**115,000**	**–**
Available-for-sale	**45,162**	**40,597**	**127,681**	**280,818**
Loans and bills discounted	**1,225,208**	**1,404,415**	**914,937**	**1,316,777**
Lease receivables and leased investment assets	**51,973**	**68,295**	**30,987**	**20,173**
Installment receivables	**163,453**	**173,175**	**71,604**	**135,261**
Total	**¥3,084,201**	**¥1,929,484**	**¥1,261,210**	**¥1,768,014**

※See Note2 (AB)

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) (Restated) ※ CONSOLIDATED

As of March 31, 2018	Thousands of U.S. dollars			
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years
Due from banks	$ 13,749,000	$ –	$ –	$ –
Call loans	–	–	–	–
Receivables under securities borrowing transactions	24,760	–	–	–
Other monetary claims purchased				
Other than trading purposes	147,190	28,249	9,416	141,092
Securities				
Held-to-maturity	1,129,944	2,259,887	1,082,863	–
Available-for-sale	425,254	382,274	1,202,274	2,644,242
Loans and bills discounted	11,536,799	13,224,248	8,615,226	12,399,038
Lease receivables and leased investment assets	489,388	643,088	291,784	189,956
Installment receivables	1,539,111	1,630,657	674,240	1,273,645
Total	$ 29,041,447	$ 18,168,403	$ 11,875,804	$ 16,647,974

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

(Note 4) Maturity analysis for financial liabilities with contractual maturities

As of March 31, 2018	Millions of yen			
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years
Deposits, including negotiable certificates of deposit	¥ 5,708,532	¥ 180,729	¥ 95,253	¥ 82,582
Debentures	423	–	–	–
Call money	–	–	–	–
Payables under repurchase agreements	55,919	–	–	–
Payables under securities lending transactions	433,462	–	–	–
Borrowed money	322,167	165,934	95,826	155,650
Short-term corporate bonds	175,700	–	–	–
Corporate bonds	10,000	40,000	10,000	25,000
Total	¥ 6,706,204	¥ 386,663	¥ 201,079	¥ 263,232

As of March 31, 2018	Thousands of U.S. dollars			
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years
Deposits, including negotiable certificates of deposit	$ 53,752,657	$ 1,701,784	$ 896,921	$ 777,611
Debentures	3,984	–	–	–
Call money	–	–	–	–
Payables under repurchase agreements	526,546	–	–	–
Payables under securities lending transactions	4,081,568	–	–	–
Borrowed money	3,033,595	1,562,468	902,322	1,465,633
Short-term corporate bonds	1,654,426	–	–	–
Corporate bonds	94,162	376,648	94,162	235,405
Total	$ 63,146,937	$ 3,640,900	$ 1,893,405	$ 2,478,648

Note: The cash flow of demand deposits is included in "1 year or less."

※See Note 2 (AB)

39. DERIVATIVE FINANCIAL INSTRUMENTS CONSOLIDATED

(A) DERIVATIVE TRANSACTIONS TO WHICH HEDGE ACCOUNTING WAS NOT APPLIED

The fair values of derivatives on the consolidated balance sheets as of March 31, 2018 and 2017 are adjusted for credit risk by a reduction of ¥1,399 million (U.S.$13,178 thousand) and ¥1,070 million, respectively, and also adjusted for liquidity risk by a reduction of ¥1,676 million (U.S.$15,787 thousand) and ¥1,523 million, respectively.

Regardless of this accounting treatment, the reduction of those risks is not reflected in the fair values shown in the following tables.

(a) INTEREST RATE-RELATED TRANSACTIONS

Interest rate-related transactions as of March 31, 2018 and 2017 were as follows:

	Millions of yen							
	2018				2017			
	Contract/Notional principal				Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Futures contracts (listed):								
Sold	**¥ 260**	**¥ –**	**¥ 1**	**¥ 1**	¥ 825	¥ 274	¥ 0	¥ 0
Bought	**1,678**	**1,031**	**1**	**1**	551	–	(2)	(2)
Interest rate options (listed):								
Sold	**–**	**–**	**–**	**–**	–	–	–	–
Bought	**–**	**–**	**–**	**–**	–	–	–	–
Interest rate swaps (over-the-counter):								
Receive fixed and pay floating	**4,594,421**	**3,884,522**	**152,090**	**152,090**	4,739,594	4,024,229	168,475	168,475
Receive floating and pay fixed	**4,110,663**	**3,521,558**	**(136,761)**	**(136,761)**	4,330,906	3,604,461	(150,731)	(150,731)
Receive floating and pay floating	**1,714,535**	**1,429,030**	**1,848**	**1,848**	1,529,661	1,284,881	1,983	1,983
Interest rate swaptions (over-the-counter):								
Sold	**832,134**	**567,634**	**(1,597)**	**(131)**	1,022,114	728,914	(6,836)	(4,387)
Bought	**871,620**	**732,911**	**418**	**(1,855)**	963,096	850,332	3,354	242
Interest rate options (over-the-counter):								
Sold	**17,280**	**11,780**	**(160)**	**148**	21,745	17,745	(227)	200
Bought	**13,780**	**8,780**	**99**	**1**	29,131	14,245	165	(46)
Total			**¥ 15,941**	**¥ 15,342**			¥ 16,182	¥ 15,735

	Thousands of U.S. dollars			
	2018			
	Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**
Futures contracts (listed):				
Sold	**$ 2,457**	**$ –**	**$ 15**	**$ 15**
Bought	**15,803**	**9,716**	**13**	**13**
Interest rate options (listed):				
Sold	**–**	**–**	**–**	**–**
Bought	**–**	**–**	**–**	**–**
Interest rate swaps (over-the-counter):				
Receive fixed and pay floating	**43,261,968**	**36,577,427**	**1,432,117**	**1,432,117**
Receive floating and pay fixed	**38,706,817**	**33,159,687**	**(1,287,776)**	**(1,287,776)**
Receive floating and pay floating	**16,144,401**	**13,456,034**	**17,402**	**17,402**
Interest rate swaptions (over-the-counter):				
Sold	**7,835,540**	**5,344,956**	**(15,040)**	**(1,242)**
Bought	**8,207,353**	**6,901,242**	**3,944**	**(17,470)**
Interest rate options (over-the-counter):				
Sold	**162,719**	**110,930**	**(1,509)**	**1,395**
Bought	**129,762**	**82,681**	**939**	**14**
Total			**$ 150,105**	**$ 144,468**

Notes:
(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.
(2) The fair values of listed transactions represent the closing price on the Tokyo Financial Exchange and other exchanges. The fair values of over-the-counter transactions are calculated primarily by using the DCF method or option pricing models.

39. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED) CONSOLIDATED

(b) CURRENCY-RELATED TRANSACTIONS

Currency-related transactions as of March 31, 2018 and 2017 were as follows:

	Millions of yen							
	2018				2017			
	Contract/Notional principal				Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Currency swaps (over-the-counter)	**¥ 423,375**	**¥ 298,609**	**¥ 438**	**¥ 438**	¥ 427,099	¥ 349,441	¥ (2,654)	¥ (2,654)
Forward foreign exchange contracts (over-the-counter):								
Sold	**894,307**	**21,452**	**12,162**	**12,162**	919,175	28,599	(3,899)	(3,899)
Bought	**744,366**	**47,985**	**(10,234)**	**(10,234)**	832,739	56,322	10,976	10,976
Currency options (over-the-counter):								
Sold	**927,123**	**380,604**	**(21,366)**	**9,789**	796,993	339,162	(12,770)	10,762
Bought	**909,315**	**340,542**	**21,199**	**2,052**	777,127	305,919	8,651	(5,672)
Total			**¥ 2,199**	**¥ 14,209**			¥ 303	¥ 9,513

	Thousands of U.S. dollars			
	2018			
	Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**
Currency swaps (over-the-counter)	**$ 3,986,591**	**$ 2,811,763**	**$ 4,133**	**$ 4,133**
Forward foreign exchange contracts (over-the-counter):				
Sold	**8,420,974**	**202,003**	**114,520**	**114,520**
Bought	**7,009,105**	**451,843**	**(96,366)**	**(96,366)**
Currency options (over-the-counter):				
Sold	**8,729,976**	**3,583,849**	**(201,190)**	**92,182**
Bought	**8,562,291**	**3,206,612**	**199,617**	**19,331**
Total			**$ 20,714**	**$ 133,801**

Notes:
(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.
(2) The fair values are calculated primarily by using the DCF method or option pricing models.

39. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED) CONSOLIDATED

(c) EQUITY-RELATED TRANSACTIONS

Equity-related transactions as of March 31, 2018 and 2017 were as follows:

	Millions of yen							
	2018				2017			
	Contract/Notional principal				Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Equity index futures (listed):								
Sold	**¥ 16,957**	**¥ 7,537**	**¥ (1,153)**	**¥ (1,153)**	¥ 21,982	¥ 7,898	¥ (913)	¥ (913)
Bought	**2,360**	**–**	**42**	**42**	1,609	–	(21)	(21)
Equity index options (listed):								
Sold	**64,166**	**26,712**	**(4,769)**	**(68)**	173,792	62,516	(10,573)	1,301
Bought	**82,268**	**28,500**	**6,074**	**1,054**	176,781	52,081	12,245	(590)
Equity options (over-the-counter):								
Sold	**10,836**	**6,424**	**(4,611)**	**(3,255)**	16,260	10,836	(5,500)	(3,610)
Bought	**14,377**	**10,945**	**8,584**	**5,957**	21,151	14,377	10,866	7,199
Other (over-the-counter):								
Sold	**–**	**–**	**–**	**–**	1,200	1,200	113	113
Bought	**100**	**100**	**(1)**	**(1)**	2,670	2,300	(194)	(194)
Total			**¥ 4,164**	**¥ 2,576**			¥ 6,023	¥ 3,285

	Thousands of U.S. dollars			
	2018			
	Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**
Equity index futures (listed):				
Sold	**$ 159,676**	**$ 70,979**	**$ (10,865)**	**$ (10,865)**
Bought	**22,228**	**–**	**404**	**404**
Equity index options (listed):				
Sold	**604,202**	**251,530**	**(44,907)**	**(644)**
Bought	**774,659**	**268,362**	**57,194**	**9,932**
Equity options (over-the-counter):				
Sold	**102,041**	**60,493**	**(43,422)**	**(30,650)**
Bought	**135,386**	**103,065**	**80,831**	**56,098**
Other (over-the-counter):				
Sold	**–**	**–**	**–**	**–**
Bought	**942**	**942**	**(18)**	**(18)**
Total			**$ 39,218**	**$ 24,256**

Notes:

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.

(2) The fair values of listed transactions represent the closing price on the Osaka Exchange and other exchanges. The fair values of over-the-counter transactions are calculated primarily by using the DCF method or option pricing model.

39. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

CONSOLIDATED

(d) BOND-RELATED TRANSACTIONS

Bond-related transactions as of March 31, 2018 and 2017 were as follows:

	Millions of yen							
	2018				2017			
	Contract/Notional principal				Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Bond futures (listed):								
Sold	**¥ 26,031**	**¥ –**	**¥ (95)**	**¥ (95)**	¥ 19,012	¥ –	¥ (22)	¥ (22)
Bought	**19,728**	**–**	**73**	**73**	17,289	–	34	34
Bond options (listed):								
Sold	**–**	**–**	**–**	**–**	–	–	–	–
Bought	**13,545**	**–**	**9**	**(9)**	–	–	–	–
Total			**¥ (12)**	**¥ (31)**			¥ 12	¥ 12

	Thousands of U.S. dollars			
	2018			
	Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**
Bond futures (listed):				
Sold	**$ 245,120**	**$ –**	**$ (900)**	**$ (900)**
Bought	**185,765**	**–**	**691**	**691**
Bond options (listed):				
Sold	**–**	**–**	**–**	**–**
Bought	**127,542**	**–**	**93**	**(89)**
Total			**$ (116)**	**$ (297)**

Notes:
(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.
(2) The fair values of listed transactions represent the closing price on the Osaka Exchange and other exchanges.

(e) CREDIT DERIVATIVES TRANSACTIONS

Credit derivatives transactions as of March 31, 2018 and 2017 were as follows:

	Millions of yen							
	2018				2017			
	Contract/Notional principal				Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Credit default option (over-the-counter):								
Sold	**¥ 82,550**	**¥ 44,000**	**¥ 965**	**¥ 965**	¥ 127,466	¥ 68,050	¥ 1,049	¥ 1,049
Bought	**82,000**	**43,000**	**(654)**	**(654)**	129,386	67,750	(882)	(882)
Total			**¥ 310**	**¥ 310**			¥ 166	¥ 166

	Thousands of U.S. dollars			
	2018			
	Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**
Credit default option (over-the-counter):				
Sold	**$ 777,307**	**$ 414,313**	**$ 9,090**	**$ 9,090**
Bought	**772,128**	**404,896**	**(6,167)**	**(6,167)**
Total			**$ 2,923**	**$ 2,923**

Notes:
(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.
(2) The fair values are calculated primarily by using the DCF method.
(3) “Sold” stands for accepting credit risk and “Bought” stands for transferring credit risk.

39. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED) CONSOLIDATED

(B) DERIVATIVE TRANSACTIONS TO WHICH HEDGE ACCOUNTING WAS APPLIED

(a) INTEREST RATE-RELATED TRANSACTIONS

Interest rate-related transactions which are accounted for using the deferral method as of March 31, 2018 and 2017 were as follows:

	Millions of yen					
	2018			2017		
	Contract/Notional principal			Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**	Total	Maturity over 1 year	Fair value
Interest rate swaps:						
Receive fixed and pay floating	**¥ 406,000**	**¥ 88,000**	**¥ 2,238**	¥ 492,400	¥ 406,000	¥ 3,714
Receive floating and pay fixed	**243,319**	**181,743**	**(14,050)**	243,943	233,370	(15,426)
Total			**¥ (11,812)**			¥ (11,711)

	Thousands of U.S. dollars		
	2018		
	Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**
Interest rate swaps:			
Receive fixed and pay floating	**$ 3,822,976**	**$ 828,625**	**$ 21,078**
Receive floating and pay fixed	**2,291,143**	**1,711,331**	**(132,306)**
Total			**$ (111,228)**

Notes:

(1) Most of the hedged items are interest-bearing assets and liabilities such as loans and bills discounted, available-for-sale securities (bonds) and deposits, including negotiable certificate of deposit.

(2) Interest rate swaps are primarily accounted for using the deferral method in accordance with Industry Audit Committee Report No. 24 of the JICPA.

(3) The fair values are calculated primarily by using the DCF method.

39. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED) CONSOLIDATED

Interest rate swaps which meet specific matching criteria as of March 31, 2018 and 2017 were as follows:

	Millions of yen					
	2018			2017		
	Contract/Notional principal			Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**	Total	Maturity over 1 year	Fair value
Interest rate swaps:						
Receive floating and pay fixed	**¥ 31,029**	**¥ 27,684**	**¥ –**	¥ 23,874	¥ 10,528	¥ –

	Thousands of U.S. dollars		
	2018		
	Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**
Interest rate swaps:			
Receive floating and pay fixed	**$ 292,177**	**$ 260,681**	**$ –**

Notes:
(1) The hedged items are loans and bills discounted and borrowed money.
(2) Interest rate swaps which meet specific matching criteria are accounted for as component of hedged loans and bills discounted and borrowed money. Therefore, the fair value of those interest rate swaps is included in the fair value of loans and bills discounted and borrowed money in fair value information shown in Note 38 “FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES.”

(b) CURRENCY-RELATED TRANSACTIONS

Currency-related transactions which are accounted for using the deferral method as of March 31, 2018 and 2017 were as follows:

	Millions of yen					
	2018			2017		
	Contract/Notional principal			Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**	Total	Maturity over 1 year	Fair value
Currency swaps	**¥ 235,580**	**¥ 193,121**	**¥ 10,100**	¥ 292,449	¥ 240,752	¥ 16,470

	Thousands of U.S. dollars		
	2018		
	Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**
Currency swaps	**$ 2,218,270**	**$ 1,818,470**	**$ 95,104**

Notes:
(1) Most of the hedged items are foreign currency denominated loans and bills discounted, securities, deposits, and foreign exchanges.
(2) Currency swap transactions are primarily accounted for using the deferral method in accordance with Industry Audit Committee Report No. 25 of the JICPA.
(3) The fair values are calculated primarily by using the DCF method.

40. SUBSEQUENT EVENTS CONSOLIDATED

(A) DIVIDENDS

The following appropriation of retained earnings of the Bank for the fiscal year ended March 31, 2018 was approved at the meeting of the Board of Directors held on May 11, 2018:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, common stock, ¥10.00 (U.S.$0.1) per share	**¥ 2,528**	**$ 23,811**

(B) ACQUISITION AND CANCELLATION OF TREASURY SHARES

On May 11, 2018, the Bank decided the acquisition and cancellation of treasury shares, and on May 18, 2018, completed the cancellation as stated below. The acquisition of treasury shares is in accordance with the its Articles of Incorporation, pursuant to Article 459, paragraph 1 of the Companies Act, and the cancellation of treasury shares is under Article 178 of the Companies Act.

(a) Reason for acquisition and cancellation of treasury shares

The Bank established the identification of the path to the repayment of public funds as one of its goals in its 3rd Mid-Term Management Plan, announced in January 2016. As a part of the Bank's efforts to achieve this, a resolution to undertake the acquisition and cancellation of treasury shares has been approved in light of factors such as the Bank's current capital position, earning capability and per share values. Through this acquisition and cancellation 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.

(b) Details of acquisition of treasury shares

(i) Type of shares to be repurchased:
Common stock

(ii) Number of shares to be repurchased:
(Up to) 13 million shares (5.14% of total number of common shares issued excluding treasury shares)

(iii) Total repurchase amount:
(Up to) ¥13 billion (U.S.$122,311 thousand)

(iv) Acquisition period:
From May 14, 2018 to November 14, 2018

(v) Acquisition method:
Open market purchase

(c) Details of cancellation of treasury shares

(i) Type of cancelled shares:
Common stock

(ii) Number of cancelled shares:
16 million shares (5.81% of total number of common shares issued before the cancellation)

(iii) Cancellation date:
May 18, 2018

(iv) Cancellation method:
Deduction of capital surplus

INDEPENDENT AUDITORS' REPORT

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Shinsei Bank, Limited:

We have audited the accompanying consolidated balance sheet of Shinsei Bank, Limited (the "Bank") and its consolidated subsidiaries as of March 31, 2018, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Bank and its consolidated subsidiaries as of March 31, 2018, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 14, 2018

Member of
Deloitte Touche Tohmatsu Limited

NONCONSOLIDATED BALANCE SHEET (UNAUDITED)

Shinsei Bank, Limited
As of March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note)
	2018	2017	**2018**
ASSETS			
Cash and due from banks	**¥ 1,391,303**	¥ 1,313,376	**$ 13,100,782**
Call loans	**–**	4,472	**–**
Other monetary claims purchased	**115,458**	133,245	**1,087,179**
Trading assets	**199,866**	227,608	**1,881,986**
Monetary assets held in trust	**117,756**	118,872	**1,108,820**
Securities	**1,452,342**	1,369,326	**13,675,546**
Loans and bills discounted	**4,637,953**	4,536,434	**43,671,875**
Foreign exchanges	**32,511**	19,617	**306,138**
Other assets	**223,082**	270,648	**2,100,587**
Premises and equipment	**14,031**	16,550	**132,127**
Intangible assets	**23,139**	17,414	**217,885**
Prepaid pension cost	**6,362**	3,887	**59,910**
Deferred issuance expenses for debentures	**–**	0	**–**
Deferred tax assets	**573**	1,134	**5,404**
Customers' liabilities for acceptances and guarantees	**19,810**	48,526	**186,535**
Reserve for credit losses	**(26,721)**	(29,335)	**(251,615)**
Total assets	**¥ 8,207,471**	¥ 8,051,781	**$ 77,283,159**
LIABILITIES AND EQUITY			
Liabilities:			
Deposits, including negotiable certificates of deposit	**¥ 6,228,183**	¥ 5,992,609	**$ 58,645,799**
Debentures	**423**	6,561	**3,984**
Call money	**–**	53,600	**–**
Payables under repurchase agreements	**55,919**	36,467	**526,546**
Payables under securities lending transactions	**433,462**	337,952	**4,081,568**
Trading liabilities	**181,337**	210,031	**1,707,514**
Borrowed money	**263,114**	336,519	**2,477,538**
Foreign exchanges	**102**	102	**966**
Corporate bonds	**45,000**	57,600	**423,729**
Other liabilities	**140,685**	155,454	**1,324,727**
Accrued employees' bonuses	**4,740**	4,674	**44,641**
Reserve for reimbursement of debentures	**4,130**	3,737	**38,892**
Acceptances and guarantees	**19,810**	48,526	**186,535**
Total liabilities	**7,376,910**	7,243,837	**69,462,438**
Equity:			
Common stock	**512,204**	512,204	**4,823,018**
Capital surplus	**79,465**	79,465	**748,267**
Stock acquisition rights	**270**	534	**2,544**
Retained earnings:			
Legal reserve	**14,738**	14,220	**138,777**
Unappropriated retained earnings	**324,912**	287,508	**3,059,443**
Unrealized gain (loss) on available-for-sale securities	**4,268**	9,444	**40,198**
Deferred gain (loss) on derivatives under hedge accounting	**(15,759)**	(15,894)	**(148,391)**
Treasury stock, at cost	**(89,540)**	(79,539)	**(843,135)**
Total equity	**830,560**	807,944	**7,820,721**
Total liabilities and equity	**¥ 8,207,471**	¥ 8,051,781	**$ 77,283,159**

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥106.20=U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2018.

NONCONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

Shinsei Bank, Limited
For the fiscal year ended March 31, 2018

	Millions of yen				Thousands of U.S. dollars (Note)	
		2018		2017		**2018**
Interest income:						
Interest on loans and bills discounted	**¥**	**94,304**	¥	85,346	**$**	**887,994**
Interest and dividends on securities		**25,441**		16,352		**239,558**
Interest on deposits with banks		**1,036**		1,023		**9,760**
Other interest income		**1,051**		1,080		**9,897**
Total interest income		**121,833**		103,802		**1,147,210**
Interest expenses:						
Interest on deposits, including negotiable certificates of deposit		**9,025**		7,818		**84,983**
Interest and discounts on debentures		**3**		10		**34**
Interest on other borrowings		**547**		649		**5,154**
Interest on corporate bonds		**761**		1,028		**7,167**
Other interest expenses		**6,146**		3,514		**57,876**
Total interest expenses		**16,483**		13,020		**155,213**
Net interest income		**105,350**		90,781		**991,997**
Fees and commissions income		**17,227**		18,944		**162,220**
Fees and commissions expenses		**29,698**		26,417		**279,644**
Net fees and commissions		**(12,470)**		(7,472)		**(117,423)**
Net trading income		**4,575**		4,070		**43,088**
Other business income (loss), net:						
Net gain (loss) on monetary assets held in trust		**2,026**		4,473		**19,080**
Net gain (loss) on foreign exchanges		**8,213**		9,895		**77,344**
Net gain (loss) on securities		**6,362**		12,095		**59,910**
Net gain (loss) on other monetary claims purchased		**291**		15		**2,749**
Other, net		**588**		(932)		**5,542**
Net other business income (loss)		**17,483**		25,548		**164,625**
Total revenue		**114,938**		112,928		**1,082,287**
General and administrative expenses:						
Personnel expenses		**27,824**		26,924		**261,998**
Premises expenses		**12,738**		13,960		**119,947**
Technology and data processing expenses		**11,008**		9,511		**103,660**
Advertising expenses		**7,202**		6,841		**67,823**
Consumption and property taxes		**5,629**		5,837		**53,009**
Deposit insurance premium		**1,775**		2,052		**16,722**
Other general and administrative expenses		**13,273**		13,907		**124,988**
Total general and administrative expenses		**79,453**		79,036		**748,147**
Net business profit		**35,485**		33,892		**334,140**
Net credit costs (recoveries)		**1,295**		3,932		**12,194**
Other gains (losses), net		**6,798**		10,885		**64,019**
Income (loss) before income taxes		**40,989**		40,845		**385,965**
Income taxes (benefit):						
Current		**(2,656)**		(1)		**(25,016)**
Deferred		**3,136**		(2,578)		**29,531**
Net income (loss)	**¥**	**40,510**	¥	43,425	**$**	**381,450**
	Yen				U.S. dollars (Note)	
Basic earnings per share	**¥**	**156.80**	¥	166.53	**$**	**1.48**
Diluted earnings per share	**¥**	**156.78**	¥	166.52	**$**	**1.48**

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥106.20=U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2018.
Shinsei Bank executed a 1-for-10 reverse stock split on October 1, 2017. The above EPS data is calculated as if the reverse stock split had been implemented at the beginning of the fiscal year ended March 31, 2017.

NONCONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Shinsei Bank, Limited
For the fiscal year ended March 31, 2018

	Millions of yen									
		Capital surplus			Retained earnings					
	Common stock	Additional paid-in capital	Other capital surplus	Stock acquisition rights	Legal reserve	Unappropriated retained earnings	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Treasury stock, at cost	Total equity
BALANCE, April 1, 2016	¥ 512,204	¥ 79,465	¥ –	¥ 512	¥ 13,689	¥ 250,526	¥ 10,777	¥ (18,166)	¥ (72,559)	¥ 776,450
Dividends					530	(3,184)				(2,653)
Net income (loss)						43,425				43,425
Purchase of treasury stock									(12,096)	(12,096)
Disposal of treasury stock			(3,258)						5,115	1,856
Transfer to capital surplus from retained earnings			3,258			(3,258)				–
Net change during the year				21			(1,332)	2,271		960
BALANCE, March 31, 2017	**512,204**	**79,465**	**–**	**534**	**14,220**	**287,508**	**9,444**	**(15,894)**	**(79,539)**	**807,944**
Dividends					**517**	**(3,106)**				**(2,588)**
Net income (loss)						**40,510**				**40,510**
Purchase of treasury stock									**(10,001)**	**(10,001)**
Disposal of treasury stock			**–**						**–**	**–**
Transfer to capital surplus from retained earnings			**–**			**–**				**–**
Net change during the year				**(264)**			**(5,175)**	**135**		**(5,304)**
BALANCE, March 31, 2018	**¥ 512,204**	**¥ 79,465**	**¥ –**	**¥ 270**	**¥ 14,738**	**¥ 324,912**	**¥ 4,268**	**¥ (15,759)**	**¥ (89,540)**	**¥ 830,560**

	Thousands of U.S. dollars (Note)									
		Capital surplus			Retained earnings					
	Common stock	Additional paid-in capital	Other capital surplus	Stock acquisition rights	Legal reserve	Unappropriated retained earnings	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Treasury stock, at cost	Total equity
BALANCE, March 31, 2017	**$ 4,823,018**	**$ 748,267**	**$ –**	**$ 5,031**	**$ 133,902**	**$ 2,707,240**	**$ 88,933**	**$ (149,670)**	**$ (748,960)**	**$ 7,607,762**
Dividends					**4,875**	**(29,247)**				**(24,373)**
Net income (loss)						**381,450**				**381,450**
Purchase of treasury stock									**(94,175)**	**(94,175)**
Disposal of treasury stock			**–**						**–**	**–**
Transfer to capital surplus from retained earnings			**–**			**–**				**–**
Net change during the year				**(2,488)**			**(48,735)**	**1,279**		**(49,944)**
BALANCE, March 31, 2018	**$ 4,823,018**	**$ 748,267**	**$ –**	**$ 2,544**	**$ 138,777**	**$ 3,059,443**	**$ 40,198**	**$ (148,391)**	**$ (843,135)**	**$ 7,820,721**

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥106.20=U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2018

CAPITAL ADEQUACY REQUIREMENT (BASEL ACCORD) PILLAR III (MARKET DISCIPLINE) DISCLOSURE

This chapter describes information that needs to be disclosed in disclosure documents related to the reported business year pursuant to the Financial Services Agency Notice No. 7 of 2014 (Basel Accord - Pillar III: Market Discipline) as the "matters concerning the status of capital adequacy separately prescribed by the Commissioner of the Financial Services Agency" as provided in Article 19-2 (1) (v) (d) of the Ordinance for Enforcement of the Banking Act (Ministry of Finance Ordinance No. 10 of 1982).

"Accord" in this chapter refers to the Financial Services Agency Notice No. 19 of 2006 (Basel Accord - Pillar I: Minimum Capital Ratio).

QUALITATIVE DISCLOSURE

1. RANGE OF CONSOLIDATION

(1) DIFFERENCES BETWEEN COMPANIES WHICH BELONG TO THE GROUP OF COMPANIES (CONSOLIDATED GROUP) SUBJECTED TO CALCULATION OF THE CONSOLIDATED CAPITAL RATIOS BASED ON THE ACCORD'S ARTICLE 26 AND COMPANIES INCLUDED IN THE SCOPE OF ACCOUNTING CONSOLIDATION AND REASONS FOR DIFFERENCES

• There are no differences.

(2) NUMBER OF CONSOLIDATED SUBSIDIARIES AND NAMES AND BUSINESS OF MAJOR CONSOLIDATED SUBSIDIARIES

i) Number of consolidated subsidiaries

83 consolidated subsidiaries.

ii) Major consolidated subsidiaries

- Shinsei Trust & Banking Co., Ltd. (trust banking)
- Shinsei Securities Co., Ltd. (securities)
- APLUS FINANCIAL Co., Ltd. (installment credit)
- Showa Leasing Co., Ltd. (leasing)
- Shinsei Personal Loan Co., Ltd. (consumer finance)
- SHINSEI FINANCIAL Co., Ltd. (consumer finance)
- Shinsei Investment & Finance Limited (financial instruments business)

(3) NUMBER AND NAMES OF FINANCIAL AFFILIATES UNDER ARTICLE 32 OF THE ACCORD AND TOTAL ASSETS AND NET ASSETS AMOUNTS ON BALANCE SHEET AND MAJOR BUSINESS OF THOSE FINANCIAL AFFILIATES

• There are no financial affiliate companies.

(4) NAMES OF COMPANIES WHICH BELONG TO THE CONSOLIDATED GROUP BUT ARE NOT INCLUDED IN THE SCOPE OF ACCOUNTING CONSOLIDATION OR COMPANIES WHICH DO NOT BELONG TO THE CONSOLIDATED GROUP BUT ARE INCLUDED IN THE SCOPE OF ACCOUNTING CONSOLIDATION, AND TOTAL ASSETS AND NET ASSETS AMOUNTS ON BALANCE SHEET AND MAJOR BUSINESS OF THOSE COMPANIES

• There are no companies that are subject to the above.

(5) SUMMARY OF RESTRICTIONS ON TRANSFER OF CASH AND CAPITAL IN THE CONSOLIDATED GROUP

• There are no particular restrictions.

2. TYPES OF CAPITAL INSTRUMENTS

The Bank has raised capital through the issuance of common shares. It should be noted with regard to perpetual subordinated loans and dated subordinated bonds and loans issued before March 31, 2014, the amounts under transitional arrangements are included in "Core capital: instruments and reserves."

3. ENHANCEMENT OF GROUP GOVERNANCE SYSTEMS

The Group Integrated Risk Management Division, the Group Portfolio Risk Management Division and the Group Individual Banking Risk Management Division were established in order to integrate and centralize the risk management functions of the Bank and the Group member companies along with the establishment of the Group Headquarters.

The group will advance the system to improve the overall productivity by centralization of risk management tasks of the Group member companies.

4. ASSESSMENT OF CAPITAL ADEQUACY OF THE BANK GROUP

As part of its comprehensive risk management, Risk Capital is under the budget control on a consolidated basis. In concrete terms, the Bank determines a Risk Capital budget in consideration of its source of capital. The amount of Risk Capital compared to its source of capital and its budget is monitored on a monthly basis, and senior management, e. g. the Group Executive Committee of each month, receives a report on a regular basis. Additionally, in regards to regulatory capital, capital ratio is reported at the above mentioned reporting to the Group Executive Committee, allowing senior management to monitor and assess the overall availability of capital. At least once a year, the Bank performs stress tests on its estimates of Risk Capital and regulatory capital.

QUALITATIVE DISCLOSURE (CONTINUED)

5. CREDIT RISK MANAGEMENT POLICIES AND PROCEDURES

CREDIT RISK MANAGEMENT SYSTEM

Credit risk is defined as the risk of loss due to a counterpart defaulting on contractual debt obligations. Our model for credit risk management focuses on securing adequate return on risk, avoiding excessive concentration in particular sectors or to particular obligors, and managing the risk with an awareness of maximum loss amount from credit portfolio.

To achieve these goals, the Bank defines the policy to gain or restrict risk regarding customer attributes, products, markets, the type of industry and the form of transaction, etc. in the "Credit Risk Policy," and clarifies basic policies of credit operations and specific guidelines for credit risk management in this "Credit Risk Policy," "Credit Procedures" and other procedures. And Risk Integrated Section of the Group Headquarters which is organizationally independent from credit business line, designs the system of managing risk objectively. The credit risk management processes are roughly classified into credit risk management for individual transactions and portfolio-based credit risk management, as follows.

CREDIT RISK MANAGEMENT FOR INDIVIDUAL TRANSACTIONS

(1) Organization and Systems

In principle, a credit provision is consulted jointly by the sales promotion divisions and the credit risk management divisions that are independent from the sales promotion divisions and have veto rights. Thus the transparent and strict decision making processes are secured and the framework to put a brake on the sales promotion division has been established. Each transaction is discussed and approved by the Transaction Committee, etc. The level of approval authority over the obligor whose group companies should be taken into consideration is decided based mainly on the total exposure to the obligor group and ratings, and the decision is made strictly.

Among receivables that must be paid attention, for those that falls under a certain category decided by rating, the exposure, reserve, etc., the obligor's business performance are monitored by the Doubtful Debt Committee so that the Bank is able to take preventive measures, and by deciding the measures to handle the obligor in future, the Bank is making efforts to minimize credit-related costs and to ensure soundness of assets.

(2) Obligor Rating System

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

- Increasing model accuracy and reflecting appropriate qualitative factors
- Benchmarked against external ratings
- Ensuring conformity with rating systems among industry classifications

More specifically, obligor ratings are determined by applying adjustments with qualitative factors to the model ratings calculated by our estimation models, which are based on external ratings etc. Obligor ratings shall be determined by credit risk management divisions, and reviewed regularly and continuously.

Obligor ratings are used in the standards of credit approval authority procedures and portfolio controls, and are the foundation for credit risk management.

Furthermore, the Bank also applies a facility rating system based on expected losses that allows for improvement in the credit status, such as collateral and/or covenants, from the perspective of obligor ratings and the credit status of individual transactions.

An obligor rating system and facility rating system similar to those adopted in the Bank have been implemented for large amount leasing receivables of Showa Leasing.

(3) Pool Classification

The Bank assigns retail exposures to specific pools based on risk profile such as obligor characteristics and transaction characteristics that create reasonably homogeneous sub-portfolios. Major retail exposures to which pool classification is applied are housing loans and unsecured personal loans of the Bank, installment sales credit receivables of APLUS, unsecured personal loans of Shinsei Financial, and small-lot leasing receivables of Showa Leasing.

PORTFOLIO-BASED CREDIT RISK MANAGEMENT

It is essential that credit risks are diversified in terms of industries as well as ratings. This is done on a portfolio basis, which is an aggregation of transactions, and operations of individual transactions must be conducted based on appropriate risk analyses. The bank monitors the segment-specific risk diversification status including industry classifications, ratings, products, and regions, and undertakes analyses from the product-specific perspectives based on each risk profile. Portfolio Risk Management Division uses this information to improve portfolio management operations and provide reports to senior management on a monthly as well as on an ad hoc basis.

PRINCIPAL "CREDIT RISK MANAGEMENT STANDARDS"

For Basel Regulation, the Foundation Internal Ratings-Based Approach (F-IRB) has been adopted by the Bank for calculation of credit risk-weighted assets. In accordance with this approach, the Bank established "Credit Risk Management Standards," a set of policy, standards/guideline and procedures, which define the Bank's internal rating system design and operations, internal control, use of internal rating and risk quantification.

These Standards contain "Basic Principles of the Internal Rating System for Credit Risk" as the highest level policy to define basic framework of overall internal rating systems. Details of management policy and procedures are defined in the form of subordinate specific rules for each group of exposures in the portfolio.

Summary of internal rating system of each group of exposures is shown in "EXHIBIT."

QUALITATIVE DISCLOSURE (CONTINUED)

INTERNAL CONTROL ROLES AND RESPONSIBILITIES

The Bank Group's internal control system for credit risk management has been set up in accordance with current regulations.

(1) Credit Risk Management Divisions
Group Portfolio Risk Management Division undertake the roles and responsibilities for management of credit risk of the bank and is responsible for integrated management of credit risk across the bank group.

(2) Senior Management Control/Oversight
Control and oversight for internal rating systems by senior management is defined in "Credit Risk Management Standards," and is performed in an appropriate manner.

(3) Audit Section
The Internal Audit Divisions within the Bank and its subsidiaries evaluate the internal rating system employed by the Bank Group and ensures the system is in compliance with existing regulations.

APPLICATION OF THE INTERNAL RATING SYSTEM

The Bank uses its own internal rating systems for portfolios to which the F-IRB Approach are applied. These items are listed in the "Exhibit" for each portfolio.

The internal rating system is applied to corporate and retail exposures as categorized below. The rules for applying the internal rating system are part of the Bank's overall "Credit Risk Management Standards."

(1) Corporate Exposure
Corporate exposure, financial institution exposure, and sovereign exposure are included. Basic standards and related detailed rules for design and operations of internal rating system, which are benchmarked against R&I rating and categorized as 0A, and 1A-9E, are applied. Corporate exposure includes Specialized Lending such as Non-Recourse Real Estate Loans, Project Finance, etc. using slotting criteria categorized as Strong, Good, Satisfactory, Weak, and Default. Specific rating standards are established for each type of finance.

(2) Retail Exposure
Retail exposures are defined as:

- Exposures subject to pool management
- Claims against an individual (except for a claim for the purpose of funding business operations), or claims against a corporation
(including an individual with the purpose of funding a business) with an outstanding amount of less than ¥100 million after the "aggregation" (nayose) on a consolidated basis.

Features of these products and credit analysis standards may vary between the Bank and its subsidiaries. As such, specific pool classification systems for each product are applied at each entity, in accordance with established guidelines.

ESTIMATION AND VALIDATION OF PARAMETERS

The approach for estimation and validation of parameters such as Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) is set forth in "Credit Risk Management Standards." Ratings, pool classifications and estimated parameters are also used for internal control.

STRESS TESTS

Specific implementation guidelines are established for stress tests used in the assessment of capital adequacy, and credit risk stress tests to assess the effect of certain specific conditions on the Bank's regulatory capital requirements. Stress test results are reported to senior management at least once a year.

RESERVE POLICY

A reserve for credit losses of the Bank and its subsidiaries is provided as detailed below, pursuant to the predetermined internal rules for providing such reserves according to the obligor categorizations based on the self assessment of their assets.

A general reserve for claims against normal obligors, needcaution obligors and substandard obligors is provided based on the specific actual past loss experience.

A specific reserve for claims to possibly bankrupt, virtually bankrupt and legally bankrupt obligors is provided based on the full amount of the unsecured, un-guaranteed portion of the respective claims after a solvency assessment.

For claims against obligors that are possibly bankrupt (that is, those that are not presently bankrupt but are likely to go bankrupt in the future), a specific reserve is provided for the amount considered to be necessary based on an overall solvency assessment performed for the amount of claims, net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

For claims against obligors that are legally bankrupt (due to bankruptcy and special liquidation) or virtually bankrupt, a specific reserve is provided based on the amount of claims, net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

The reserve for loans to restructuring countries is provided based on the amount of expected losses due to the political and economic situation in each country.

Additionally, with regard to claims against possibly bankrupt obligors and substandard obligors, a reserve is provided based on the discounted cash flow method when the obligor's future cash flows for debt service are reasonably estimable and the balance of claims to such obligors is large.

Who We Are?
Where We Go?
Why We Can?
How Are We Now?
What Is Our Platform?
Financials/Information
Data Section

QUALITATIVE DISCLOSURE (CONTINUED)

TRANSITION PLAN FOR MOVING A PORTION OF THE BANK'S PORTFOLIO, WHICH HAS NOT YET APPLIED F-IRB, FROM THE STANDARDIZED APPROACH TO THE F-IRB APPROACH

Expected IRB roll-out periods of assets currently evaluated using the Standardized Approach, and the F-IRB Approach will be applied at a future date to secure sufficient data observation periods are as follows:
Not applicable.

In the case of portfolios to which the Standardized Approach is applied, the Bank will use ratings from the following qualified rating agencies to determine exposure risk weights:
S&P, Moody's, Fitch, R&I and JCR.

6. CREDIT RISK MITIGATION POLICIES AND PROCEDURES

(1) Policies and framework for mitigating credit risk
The Bank mitigates credit exposure with collateral and guarantees to reduce the credit risk of obligors. The Bank has a clear framework regarding methods for mitigating credit risk. Basic procedures and descriptions of controls, as well as types of standard collateral, guarantees necessary in granting credit, evaluation methods for different types of credit and collateral, possible "haircuts" to collateral and regular revaluation of collateral, are stipulated in the Bank's credit procedures.

(2) Controls concerning overall methods to mitigate credit risk
The Bank uses net exposure for capital calculations after netting deposit and loan claims. All collateral and guarantees are registered in a dedicated system. The information is linked to obligor and credit account data. Collateral and guarantees are revalued at least once a year. Perfection of security interest, currency, date and correlation between collateral and counterparty are checked.

(3) Eligible financial asset collateral
Financial asset collateral types are defined by the Bank to include deposits, fixed income securities, equities and commercial paper.

(4) Eligible collateralized claims
Collateral types in this category include commercial bills, rights to claim return of security deposits, rights to claim return of construction funds, loan receivables, leasing and sales installment receivables and beneficial interests in trust.

(5) Eligible real estate collateral
Collateral types in this category include land and buildings, plants and foundations including industrial foundations.

(6) Other asset-backed collateral
Eligible other asset-backed collateral is defined by the Bank as aircraft and ships.

(7) Guarantees
Guarantors are classified into the following categories: governments, central banks, municipalities, public institutions, credit guarantee associations, banks, general business entities and individuals.

7. POLICIES AND PROCEDURES FOR COUNTERPARTIES OF DERIVATIVE PRODUCT AND TRANSACTIONS WITH LONG-HORIZON SETTLEMENT PERIODS

(1) COUNTERPARTY RISK
Counterparty credit risk arising from market trading, such as derivatives, is controlled based on current fair value and estimation of future fair value volatility. Estimation of future fair value volatility covers various products including exotic derivatives, and considers risk mitigation effect by collateral as well as netting effect by the ISDA Credit Support Annex (CSA) etc.
As the risk associated with market trade changes by market rate fluctuation after the trade, the Bank controls it based on estimation of future fair value volatility.

(2) ALLOCATION OF CREDIT LIMITS
Counterparty limits due to derivatives transactions are established based on counterparty's specific situation, and credit limits are managed as appropriate on both a counterparty limit basis, and total credit limit basis where counterparty limit is added to any other credit exposure for each obligor in order to reflect the Bank's overall exposure.

(3) CREDIT ENHANCEMENT BASED ON COLLATERAL AND RESERVES
Credit enhancement measures are taken to mitigate the Bank's concerns regarding certain obligors' credit quality as well as concentration risk in the Bank's portfolio.
The Bank follows the guidelines outlined in the ISDA CSA, which has been accepted by many financial institutions. Reserves are calculated based on expected losses according to the counterparty's credit quality, and are taken into consideration in the mark-to-market process.

(4) POSSIBILITY OF THE BANK POSTING ADDITIONAL COLLATERAL DUE TO A DECLINE IN THE BANK'S CREDIT QUALITY
If the Bank's credit quality were to decline and be reflected as such in the assignment of lower external ratings, the Bank may be required to provide additional collateral to counterparties in transactions subject to the ISDA CSA.

8. EQUITY RISK MANAGEMENT

The Bank's equity investments are mainly composed of strategic merger/acquisition or business alliance related transactions, which are approved by the Group Executive Committee, and investment business related transactions, which are approved by the Transaction Committee (TC).

QUALITATIVE DISCLOSURE (CONTINUED)

The risk management methodologies for these investments are determined based on their investment types and purposes. Each risk is recognized and monitored appropriately by evaluating underlying assets/enterprise value. For securities that do not have fair market value, self assessment is conducted every quarter.

Investments in subsidiaries and affiliates are carried at cost determined by the moving average method. Available-for-sale securities are carried at fair value at the balance sheet date (cost of securities sold is determined by the moving average method) in principle, with the exception of those whose fair value cannot be reliably determined, which are carried at cost determined by the moving average method.

9. SECURITIZATION EXPOSURE RISK MANAGEMENT POLICIES AND RISK CHARACTERISTICS

BANK RULES

The Bank manages securitization transactions as follows:

(1) Originator

For fundraising, mitigation of exposure concentration, transfer of credit risk and balance sheet management purposes, the Bank securitizes loans and the Bank's subsidiaries securitize financial assets such as credit card and consumer loan receivables.

As an originator, the Bank manages the credit risk of its securitized transactions using the assumption that original assets are maintained on its books. Since the purpose of these transactions includes acquiring funds, mitigating exposure concentration, transferring credit risk and managing the Bank's balance sheet, securitization transactions are a tool to control liquidity risk.

(2) Investor

In order to invest in assets whose credit risks are different from those of existing corporate exposure and to enhance the profitearning opportunity, the Bank selectively invests in securitization transactions, including re-securitization as well as securitization defined as non-re-securitization as per Clause 2 a or b in Article 1 of Administrative Notice, which are backed by various financial products.

The Bank also re-securitizes some securitized products of which the Bank has purchased and may hold the subordinated/residual portion.

As a general rule, Risk Management Section which is fully independent from Business Sections, manages the risks arising from securitization exposure, and risk management/monitoring methodologies and risk taking/reduction policies are specified according to the types of products. Although the Bank does not actively intend to increase securitization exposure at this moment, aforementioned procedure defined in "5. Credit Risk Management and Procedures, Credit Risk Management of Specific Transactions" will be followed for new investments after specifying and recognizing the risk profile, product specifics, nature of underlying assets and structure including credit enhancement, etc.

(3) Servicer

The Bank acts as a servicer when loans, which were originated by the Bank, are used as underlying assets in securitization.

Similarly, when financial assets such as credit card and consumer loan receivables originated by the Bank's subsidiaries are used as underlying assets for a securitization, the subsidiary serves as a servicer.

(4) Swap provider

In some transactions wherein the Bank is the arranger, the Bank provides swaps in order to mitigate interest rate risk within a specified range or to manage any cashflow difference between interest from underlying assets and coupons from the securities backed by the same assets.

Securitized exposure includes various risk characteristics that are unique to each product, as well as general risks, such as credit risk, market risk, and liquidity risk.

The Bank does not act as a credit enhancement provider/liquidity provider in any transaction. The Bank does not conduct ABCP business as well.

PREPARATION AND MANAGEMENT STATUSES OF THE FRAMEWORK DEFINED IN CLAUSE 4-3 THROUGH CLAUSE 4-6 OF ARTICLE 249 OF ADMINISTRATIVE NOTICE ON CAPITAL ADEQUACY RULES (INCLUDING INSTANCES WHERE THE RELEVANT PROVISIONS ARE APPLIED *MUTATIS MUTANDIS* BASED ON CLAUSE 2 OF ARTICLE 254 AND CLAUSE 4-1 OF ARTICLE 302 OF ADMINISTRATIVE NOTICE ON CAPITAL ADEQUACY RULES): OVERVIEW

When the Bank acquires and monitors securitized exposures, outside ratings and their changes are closely watched as one of the effective indicators. Moreover, when the Bank assigns internal ratings, risk characteristics and structural characteristics are understood and future performance forecast is analyzed, without depending solely on outside ratings.

Investment decisions are made based on the results of such analysis and expected return. Even after an investment is made, various covenants and triggers are checked based on trustee reports and servicer reports. A continuous and regular monitoring framework is established whereby information on comprehensive risk characteristics and performance of securitized exposures and underlying assets is captured in a timely manner.

Risk capital is measured based on internal ratings assigned for each transaction. For investments in securities without a fair market value or its track record, risks are understood and controlled through self-assessments.

In terms of the reporting, overall situation of the Bank's portfolio including the securitization exposure is reported to the senior management via the Group Risk Policy Committee etc on a monthly or a quarterly basis. The report includes information of exposure, risk quantification, change in the portfolio, and risk profiles.

QUALITATIVE DISCLOSURE (CONTINUED)

POLICIES USING SECURITIZATION TRANSACTIONS FOR CREDIT RISK MITIGATION

The Bank is not using securitization transactions for credit risk mitigation.

CALCULATION METHODS FOR DETERMINING THE AMOUNT OF CREDIT RISK IN THE CONTEXT OF SECURITIZATION EXPOSURE

Risk weights are calculated based on internal rules entitled "Standards for Administering Risk Weight Calculation for Securitization Exposure." In general, the amount of credit risk assets related to securitization exposures is calculated using the Ratings-Based Approach (RBA).

In certain cases, where ratings have not been assigned by qualified rating agencies, Risk Management Section and Finance Section may approve exceptions to using the RBA. For such transactions, the Bank has sufficient data to estimate PDs and LGDs of the original assets, and therefore can calculate the transaction-specific PDs, LGDs and credit risk amount based on the Supervisory Formula Approach.

Where no ratings are assigned by qualified rating agencies and no data are available for estimating the PDs and LGDs of original assets, 1,250% of risk weight is applied.

CALCULATION METHODS FOR DETERMINING THE AMOUNT OF MARKET RISK IN THE CONTEXT OF SECURITIZATION EXPOSURE

The amount of the general market risk of the market risk related to securitization exposures is calculated using the internal model approach. The amount of the specific risk of the market risk related to securitization exposures is calculated using the standardized approach.

TYPE OF SECURITIZATION-PURPOSE-CONDUITS FOR SECURITIZATION TRANSACTIONS OF THIRD PARTIES' ASSETS, AND WHETHER THE BANK HOLDS RELATED SECURITIZATION EXPOSURE

The Bank securitizes third parties' assets using "trust" as a part of its businesses. However, the Bank does not hold related securitization exposure.

NONCONSOLIDATED SUBSIDIARIES AND AFFILIATES WHO HOLD SECURITIZATION EXPOSURES RELATED TO THE BANK'S ORIGINATED SECURITIZATION TRANSACTIONS

No securitization exposures related to the Bank's originated securitization transactions are held by the Bank's nonconsolidated subsidiaries and affiliates.

ACCOUNTING POLICY ADOPTED FOR SECURITIZATION TRANSACTIONS

(1) When assets to be securitized are owned by the Bank, securitization assets are removed from the balance sheet and assignment of gains and losses are calculated based on the financial component (*zaimu-kousei-youso*) approach.

The assets sold and retained interests are recognized as separate components of a transfer of financial assets. Those components in the transferred assets are measured by allocating the previous carrying amount between the assets sold and retained interests based on the relative fair values at the time of transfer. Based on the calculated values of assets that are sold, gains or losses on the transfer are recognized.

However, when assets are securitized for fundraising purposes, the book value to be credited on the balance sheet is adjusted in order to prevent generating any initial profits, after removing the assets from the balance sheet using the financial component approach.

(2) When the Bank purchases securitized products, Accounting Standards for Financial Products apply to each financial asset.

(3) Fee income earned by the Bank in arranging securitization for other parties (no investment) is treated as noninterest income.

QUALIFIED RATING AGENCIES WHOSE RATINGS ARE USED BY THE BANK IN DETERMINING SECURITIZED EXPOSURE TYPE-SPECIFIC RISK WEIGHTS:

S&P, Moody's, Fitch, R&I, and JCR.

SUMMARY OF INTERNAL VALUATION METHOD FOR SECURITIZATION

The Bank is not using the internal valuation method for securitization.

SIGNIFICANT CHANGES OF QUANTITATIVE INFORMATION

There are no significant changes of quantitative information.

10. MARKET RISK MANAGEMENT POLICIES AND PROCEDURES

a) POLICY AND PROCEDURE FOR RISK MANAGEMENT

(1) DEFINITION OF MARKET RISK

Market risk is the risk of incurring losses due to changes in interest rates, FX rates, stock prices, etc.

(2) MARKET RISK MANAGEMENT POLICY

The Executive Committee makes important decisions concerning trading business. The Committee approves important items relating to market risk, including "Trading Business Risk Management Policy" and qualitative limits of Value at Risk and Loss limit for the Bank and its Securities.

QUALITATIVE DISCLOSURE (CONTINUED)

The Market Business Management Committee regularly controls market risk management and risk review of trading businesses. The Committee reviews monthly individual limit settings, customer related business movement, profit and loss/market risk situation and inherent market products risk in the business as a whole and makes decision on risk management. The market risk reports are delivered to the Head of Integrated Risk Management and to the front office.

(3) MARKET RISK MANAGEMENT FRAMEWORK

We have established effective organizational framework for check and balance by making front office unit, back office unit and middle office management unit independent respectively. The Integrated Risk Management Division, the middle office unit, is responsible for the objective and timely recognition, monitoring and reporting of these market risks and carries out regular risk analysis and recommendations, as well as timely and appropriately providing management and front office unit.

(4) QUANTITATIVE MARKET RISK MANAGEMENT

The market risk is managed based on the VaR limit and loss limit which are determined by the Executive Committee. The bank also set sensitivity limits relating to interest rate and FX rate etc. and implement stress testing based on various market shocks to enhance market risk management.

The Integrated Risk Management Division is consistently responsible for risk measurement and its control stipulating its definitions and rules.

b) NAME OF METHODOLOGY FOR MARKET RISK MEASUREMENT

The internal-model method has been adopted for general market risk at market risk measurement and the standardized method for specific risk since March 31, 2007 for the Bank and Shinsei Securities. The standardized method is applied for FX related risks except Trading.

Market Risk Methodologies

		Trading	FX-related Risks except Trading
Shinsei Bank	General Market Risk	Internal Model Method • Historical Simulation Method	Standardized Method
	Specific Risk	Standardized method	
Shinsei Securities	General Market Risk	Internal Model Method • Historical Simulation Method	Standardized Method
	Specific Risk	Standardized Method	
Other Subsidiaries		–	Standardized Method

c) ADEQUATE PRICING METHOD ACCORDING TO TRANSACTION PROFILE TAKING POSSIBILITIES INTO CONSIDERATION THAT ACTUAL HOLDING PERIOD MAY EXCEED EXPECTED HOLDING PERIOD

The VaR framework is using this 10-day for holding period. Market liquidity of all trading book's products are high enough, and we evaluate adequately the pricing according to the products profile including the independent price valuation process.

d) INTERNAL MODEL METHOD AND BACK-TESTING, STRESS-TESTING

The Bank and Shinsei Securities use a historical simulation VaR for internal model at general market risk measurement (a 99% confidential level, 10 day holding period, 250 observation days). Please refer to following table for VaR data and Stressed VaR.

		Millions of yen	
		Consolidated	Nonconsolidated
VaR at the end of year		¥ 783	¥ 740
through FY	High	1,391	1,353
	Mean	956	917
	Low	572	540

		Millions of yen	
		Consolidated	Nonconsolidated
Stressed VaR at the end of year		¥ 3,915	¥ 3,690
through FY	High	4,161	4,017
	Mean	2,869	2,728
	Low	1,832	1,755

The validity of the VaR is verified through back-testing etc., which examines how frequently hypothetical daily loss that would have occurred if the position remained unchanged exceeds VaR for a one-day holding period. The back-testing results for fiscal year 2017 show that the number of days in which loss amount exceeded VaR for one-day holding period on a consolidated basis was zero.

For complementing the Internal Model method and figuring out loss possibility at stress, the Bank implements stress testing on a weekly basis. And the stress test results are reported to the Market Business Management Committee and etc.

e) INTERNAL MODEL SUMMARY IN CASE THAT INCREMENTAL RISK IS MEASURED BY INTERNAL MODEL

Not applicable.

f) INTERNAL MODEL SUMMARY IN CASE THAT COMPREHENSIVE RISK IS MEASURED BY INTERNAL MODEL

Not applicable.

QUALITATIVE DISCLOSURE (CONTINUED)

g) ASSUMPTIONS AND VALUATION METHOD FOR INTERNAL EVALUATION OF CAPITAL SUFFICIENCY ON MARKET RISK

When we evaluate capital sufficiency for market risk using risk capital, we convert the above mentioned VaR calculation method into a one year horizon basis.

11. BANKING BOOK INTEREST RATE RISK MANAGEMENT

A. Overview of risk management policy and procedure
Interest rate risk is the risk of losses on the current value of assets and liabilities whose cash flow mismatch may be impacted by interest rates due to market interest rate fluctuations.

The interest rate risk of the banking account is managed and administered pursuant to the Group Asset Liability Management Policy. In order to appropriately control interest rate risk, at the beginning of each fiscal year the Group ALM Committee determines limits for the Bank and its group companies, such as the interest rate sensitivity limit and the loss limit. At the monthly meetings, the Group ALM Committee makes comprehensive decisions on assets and liabilities based on the monitoring of the limits and net interest income (NII).

In addition to monthly reporting to the Group ALM Committee, the Group Integrated Risk Management Division, which is independent of the front offices, monitors the status of acquiring the risk and observing the limits on a daily basis and reports the results to management.

B. Overview of the interest rate risk calculation method for the banking account used by the Bank and its consolidated subsidiaries for internal control
Based on the banking IR sensitivity calculation procedure, a rule subordinate to the Group Asset Liability Management Policy, the interest rate risk of the banking account is calculated as follows.

1) Calculation method
Interest rate risk measurement is the economical value in the banking book decrease by the parallel shift interest rate shock impact.

2) Subject assets and liabilities
Subject assets liabilities are deposits, loans, JGBs, and other assets and liabilities whose future cash flow is impacted by interest rates fluctuation. The interest rate risk of investment and funding sides is calculated.

3) Interest rate shock range
Internal control: up 1%; outlier criteria: up down 2%

4) Calculation frequency
Bank: daily; group companies: monthly

The amount of interest rate risk is significantly impacted by the recognition of maturities and prepayments. Accordingly, we are endeavoring to appropriately capture interest rate risk by adopting the following models.

a. Housing loans
We calculate the interest rate risk of retail housing loans by statistically analyzing prepayment data and estimating future cash flow based on a proportional hazard model using periods lapsed from the loan origination.

b. Core deposits
Core deposits are defined as retail ordinary yen deposits and 2-week yen denominated time deposits which are left with financial institutions for a long term without withdrawal. We model depositors' behaviors by statistically analyzing deposit balance data and estimating maturities by customer group.

The parallel up and down 2% interest rate shock range is adopted in the outlier criteria. March end, 2017 actual outlier rate is lower than the outlier criteria (economical value decrease by the parallel up and down 2% interest rate shock range impact may exceed 20% against our core capital).

The change in economic values for applied interest rate shock of 2% in the banking book at the end of March 2017:

	Billions of yen	
	Consolidated	Nonconsolidated
JPY	¥ (89.8)	¥ (65.9)
USD	(4.0)	(4.0)
Other	(12.6)	(12.6)
Total	¥ (106.5)	¥ (82.6)
Outlier Ratio	13.0%	9.9%

QUALITATIVE DISCLOSURE (CONTINUED)

12. OPERATIONAL RISK MANAGEMENT POLICIES AND PROCEDURES

MANAGEMENT POLICIES AND PROCEDURES

(1) Definition of Operational Risk

The Bank classifies operational risk into several risk categories, such as operational and administrative risk, compliance risk, labor-related risk, systems risk, extensive disaster risk and material object risk, which are applied across the Bank and its consolidated subsidiaries.

(2) Operational Risk Management System

The Bank manages operational risk at multiple levels as follows:

- Management by business lines according to the nature of each business
- Cross-organizational management by designated management divisions for respective risk categories mentioned above (hereinafter “designated management divisions”) and by the firmwide management division of operational risk (hereinafter “firm-wide management division”)
- Verification by the Group Internal Audit Division on the appropriateness and effectiveness of the overall risk management system
- Based on reports and proposals, the Board of Directors etc. makes decisions on important items, including general rules and organizational changes related to operational risk management

The designated management divisions and the firm-wide management division are independent from business lines, which are accountable for earnings, and promoting management of overall operational risk and each risk category. The divisions develop uniform management standards and procedures, capture and evaluate errors and irregularities, conduct causal analysis and support establishment of recurrence prevention measures. Moreover, the divisions meet on a regular basis to discuss challenges and measures for operational risk management, as well as to share information.

Operational risk is recognized and evaluated through review of internal errors and irregularities that have occurred, as well as through consideration of potential errors and irregularity scenarios that may occur less frequently but may have a significant impact. Uniform standards for collection and evaluation of errors and irregularities are established to capture and/or evaluate significant actual errors and/or irregularities on a regular basis. Procedures are determined to ensure that potential errors and irregular scenarios for each business operation are specified and their frequency and severity are evaluated in a complete and appropriate manner on an at least an annual basis.

Such identified and evaluated risks are reported to senior management by the designated management divisions and the firm-wide management division and are used in Risk Capital measurement for internal management purposes.

(3) “Operational Risk Management Standards”

“Operational Risk Management Standards” are a set of policies and procedures used to define the organizational framework, specific methods and processes for operational risk management. They are composed of the following:

- “Operational Risk Management Policy”
- Specific management rules
- Management rules at consolidated subsidiaries

“Operational Risk Management Policy” is the highest set of rules on operational risk management. To ensure comprehensive and consistent operational risk management within the Bank Group, the Policy establishes risk definitions, governance and basic policies on operational risk management, and the basic framework for risk capture, evaluation, monitoring, reporting, control and mitigation.

Specific management rules include management standards and procedures for each respective operational risk category, and for new businesses and products.

Management rules at each consolidated subsidiary are composed of comprehensive rules on overall operational risk management and specific rules for respective operational risk categories. Consolidated subsidiaries establish, revise and repeal rules with the approval of their Board of Directors, according to their risk characteristics and specific internal controls. Their establishment, revision and repeal are subject to prior discussions with and after-the-fact reports to the Bank to ensure consistency with the Bank's risk management rules.

METHODOLOGY TO CALCULATE OPERATIONAL RISK UNDER BASEL REGULATION

The Standardized Approach is adopted by the Bank.

Amount of required capital for Operational Risk at the end of fiscal year 2017:

	Millions of yen	
	Required capital amount (Consolidated)	Required capital amount (Nonconsolidated)
The Standardized Approach	¥ 29,756	¥ 15,083

QUALITATIVE DISCLOSURE (CONTINUED)

EXHIBIT: SUMMARY OF INTERNAL RATING SYSTEM

<table>
<tr><td rowspan="2">Type of Exposures</td><td colspan="2">Corporate Exposures (Shinsei Bank, and Showa Leasing (large amount exposures))</td></tr>
<tr><td>(a) Corporate Exposures, (b) Sovereign Exposures, (c) Exposures to Banks, and (d) Equity Exposures
(Exposures to which Internal Rating and PD/LGD approach is applied)</td><td>(e) Specialized Lending</td></tr>
<tr><td>Structure of Internal Rating System</td><td>A obligor rating system benchmarked against external ratings (R&I) which reflects credit status of obligor is in place.

Obligor rating is derived from quantitative score calculated from model prepared by using external ratings etc. as a benchmark based on the financial data of a customer, and determined taking into account of influence from group companies and future financial projection.

Obligor ratings for Sovereign/Bank exposures are assigned based on specific rules.</td><td>A facility rating system based on degree of expected loss ratio according to the transaction type is in place for specialized lending assets whose interest payments and principal repayments are heavily dependent on the profit of assets and the business.

Ratings are assessed according to facility type as follows.
• Real estate nonrecourse loans are decided by adding qualitative adjustments to quantitative index based on the LTV.
• Ratings for project finance or non-recourse shipping finance are decided by comprehensively considering financial indices such as DSCR and the assessment of each risk factor that has an impact on the operation of the project. Regarding nonrecourse shipping finance, evaluation of ship is also considered in the risk assessment.</td></tr>
<tr><td>Usage of Various Estimated Value (Use Test)</td><td colspan="2">Obligor rating and facility rating are used in the standards of credit approval authority procedures, pricing, portfolio management, and allocating Risk Capital.</td></tr>
<tr><td>Management of Internal Rating System, and Rating Assignment Procedures</td><td colspan="2">Group Portfolio Risk Management Division (GPRMD) of the Bank is in charge of designing the rating system and ratings are assigned by the section in charge of credit analysis.</td></tr>
<tr><td>Validation Procedures</td><td>Back testing, rating transition analyses, the reasonability of the rating and appropriateness of the rating process are conducted in a multifaceted manner for validation of rating and parameters by using internal and external data.</td><td>According to the type of transactions, rating transition analyses, the reasonability of the rating and appropriateness of the rating process are conducted for validation of rating by using internal and external data.</td></tr>
<tr><td>Estimation of Parameters</td><td>Definition of Default
Obligor categorization under self assessment falls to sub-standard (9B) or lower, etc.

PD
Long-term averages are calculated based on internal data, and margin for estimation error is added to derive estimates.

LGD/EAD
Parameters are not estimated as a bank using Fundamental Internal Ratings-Based Approach.</td><td>Internal ratings are allocated to slotting criteria, and parameters are not estimated.</td></tr>
</table>

QUALITATIVE DISCLOSURE (CONTINUED)

EXHIBIT: SUMMARY OF INTERNAL RATING SYSTEM

Type of Exposures	Retail Exposures (Shinsei Bank)		Retail Exposures (APLUS FINANCIAL, APLUS, APLUS PERSONAL LOAN, Zen-Nichi Shinpan, Shinsei Financial, Shinsei Personal Loan and Showa Leasing)
	(f) Residential Mortgage Exposures	(g) Qualifying Revolving Retail Exposures	(h) Qualifying Revolving Retail Exposures, (i) Other Retail Exposures
Structure of Internal Rating System	Assignment of Pool Category to each exposure shall be conducted so that risk is appropriately categorized, taking into account the obligor's risk characteristics, transaction's risk characteristics and the delinquency status of the exposure. (In addition to housing loans described above, housing loans originated by lenders other than the Bank and purchased as portfolios by the Bank are managed as purchased receivables.)	Portfolios which the bank originated are classified as qualifying revolving retail exposures. Pools are classified quantitatively by obligor risk characteristics and etc.	Portfolios of the Bank's subsidiaries are classified as qualifying revolving retail exposures (such as unsecured personal loans, credit cards) or other retail exposures (such as installment sales credit receivables, small-lot lease receivables) according to credit facility types. (Housing loan portfolios of APLUS and Zen-Nichi Shinpan are classified as residential mortgage exposures). Exposures are assigned to appropriate pools established for each subsidiary, considering obligor risk characteristics, transaction risk characteristics, and delinquency status.
Usage of Various Estimated Value (Use Test)	Pool classification and PD/LGD/EAD estimates are used for calculating and allocating Risk Capital.	Pool classification and PD/LGD/EAD estimates are used for calculating and allocating Risk Capital.	Pool classification and PD/LGD/EAD estimates are used for calculating and allocating Risk Capital.
Management of Internal Rating System, and Rating Assignment Procedures	Group Portfolio Risk Management Division (GPRMD) of the Bank is in charge of internal rating system design, pool assignment and also estimates/validates parameters.	GPRMD of the Bank is in charge of internal rating system design, pool assignment and also estimates/validates parameters with guarantee company in the Shinsei group.	GPRMD of the Bank is in charge of internal rating system design, pool assignment and also estimates/validates parameters with subsidiaries.
Validation Procedures	Key methodologies of validation are as follows: • PD: Validation whether gap between PD estimates/theoretical PD values by age of exposures based on the PD seasoning curve and historical PD • LGD: Validation whether gap between LGD estimates and historical LGD remain within a certain confidence level, and validation whether estimated collateral sale price is conservative.	Key methodologies of validation are as follows: • PD: Validation of accordance between PD estimates and historical PD, and validation of PD and rating goodness of fit • LGD: Validation if gap between LGD estimates and historical LGD remain within a certain confidence level • Pool classification: Validation on default predictive power	Key methodologies of validation are as follows: • PD: Validation of accordance between PD estimates and historical PD, and validation of PD and rating goodness of fit • LGD: Validation if gap between LGD estimates and historical LGD remain within a certain confidence level • Pool classification: Validation on default predictive power
Estimation of Parameters	Definition of Default Any of the following: i) past due three months or more, ii) relaxation of terms and conditions, iii) legal bankruptcy PD/LGD PD/LGD are estimated using the Bank's historical data and the margin for estimation error is added to derive estimates. The seasoning characteristics of default for PD and collection from collateral sale value for LGD are taken into consideration.	Definition of Default Subrogated for late payment and etc. PD/LGD/EAD PD/LGD/EAD are estimated on pool by pool basis, using the historical data. Long-term averages are calculated based on these data, and margin for estimation error is added to derive estimates.	Definition of Default Any of the following: i) past due three months or more, ii) relaxation of terms and conditions, iii) legal bankruptcy, etc. PD/LGD/EAD PD/LGD/EAD are estimated on pool by pool basis, using the Bank's subsidiaries' historical data. Long-term averages are calculated based on these data, and margin for estimation error is added to derive estimates.

QUALITATIVE DISCLOSURE (CONTINUED)

SHINSEI BANK CORPORATE OBLIGOR RATING SYSTEM

Obligor Rating Categories	Corresponding Rating Assigned by R & I	Summary
0A		1. Japanese Government, BOJ. 2. Government-affiliated agencies, expected high certainty from strong backup by the Government.
1A	AAA	Highest capability to meet its financial commitments on the obligations and many other positive factors.
2A	AA+	Very high capability to meet its financial commitment on the obligation and other positive factors.
2B	AA	
2C	AA-	
3A	A+	High capability to meet its financial commitments on the obligations and some good factors.
3B	A	
3C	A-	
4A	BBB+	There is adequate certainty of the fulfillment of obligations, but there are also some factors requiring attention in the event of serious adverse economic conditions in the future.
4B	BBB	
4C	BBB-	
5A	BB+	No problem regarding the certainty of the fulfillment of obligations for the time being, but some factors need to be closely watched in the event of adverse economic conditions in the future.
5B	BB	
5C	BB-	
6A	B+	No problem regarding the certainty of the fulfillment of obligations in the present situation, but special supervision is needed to monitor the trends in business performance and the protection of credit exposure.
6B	B	
6C	B-	
9A		Classified as “Other Need Caution” in the self-assessment.
9B		Classified as “Sub-Standard” in the self-assessment.
9C		Classified as “Possibly Bankrupt” in the self-assessment.
9D		Classified as “Virtually Bankrupt” in the self-assessment.
9E		Classified as “Bankrupt” in the self-assessment.

With regard to the internal controls related to the calculation of the capital adequacy ratio as of March 31, 2018, we received an independent audit by Deloitte Touche Tohmatsu LLC in accordance with "Treatment of Inspection of the Capital Ratio Calculation Framework Based on Agreed-Upon Procedures" (JICPA Industry Committee Report No. 30). The certain procedures performed by the external auditor are not a part of the audit of the financial statements. The certain procedures are agreed with us and the external auditor and are not a validation of appropriateness of the capital ratio itself or opinion on the internal controls related to the capital ratio.

COMPOSITION OF CAPITAL DISCLOSURE (CONSOLIDATED)

Shinsei Bank and subsidiaries

Millions of yen (except percentages)

As of March 31 Items	2018 Basel III (Domestic Standard)	Amounts excluded under transitional arrangements
Core capital: instruments and reserves (1)		
Directly issued qualifying common share capital or preferred share capital with a compulsory conversion clause plus related capital surplus and retained earnings	¥ 860,010	
of which: capital and capital surplus	590,710	
of which: retained earnings	361,368	
of which: treasury stock (–)	89,540	
of which: earning to be distributed (–)	2,528	
of which: other than above	–	
Accumulated other comprehensive income (amount allowed to be included in Core capital)	98	¥ 417
of which: foreign currency translation adjustment	(1,573)	
of which: amount related defined benefit	1,671	417
Stock acquisition right to common shares and preferred shares with a compulsory conversion clause	318	
Adjusted noncontrolling interests (amount allowed to be included in Core capital)	10	
Total of reserves included in Core capital: instruments and reserves	431	
of which: general reserve for loan losses included in Core capital	431	
of which: eligible provision included in Core capital	–	
Eligible noncumulative perpetual preferred shares subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	–	
Eligible capital instruments subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	37,400	
Capital instruments issued through measures for capital enhancement by public institutions (amount allowed to be included in Core capital: instruments and reserves)	–	
Land revaluation excess after 55% discount (amount allowed to be included in Core capital: instruments and reserves)	–	
Noncontrolling interests subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	1,647	
Core capital: instruments and reserves (A)	¥ 899,917	
Core capital: regulatory adjustments (2)		
Total amount of intangible assets (excluding those relating to mortgage servicing rights)	¥ 38,495	¥ 6,422
of which: goodwill (including those equivalent)	11,910	–
of which: other intangibles other than goodwill and mortgage servicing rights	26,585	6,422
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	5,599	1,399
Shortfall of eligible provisions to expected losses	28,976	–
Gain on sale of securitization	5,370	–
Gains and losses due to changes in own credit risk on fair valued liabilities	–	–
Net defined benefit asset	7,360	1,840
Investments in own shares (excluding those reported in the net assets section)	–	–
Reciprocal cross-holdings in common equity	–	–
Investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation ("Other Financial Institutions"), net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above the 10% threshold)	–	–
Amount exceeding the 10% threshold on specific items	–	–
of which: significant investments in the common stock of Other Financial Institutions, net of eligible short positions	–	–
of which: mortgage servicing rights	–	–
of which: deferred tax assets arising from temporary differences (net of related tax liability)	–	–
Amount exceeding the 15% threshold on specific items	–	–
of which: significant investments in the common stock of Other Financial Institutions, net of eligible short positions	–	–
of which: mortgage servicing rights	–	–
of which: deferred tax assets arising from temporary differences (net of related tax liability)	–	–
Core capital: regulatory adjustments (B)	¥ 85,801	
Capital (consolidated)		
Capital (consolidated) ((A)–(B)) (C)	¥ 814,115	
Risk-weighted assets, etc.		
Total amount of credit risk-weighted assets	¥ 5,809,201	
of which: total amount included in risk-weighted assets by transitional arrangements	6,964	
of which: intangible assets (excluding those relating to goodwill and mortgage servicing rights)	6,422	
of which: deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	1,399	
of which: net defined benefit asset	1,840	
of which: significant investments in the common stock of Other Financial Institutions (net of eligible short positions)	(2,697)	
of which: other than above	–	
Market risk (derived by multiplying the capital requirement by 12.5)	161,545	
Operational risk (derived by multiplying the capital requirement by 12.5)	371,960	
Credit risk-weighted assets adjustments	–	
Operational risk adjustments	–	
Total amount of Risk-weighted assets (D)	¥ 6,342,708	
Capital ratio (consolidated)		
Capital ratio (consolidated) ((C)/(D))	12.83%	

Who We Are?
Where We Go?
Why We Can?
How Are We Now?
What Is Our Platform?
Financials/Information
Data Section

COMPOSITION OF CAPITAL DISCLOSURE (CONSOLIDATED) (continued)

Shinsei Bank and subsidiaries

As of March 31 Items	Millions of yen (except percentages) 2017 Basel III (Domestic Standard)	Amounts excluded under transitional arrangements
Core capital: instruments and reserves (1)		
Directly issued qualifying common share capital or preferred share capital with a compulsory conversion clause plus related capital surplus and retained earnings	¥ 821,122	
of which: capital and capital surplus	590,711	
of which: retained earnings	312,538	
of which: treasury stock (–)	79,539	
of which: earning to be distributed (–)	2,588	
of which: other than above	–	
Accumulated other comprehensive income (amount allowed to be included in Core capital)	(607)	¥ (537)
of which: foreign currency translation adjustment	199	
of which: amount related defined benefit	(806)	(537)
Stock acquisition right to common shares and preferred shares with a compulsory conversion clause	584	
Adjusted noncontrolling interests (amount allowed to be included in Core capital)	8	
Total of reserves included in Core capital: instruments and reserves	216	
of which: general reserve for loan losses included in Core capital	216	
of which: eligible provision included in Core capital	–	
Eligible noncumulative perpetual preferred shares subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	–	
Eligible capital instruments subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	43,800	
Capital instruments issued through measures for capital enhancement by public institutions (amount allowed to be included in Core capital: instruments and reserves)	–	
Land revaluation excess after 55% discount (amount allowed to be included in Core capital: instruments and reserves)	–	
Noncontrolling interests subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	1,192	
Core capital: instruments and reserves (A)	¥ 866,317	
Core capital: regulatory adjustments (2)		
Total amount of intangible assets (excluding those relating to mortgage servicing rights)	¥ 30,865	¥ 9,633
of which: goodwill (including those equivalent)	14,683	–
of which: other intangibles other than goodwill and mortgage servicing rights	16,181	9,633
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	4,823	3,215
Shortfall of eligible provisions to expected losses	9,891	–
Gain on sale of securitization	5,442	–
Gains and losses due to changes in own credit risk on fair valued liabilities	–	–
Net defined benefit asset	2,935	1,956
Investments in own shares (excluding those reported in the net assets section)	–	–
Reciprocal cross-holdings in common equity	–	–
Investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation ("Other Financial Institutions"), net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above the 10% threshold)	–	–
Amount exceeding the 10% threshold on specific items	–	–
of which: significant investments in the common stock of Other Financial Institutions, net of eligible short positions	–	–
of which: mortgage servicing rights	–	–
of which: deferred tax assets arising from temporary differences (net of related tax liability)	–	–
Amount exceeding the 15% threshold on specific items	–	–
of which: significant investments in the common stock of Other Financial Institutions, net of eligible short positions	–	–
of which: mortgage servicing rights	–	–
of which: deferred tax assets arising from temporary differences (net of related tax liability)	–	–
Core capital: regulatory adjustments (B)	¥ 53,957	
Capital (consolidated)		
Capital (consolidated) ((A)–(B)) (C)	¥ 812,359	
Risk-weighted assets, etc.		
Total amount of credit risk-weighted assets	¥ 5,686,247	
of which: total amount included in risk-weighted assets by transitional arrangements	12,229	
of which: intangible assets (excluding those relating to goodwill and mortgage servicing rights)	9,633	
of which: deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	3,215	
of which: net defined benefit asset	1,956	
of which: significant investments in the common stock of Other Financial Institutions (net of eligible short positions)	(2,575)	
of which: other than above	–	
Market risk (derived by multiplying the capital requirement by 12.5)	158,920	
Operational risk (derived by multiplying the capital requirement by 12.5)	374,813	
Credit risk-weighted assets adjustments	–	
Operational risk adjustments	–	
Total amount of Risk-weighted assets (D)	¥ 6,219,981	
Capital ratio (consolidated)		
Capital ratio (consolidated) ((C)/(D))	13.06%	

COMPOSITION OF CAPITAL DISCLOSURE (NONCONSOLIDATED)

Shinsei Bank

As of March 31 Items	Millions of yen (except percentages) 2018 Basel III (Domestic Standard)	Amounts excluded under transitional arrangements
Core capital: instruments and reserves (1)		
Directly issued qualifying common share capital or preferred share capital with a compulsory conversion clause plus related capital surplus and retained earnings	¥ 839,251	
of which: capital and capital surplus	591,670	
of which: retained earnings	339,650	
of which: treasury stock (–)	89,540	
of which: earning to be distributed (–)	2,528	
of which: other than above	–	
Stock acquisition right to common shares and preferred shares with a compulsory conversion clause	270	
Total of reserves included in Core capital: instruments and reserves	16	
of which: general reserve for loan losses included in Core capital	16	
of which: eligible provision included in Core capital	–	
Eligible noncumulative perpetual preferred shares subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	–	
Eligible capital instruments subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	37,400	
Capital instruments issued through measures for capital enhancement by public institutions (amount allowed to be included in Core capital: instruments and reserves)	–	
Land revaluation excess after 55% discount (amount allowed to be included in Core capital: instruments and reserves)	–	
Core capital: instruments and reserves (A)	¥ 876,938	
Core capital: regulatory adjustments (2)		
Total amount of intangible assets (excluding those relating to mortgage servicing rights)	¥ 13,249	¥ 3,070
of which: goodwill (including those equivalent)	869	–
of which: other intangibles other than goodwill and mortgage servicing rights	12,380	3,070
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	1,630	407
Shortfall of eligible provisions to expected losses	21,321	–
Gain on sale of securitization	5,370	–
Gains and losses due to changes in own credit risk on fair valued liabilities	–	–
Prepaid pension cost	3,531	882
Investments in own shares (excluding those reported in the net assets section)	–	–
Reciprocal cross-holdings in common equity	–	–
Investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation ("Other Financial Institutions"), net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above the 10% threshold)	–	–
Amount exceeding the 10% threshold on specific items	–	–
of which: significant investments in the common stock of Other Financial Institutions, net of eligible short positions	–	–
of which: mortgage servicing rights	–	–
of which: deferred tax assets arising from temporary differences (net of related tax liability)	–	–
Amount exceeding the 15% threshold on specific items	–	–
of which: significant investments in the common stock of Other Financial Institutions, net of eligible short positions	–	–
of which: mortgage servicing rights	–	–
of which: deferred tax assets arising from temporary differences (net of related tax liability)	–	–
Core capital: regulatory adjustments (B)	¥ 45,103	
Capital (nonconsolidated)		
Capital (nonconsolidated) ((A)–(B)) (C)	¥ 831,835	
Risk-weighted assets, etc.		
Total amount of credit risk-weighted assets	¥ 5,260,100	
of which: total amount included in risk-weighted assets by transitional arrangements	1,663	
of which: intangible assets (excluding those relating to goodwill and mortgage servicing rights)	3,070	
of which: deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	407	
of which: prepaid pension cost	882	
of which: significant investments in the common stock of Other Financial Institutions (net of eligible short positions)	(2,697)	
of which: other than above	–	
Market risk (derived by multiplying the capital requirement by 12.5)	151,634	
Operational risk (derived by multiplying the capital requirement by 12.5)	188,537	
Credit risk-weighted assets adjustments	–	
Operational risk adjustments	–	
Total amount of Risk-weighted assets (D)	¥ 5,600,271	
Capital ratio (nonconsolidated)		
Capital ratio (nonconsolidated) ((C)/(D))	14.85%	

COMPOSITION OF CAPITAL DISCLOSURE (NONCONSOLIDATED) (continued)

Shinsei Bank

As of March 31 Items	Millions of yen (except percentages) 2017 Basel III (Domestic Standard)	Amounts excluded under transitional arrangements
Core capital: instruments and reserves (1)		
Directly issued qualifying common share capital or preferred share capital with a compulsory conversion clause plus related capital surplus and retained earnings	¥ 811,271	
of which: capital and capital surplus	591,670	
of which: retained earnings	301,729	
of which: treasury stock (–)	79,539	
of which: earning to be distributed (–)	2,588	
of which: other than above	–	
Stock acquisition right to common shares and preferred shares with a compulsory conversion clause	534	
Total of reserves included in Core capital: instruments and reserves	9	
of which: general reserve for loan losses included in Core capital	9	
of which: eligible provision included in Core capital	–	
Eligible noncumulative perpetual preferred shares subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	–	
Eligible capital instruments subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	43,800	
Capital instruments issued through measures for capital enhancement by public institutions (amount allowed to be included in Core capital: instruments and reserves)	–	
Land revaluation excess after 55% discount (amount allowed to be included in Core capital: instruments and reserves)	–	
Core capital: instruments and reserves (A)	¥ 855,615	
Core capital: regulatory adjustments (2)		
Total amount of intangible assets (excluding those relating to mortgage servicing rights)	¥ 7,947	¥ 4,412
of which: goodwill (including those equivalent)	1,035	–
of which: other intangibles other than goodwill and mortgage servicing rights	6,912	4,412
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	2,081	1,387
Shortfall of eligible provisions to expected losses	10,106	–
Gain on sale of securitization	5,442	–
Gains and losses due to changes in own credit risk on fair valued liabilities	–	–
Prepaid pension cost	1,612	1,075
Investments in own shares (excluding those reported in the net assets section)	–	–
Reciprocal cross-holdings in common equity	–	–
Investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation ("Other Financial Institutions"), net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above the 10% threshold)	–	–
Amount exceeding the 10% threshold on specific items	–	–
of which: significant investments in the common stock of Other Financial Institutions, net of eligible short positions	–	–
of which: mortgage servicing rights	–	–
of which: deferred tax assets arising from temporary differences (net of related tax liability)	–	–
Amount exceeding the 15% threshold on specific items	–	–
of which: significant investments in the common stock of Other Financial Institutions, net of eligible short positions	–	–
of which: mortgage servicing rights	–	–
of which: deferred tax assets arising from temporary differences (net of related tax liability)	–	–
Core capital: regulatory adjustments (B)	¥ 27,190	
Capital (nonconsolidated)		
Capital (nonconsolidated) ((A)–(B)) (C)	¥ 828,424	
Risk-weighted assets, etc.		
Total amount of credit risk-weighted assets	¥ 5,293,647	
of which: total amount included in risk-weighted assets by transitional arrangements	4,299	
of which: intangible assets (excluding those relating to goodwill and mortgage servicing rights)	4,412	
of which: deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	1,387	
of which: prepaid pension cost	1,075	
of which: significant investments in the common stock of Other Financial Institutions (net of eligible short positions)	(2,575)	
of which: other than above	–	
Market risk (derived by multiplying the capital requirement by 12.5)	144,020	
Operational risk (derived by multiplying the capital requirement by 12.5)	192,375	
Credit risk-weighted assets adjustments	–	
Operational risk adjustments	–	
Total amount of Risk-weighted assets (D)	¥ 5,630,043	
Capital ratio (nonconsolidated)		
Capital ratio (nonconsolidated) ((C)/(D))	14.71%	

QUANTITATIVE DISCLOSURE (CONSOLIDATED)

1. NAMES OF SUBSIDIARIES THAT ARE OUTSIDE THE SCOPE OF REGULATORY CONSOLIDATION WITH LOWER LEVEL OF CAPITAL THAN REQUIRED LEVEL OF ADEQUACY CAPITAL AND AMOUNT OF SHORTAGE

• There are no companies that are subject to the above.

2. CAPITAL ADEQUACY

(1) AMOUNT OF REQUIRED CAPITAL FOR CREDIT RISK

Portfolios under the Standardized Approach (SA)

	Millions of yen	
	2018	2017
As of March 31	**Required capital amount**	Required capital amount
Shinsei Bank	**¥ 411**	¥ 467
Subsidiaries	**3,992**	3,783

Portfolios under the Internal Ratings-Based Approach (IRB)

	Millions of yen	
	2018	2017
As of March 31	**Required capital amount**	Required capital amount
Corporate (Excluding Specialized Lending)[1]	**¥ 157,125**	¥ 163,922
Specialized Lending[2]	**83,800**	69,840
Sovereign	**5,581**	5,398
Bank	**9,911**	11,264
Residential mortgages	**11,777**	15,607
Qualified revolving retails	**143,012**	139,586
Other retails	**153,545**	150,849
Equity	**19,304**	19,409
Regarded (Fund)	**16,854**	20,140
Securitization	**22,351**	28,567
Purchase receivables	**10,302**	23,698
Other assets	**4,351**	4,991
CVA risk	**8,875**	7,534
CCP risk	**85**	95
Total	**¥ 646,880**	¥ 660,906

1 "Corporate" includes "Small and Medium-sized Entities."
2 "Specialized Lending" refers to a claim whose source of recovery is solely dependent on the cash flow generated from a transaction such as a real estate nonrecourse loan.

(2) AMOUNT OF REQUIRED CAPITAL FOR EQUITY EXPOSURE UNDER IRB

	Millions of yen	
	2018	2017
As of March 31	**Required capital amount**	Required capital amount
Market-Based Approach Simplified Method	**¥ 4,327**	¥ 4,055
PD/LGD Method	**2,414**	4,753
RW100% Applied	**4**	4
RW250% Applied	**12,558**	10,596
Total	**¥ 19,304**	¥ 19,409

(3) AMOUNT OF REQUIRED CAPITAL FOR REGARDED-METHOD EXPOSURE UNDER IRB

	Millions of yen	
	2018	2017
As of March 31	**Required capital amount**	Required capital amount
Look Through	**¥ 1,604**	¥ 2,047
Revised Naivete Majority	**14,569**	13,002
Simplified [400%]	**679**	730
Simplified [1,250%]	**0**	4,359
Total	**¥ 16,854**	¥ 20,140

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(4) AMOUNT OF REQUIRED CAPITAL FOR MARKET RISK

	Millions of yen	
	2018	2017
As of March 31	**Required capital amount**	Required capital amount
The Standardized Approach	**¥ 275**	¥ 539
Interest rate risk	**38**	70
Equity position risk	**5**	9
FX risk	**165**	182
Securitization risk	**65**	277
The Internal Models Approach (IMA) (General Market Risk)	**12,648**	12,173

(5) AMOUNT OF REQUIRED CAPITAL FOR OPERATIONAL RISK

	Millions of yen	
	2018	2017
As of March 31	**Required capital amount**	Required capital amount
The Standardized Approach	**¥ 29,756**	¥ 29,985

(6) TOTAL REQUIRED CAPITAL (DOMESTIC STANDARD)

	Millions of yen	
As of March 31	**2018**	2017
Total Required Capital (Risk-weighted Assets x 4%)	**¥ 253,708**	¥ 248,799

3. CREDIT RISK EXPOSURE (EXCLUDING SECURITIZATION AND REGARDED EXPOSURE)

(1) AMOUNT OF CREDIT RISK EXPOSURE
Geographic, Industries or Maturity

	Millions of yen							
	2018				2017			
	Amount of Credit Risk Exposure				Amount of Credit Risk Exposure			
As of March 31	**Total**	**Loans, etc.[1]**	**Securities[2]**	**Derivatives[3]**	Total	Loans, etc.[1]	Securities[2]	Derivatives[3]
Manufacturing	**¥ 319,212**	**¥ 304,196**	**¥ 50**	**¥ 14,966**	¥ 354,882	¥ 343,335	¥ 60	¥ 11,487
Agriculture	**290**	**290**	**–**	**–**	341	341	–	–
Mining	**1,364**	**1,362**	**–**	**2**	899	896	–	3
Construction	**44,060**	**44,060**	**–**	**–**	45,570	45,569	–	0
Electric power, gas, water supply	**338,343**	**324,938**	**–**	**13,404**	304,250	293,404	–	10,846
Information and communication	**78,009**	**78,005**	**–**	**3**	57,284	57,275	–	9
Transportation	**233,957**	**229,542**	**3,699**	**715**	216,162	213,090	1,999	1,072
Wholesale and retail	**203,341**	**189,034**	**100**	**14,207**	214,890	195,967	8,633	10,288
Finance and insurance	**2,093,459**	**1,998,752**	**70,644**	**24,062**	2,047,538	1,960,257	59,590	27,690
Real estate	**715,145**	**583,631**	**128,750**	**2,763**	674,887	591,922	79,285	3,678
Services	**532,768**	**531,699**	**921**	**146**	520,449	514,318	5,894	236
Government	**572,768**	**67,964**	**504,804**	**–**	568,553	74,991	493,562	–
Individuals	**3,189,368**	**3,189,169**	**–**	**199**	3,150,418	3,150,418	–	–
Others	**4,041**	**4,041**	**–**	**–**	8,026	7,981	0	45
Domestic Total	**8,326,130**	**7,546,688**	**708,970**	**70,471**	8,164,155	7,449,770	649,026	65,358
Foreign	**954,813**	**650,320**	**235,999**	**68,493**	924,297	622,438	219,508	82,349
Total	**¥ 9,280,943**	**¥ 8,197,009**	**¥ 944,969**	**¥ 138,964**	¥ 9,088,452	¥ 8,072,209	¥ 868,535	¥ 147,708
To 1 year	**1,576,314**	**1,412,655**	**144,216**	**19,442**	1,518,631	1,452,850	46,812	18,968
1 to 3 years	**1,831,389**	**1,506,182**	**299,623**	**25,584**	1,750,877	1,426,815	289,715	34,347
3 to 5 years	**1,150,244**	**884,760**	**247,028**	**18,455**	1,359,662	983,307	359,241	17,113
Over 5 years	**2,914,747**	**2,586,166**	**253,099**	**75,481**	2,751,034	2,502,145	171,610	77,278
Undated	**1,808,247**	**1,807,245**	**1,001**	**–**	1,708,246	1,707,091	1,154	–
Total	**¥ 9,280,943**	**¥ 8,197,009**	**¥ 944,969**	**¥ 138,964**	¥ 9,088,452	¥ 8,072,209	¥ 868,535	¥ 147,708

1 Excluding purchased receivables.
2 Excluding equity exposures.
3 Credit equivalent amount basis.

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(2) AMOUNT OF DEFAULT EXPOSURE BEFORE PARTIAL WRITE-OFF

Geographic, Industries

	Millions of yen	
	2018	2017
As of March 31	**Default Exposure**	Default Exposure
Manufacturing	**¥ 3,998**	¥ 4,857
Agriculture	**–**	–
Mining	**–**	–
Construction	**996**	1,061
Electric power, gas, water supply	**–**	–
Information and communication	**269**	93
Transportation	**1,823**	1,692
Wholesale and retail	**6,522**	2,538
Finance and insurance	**257**	268
Real estate	**221**	1,739
Services	**3,623**	2,962
Government	**–**	–
Individuals	**128,731**	148,780
Others	**2,614**	5,816
Domestic Total	**149,059**	169,811
Foreign	**4,687**	35,414
Total	**¥ 153,747**	¥ 205,226

(3) AMOUNT OF LOAN LOSS RESERVES (GENERAL, SPECIFIC AND COUNTRY RISK) BEFORE PARTIAL WRITE-OFF

	Millions of yen					
	2018			2017		
As of March 31	**Start Amount**	**Change Amount**	**End Amount**	Start Amount	Change Amount	End Amount
General	**¥ 70,977**	**¥ 6,543**	**¥ 77,520**	¥ 66,779	¥ 4,197	¥ 70,977
Specific	**135,712**	**(48,889)**	**86,823**	144,324	(8,611)	135,712
Country	**0**	**(0)**	**–**	0	(0)	0
Total	**¥ 206,690**	**¥ (42,346)**	**¥ 164,343**	¥ 211,104	¥ (4,414)	¥ 206,690

Geographic

	Millions of yen							
	2018				2017			
	Reserve Amount				Reserve Amount			
As of March 31	**Total**	**General**	**Specific**	**Country**	Total	General	Specific	Country
Domestic	**¥ 152,591**	**¥ 66,862**	**¥ 85,729**	**¥ –**	¥ 168,851	¥ 61,291	¥ 107,560	¥ –
Foreign	**11,752**	**10,658**	**1,094**	**–**	37,839	9,686	28,152	0
Total	**¥ 164,343**	**¥ 77,520**	**¥ 86,823**	**¥ –**	¥ 206,690	¥ 70,977	¥ 135,712	¥ 0

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

Industries

As of March 31	2018 Reserve Amount	2017 Reserve Amount
	Millions of yen	
Manufacturing	**¥ 4,000**	¥ 4,907
Agriculture	**10**	11
Mining	**40**	6
Construction	**841**	806
Electric power, gas, water supply	**814**	638
Information and communication	**457**	322
Transportation	**2,824**	2,850
Wholesale and retail	**5,325**	3,025
Finance and insurance	**1,600**	1,648
Real estate	**3,763**	4,533
Services	**5,817**	5,237
Government	**31**	30
Individuals	**124,621**	142,101
Others	**576**	731
Foreign	**11,752**	37,839
Non-classified	**1,866**	1,998
Total	**¥ 164,343**	¥ 206,690

1 Although the specific allowance for credit losses does not include the allowance relating to any securitization exposures and exposures relating to funds, the allowance relating to these exposures is not excluded from both the general allowance for credit losses and the allowance for loans to specific foreign borrowers, because we do not manage provisioning with respect to each asset class based on Basel III.

(4) AMOUNT OF WRITE-OFFS

Industries

	FY2017 Amount of write-off	FY2016 Amount of write-off
	Millions of yen	
Manufacturing	**¥ 402**	¥ 44
Agriculture	**–**	–
Mining	**–**	–
Construction	**19**	4
Electric power, gas, water supply	**–**	–
Information and communication	**3**	8
Transportation	**6**	323
Wholesale and retail	**179**	270
Finance and insurance	**4**	0
Real estate	**–**	0
Services	**466**	209
Government	**–**	–
Individuals	**56,249**	40,580
Others	**–**	–
Foreign	**1,864**	1,527
Non-classified	**–**	–
Total	**¥ 59,196**	¥ 42,970

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(5) AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)

	Millions of yen			
	2018		2017	
As of March 31	**Rated**	**Unrated**	Rated	Unrated
0%	**¥ 51**	**¥ 8,043**	¥ 87	¥ 11,516
10%	**–**	**–**	–	–
20%	**23,995**	**29**	22,677	29
35%	**–**	**3,211**	–	2,991
50%	**46**	**243**	35	247
75%	**–**	**26,343**	–	32,640
100%	**724**	**27,271**	419	20,309
150%	**–**	**1,017**	–	1,467
350%	**–**	**–**	–	–
1,250%	**–**	**–**	–	–
Total	**¥ 24,818**	**¥ 66,160**	¥ 23,219	¥ 69,203

(6) SPECIALIZED LENDING EXPOSURE UNDER SLOTTING CRITERIA AND EQUITY EXPOSURE UNDER MARKET-BASED SIMPLIFIED METHOD

Specialized lending excluding high-volatility commercial real estate

	Millions of yen	
As of March 31	**2018**	2017
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
50%	**¥ 141,479**	¥ 82,979
70%	**431,582**	360,178
90%	**124,124**	130,701
115%	**55,764**	86,510
250%	**35,858**	29,624
0% (Default)	**–**	–
Total	**¥ 788,810**	¥ 689,994

Specialized lending for high-volatility commercial real estate

	Millions of yen	
As of March 31	**2018**	2017
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
70%	**¥ 11,108**	¥ 11,000
95%	**32,208**	26,086
120%	**6,077**	22,426
140%	**45,532**	22,957
250%	**40,306**	14,821
0% (Default)	**–**	–
Total	**¥ 135,233**	¥ 97,292

Equity exposure under Market-Based Simplified Method

	Millions of yen	
As of March 31	**2018**	2017
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
300%	**¥ 5,131**	¥ 6,851
400%	**8,909**	6,817
Total	**¥ 14,041**	¥ 13,669

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(7) PORTFOLIOS UNDER IRB EXCLUDING THE AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)

• Estimated average PD, LGD, Risk Weight Ratio and Exposure at Default (EAD) (on-balance and off-balance) for Corporate, Sovereign and Bank exposure

Corporate

Millions of yen (except percentages)

As of March 31	2018					2017				
Credit Rating	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
0–4	**0.15%**	**44.87%**	**39.50%**	**¥1,539,812**	**¥ 162,674**	0.16%	45.02%	41.03%	¥1,604,126	¥ 210,340
5–6	**1.59%**	**44.04%**	**97.55%**	**701,607**	**86,656**	1.72%	44.03%	97.02%	638,991	50,823
9A	**9.72%**	**44.78%**	**188.60%**	**79,095**	**2,318**	9.87%	44.77%	193.19%	108,114	2,302
Default	**100.00%**	**48.63%**	**–**	**23,262**	**535**	100.00%	47.46%	–	30,434	10

Note: LGD is shown after credit risk mitigation

Sovereign

Millions of yen (except percentages)

As of March 31	2018					2017				
Credit Rating	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
0–4	**0.00%**	**45.00%**	**2.85%**	**¥2,213,597**	**¥ 5,727**	0.00%	45.00%	2.95%	¥2,050,362	¥ 2,404
5–6	**0.56%**	**45.00%**	**55.42%**	**3,012**	**–**	0.59%	45.00%	56.95%	3,588	–
9A	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Default	**100.00%**	**45.00%**	**–**	**10**	**–**	100.00%	45.00%	–	11	–

Note: LGD is shown after credit risk mitigation

Bank

Millions of yen (except percentages)

As of March 31	2018					2017				
Credit Rating	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
0–4	**0.07%**	**44.97%**	**33.01%**	**¥ 178,652**	**¥ 88,986**	0.08%	44.97%	31.52%	¥ 221,205	¥ 108,870
5–6	**0.73%**	**45.00%**	**82.40%**	**24,211**	**3,700**	0.89%	45.00%	87.88%	15,848	4,743
9A	**9.72%**	**45.00%**	**183.01%**	**1,417**	**–**	9.87%	45.00%	189.40%	3,421	–
Default	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–

Note: LGD is shown after credit risk mitigation

• Estimated average PD, risk weight ratio and amount of exposure for equity exposure under PD/LGD method

Millions of yen (except percentages)

As of March 31	2018				2017			
Credit Rating	**PD**	**LGD**	**Risk Weight**	**Amount**	PD	LGD	Risk Weight	Amount
0–4	**0.13%**	**90.00%**	**207.13%**	**¥ 8,995**	0.13%	90.00%	235.12%	¥ 16,234
5–6	**1.28%**	**90.00%**	**309.12%**	**2,143**	1.25%	90.00%	322.09%	4,105
9A	**9.72%**	**90.00%**	**560.92%**	**572**	9.87%	90.00%	753.50%	618
Default	**100.00%**	**90.00%**	**1,125.00%**	**0**	100.00%	90.00%	1,125.00%	0

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

• Estimated average PD, LGD, risk weight ratio, Exposure at Default (EAD) (on- and off-balance), amount of undrawn commitments and estimated average Credit Conversion Factors (CCF) of undrawn commitments for residential mortgage exposure, qualified revolving retail exposure and other retail exposure

Residential mortgage exposure

Millions of yen (except percentages)

As of March 31	2018							2017						
Pool	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	**Undrawn Amount**	**Commitment CCF**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)	Undrawn Amount	Commitment CCF
Normal	**0.25%**	**16.53%**	**8.50%**	**¥ 1,265,424**	**¥ 3,610**	**¥ –**	**–**	0.29%	18.64%	10.68%	¥ 1,337,682	¥ 4,258	¥ –	–
Need caution	**66.13%**	**20.46%**	**73.40%**	**1,963**	**84**	**–**	**–**	66.53%	23.66%	83.11%	1,702	110	–	–
Default	**100.00%**	**39.11%**	**47.82%**	**3,600**	**31**	**–**	**–**	100.00%	47.36%	43.30%	4,069	77	–	–

Note: LGD is shown after credit risk mitigation

Qualified revolving retail exposure

Millions of yen (except percentages)

As of March 31	2018							2017						
Pool	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	**Undrawn Amount**	**Commitment CCF**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)	Undrawn Amount	Commitment CCF
Normal	**5.98%**	**77.45%**	**91.78%**	**¥ 553,473**	**¥ 133,272**	**¥ 2,818,156**	**4.72%**	5.96%	78.94%	94.15%	¥ 526,565	¥ 132,325	¥ 2,719,440	4.86%
Need caution	**81.61%**	**81.73%**	**115.57%**	**3,003**	**50**	**3,408**	**1.46%**	83.30%	83.13%	107.70%	2,680	39	3,274	1.21%
Default	**100.00%**	**74.61%**	**–**	**71,500**	**–**	**–**	**–**	100.00%	76.29%	–	67,562	–	–	–

Note: LGD is shown after credit risk mitigation

Other retail exposure

Millions of yen (except percentages)

As of March 31	2018							2017						
Pool	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	**Undrawn Amount**	**Commitment CCF**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)	Undrawn Amount	Commitment CCF
Normal	**3.51%**	**63.78%**	**85.78%**	**¥ 562,425**	**¥ 645,997**	**¥ 110,768**	**3.74%**	3.18%	63.07%	83.22%	¥ 502,158	¥ 598,528	¥ 99,359	1.91%
Need caution	**68.05%**	**53.03%**	**104.74%**	**5,587**	**1,974**	**4**	**0.09%**	69.49%	51.70%	99.75%	5,956	1,763	1	0.00%
Default	**100.00%**	**58.41%**	**1.38%**	**56,725**	**418**	**–**	**–**	100.00%	58.29%	0.88%	79,510	536	–	–

Note: LGD is shown after credit risk mitigation

(8) COMPARATIVE RESULTS OF ACTUAL LOSSES AND EXPECTED LOSSES FOR THE LAST THREE YEARS UNDER F-IRB APPROACH

Corporate, Sovereign & Bank

Millions of yen

	FY2017	FY2016	FY2015
Results of actual losses (a)	**¥ 3,957**	¥ 3,328	¥ 2,300
Expected losses (b)	**9,781**	9,649	10,399
Differences ((b) - (a))	**5,824**	6,320	8,098

Retail

Millions of yen

	FY2017	FY2016	FY2015
Results of actual losses (a)	**¥ 32,702**	¥ 29,134	¥ 16,089
Expected losses (b)	**58,890**	53,034	33,658
Differences ((b) - (a))	**26,188**	23,899	17,569

The above matrix shows the results of default (downgrade below substandard) losses (increase of reserve, write-offs and loss on sale) for the twelve-month period ended March 31, 2016, 2017 and 2018 for the Bank Group's non-default exposures at the start of the twelve-month period, with expected losses. The exposures for the Shinsei Bank Lake business are calculated through the F-IRB approach starting from March 31, 2017.

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

4. CREDIT RISK MITIGATION (CRM)

(1) COVERED AMOUNT OF CRM BY COLLATERAL

FIRB

	Millions of yen			
	2018		2017	
As of March 31	**Eligible financial collateral**	**Other eligible FIRB collateral**	Eligible financial collateral	Other eligible FIRB collateral
Corporate	**¥ 5,254**	**¥ 189,431**	¥ 4,947	¥ 179,278
Sovereign	**–**	**–**	–	–
Bank	**–**	**1,263**	–	1,565
Total	**¥ 5,254**	**¥ 190,694**	¥ 4,947	¥ 180,844

(2) COVERED AMOUNT OF CRM BY GUARANTEE OR CREDIT DERIVATIVES

IRB

	Millions of yen	
As of March 31	**2018**	2017
Corporate	**¥ 457**	¥ 1,743
Sovereign	**13,650**	25,217
Bank	**–**	–
Residential mortgages	**–**	–
Qualified revolving retail	**–**	–
Other retail	**–**	–
Total	**¥ 14,108**	¥ 26,961

5. COUNTERPARTY CREDIT RISK OF DERIVATIVES

	Millions of yen	
As of March 31	**2018**	2017
Total amount of gross positive fair value	**¥ 291,311**	¥ 332,264
Amount of gross add-on	**93,591**	105,353
EAD before CRM	**384,903**	437,617
FX-related	**154,470**	110,417
Interest-related	**209,190**	205,237
Equity-related	**10,541**	6,771
Commodity-related	**–**	–
Credit derivatives	**10,605**	9,781
Others	**94**	55
Amount of net	**245,939**	289,909
EAD after net	**138,964**	147,708
Amount covered collateral	**–**	–
EAD after CRM	**138,964**	147,708

Note: Current Exposure Method

• Notional amount of credit derivatives which have counterparty risk

	Millions of yen			
As of March 31	**2018**		2017	
Notional amount	**Protection-buy**	**Protection-sell**	Protection-buy	Protection-sell
Single name	**¥ 55,500**	**¥ 44,050**	¥ 107,316	¥ 89,536
Multi name	**31,500**	**32,500**	31,500	27,500

Not applicable for the following items;

• Amount covered collateral
• Notional amount of credit derivatives which cover exposures by CRM

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

6. SECURITIZATION

SECURITIZATION EXPOSURE ORIGINATED BY THE BANK GROUP (CREDIT RISK)

(1) Amount of original assets

Securitization by transfer of assets

As of March 31	Millions of yen 2018	2017
Type of original assets	**Amount of original assets**	Amount of original assets
Residential mortgages	**¥ 5,270**	¥ 8,208
Consumer loans	**–**	–
Commercial real estate loans	**–**	–
Corporate loans	**–**	–
Others	**–**	–
Total	**¥ 5,270**	¥ 8,208

Note: Includes originally securitized assets originated by the Bank Group during the period, even though the Bank Group had no exposure to these particular assets.

(2) Amount of original assets in default or past due 3 months or more

Securitization by transfer of assets

As of March 31	Millions of yen 2018	2017
Type of original assets	**Amount of Default**	Amount of Default
Residential mortgages	**¥ 176**	¥ 244
Consumer loans	**–**	–
Commercial real estate loans	**–**	–
Corporate loans	**–**	–
Others	**–**	–
Total	**¥ 176**	¥ 244

Note: Includes originally securitized assets originated by the Bank Group during the period, even though the Bank Group had no exposure to these particular assets.

(3) Amount of securitization exposure the Bank Group has by type of original assets

Securitization by transfer of assets

Excluding resecuritization

As of March 31	Millions of yen 2018	2017
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ –**	¥ –
Consumer loans	**–**	–
Commercial real estate loans	**–**	–
Corporate loans	**–**	–
Others	**–**	–
Total	**¥ –**	¥ –

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

Resecuritization

As of March 31	Millions of yen	
	2018	2017
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ –**	¥ –
Consumer loans	**–**	–
Commercial real estate loans	**–**	–
Corporate loans	**–**	–
Others	**–**	–
Total	**¥ –**	¥ –

(4) Amount of securitization exposure and required capital the Bank Group has by risk weight ratio

Securitization by transfer of assets

Excluding resecuritization exposure

As of March 31	Millions of yen			
	2018		2017	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 12%	**¥ –**	**¥ –**	¥ –	¥ –
Over 12% to 20%	**–**	**–**	–	–
Over 20% to 50%	**–**	**–**	–	–
Over 50% to 75%	**–**	**–**	–	–
Over 75% to 100%	**–**	**–**	–	–
Over 100% to 250%	**–**	**–**	–	–
Over 250% to 425%	**–**	**–**	–	–
Over 425% under 1,250%	**–**	**–**	–	–
Total	**¥ –**	**¥ –**	¥ –	¥ –

Resecuritization exposure

As of March 31	Millions of yen			
	2018		2017	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 30%	**¥ –**	**¥ –**	¥ –	¥ –
Over 30% to 50%	**–**	**–**	–	–
Over 50% to 100%	**–**	**–**	–	–
Over 100% to 225%	**–**	**–**	–	–
Over 225% to 500%	**–**	**–**	–	–
Over 500% under 1,250%	**–**	**–**	–	–
Total	**¥ –**	**¥ –**	¥ –	¥ –

(5) Amount of increase of capital by securitization (to be deducted from capital)

As of March 31	Millions of yen	
	2018	2017
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 5,370**	¥ 5,442
Consumer loans	**–**	–
Commercial real estate loans	**–**	–
Corporate loans	**–**	–
Others	**–**	–
Total	**¥ 5,370**	¥ 5,442

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(6) Amount of securitization exposure applied risk weight 1,250%

Millions of yen

As of March 31	2018	2017
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 40**	¥ 1,384
Consumer loans	**–**	–
Commercial real estate loans	**–**	–
Corporate loans	**–**	–
Others	**–**	–
Total	**¥ 40**	¥ 1,384

Not applicable for the following items;

- Amount of assets held for securitization trade
- Summary of current year's securitization activities
- Amount of recognized gain/loss by original asset type during FY2017
- Securitization exposure subject to early amortization
- Credit risk mitigation for resecuritization exposure

SECURITIZATION EXPOSURE IN WHICH THE BANK GROUP INVESTS

(1) Amount of securitization exposure the Bank Group has by type of original asset

Excluding resecuritization exposure

Millions of yen

As of March 31	2018	2017
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 21,372**	¥ 14,371
Consumer loans	**–**	–
Commercial real estate loans	**65,568**	61,332
Corporate loans	**34,981**	21,213
Others	**20,372**	12,646
Total	**¥ 142,294**	¥ 109,564

Resecuritization exposure

Millions of yen

As of March 31	2018	2017
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ –**	¥ –
Consumer loans	**–**	–
Commercial real estate loans	**–**	–
Corporate loans	**–**	1,765
Others	**–**	–
Total	**¥ –**	¥ 1,765

Who We Are?
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QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(2) Amount of securitization exposure and required capital for the Bank Group has by risk weight ratio

Excluding resecuritization exposure

As of March 31	Millions of yen			
	2018		2017	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 12%	**¥ 67,859**	**¥ 486**	¥ 46,784	¥ 302
Over 12% to 20%	**11,165**	**169**	–	–
Over 20% to 50%	**–**	**–**	229	4
Over 50% to 75%	**–**	**–**	–	–
Over 75% to 100%	**8,314**	**644**	1,395	111
Over 100% to 250%	**27,862**	**4,069**	16,686	2,451
Over 250% to 425%	**7,001**	**2,175**	11,578	3,537
Over 425% under 1,250%	**20,090**	**9,152**	32,890	14,555
Total	**¥ 142,294**	**¥ 16,697**	¥ 109,564	¥ 20,962

Resecuritization exposure

As of March 31	Millions of yen			
	2018		2017	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 30%	**¥ –**	**¥ –**	¥ 1,765	¥ 29
Over 30% to 50%	**–**	**–**	–	–
Over 50% to 100%	**–**	**–**	–	–
Over 100% to 225%	**–**	**–**	–	–
Over 225% to 500%	**–**	**–**	–	–
Over 500% under 1,250%	**–**	**–**	–	–
Total	**¥ –**	**¥ –**	¥ 1,765	¥ 29

(3) Amount of securitization exposure applied risk weight 1,250%

As of March 31	Millions of yen	
	2018	2017
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 227**	¥ 627
Consumer loans	**–**	–
Commercial real estate loans	**–**	–
Corporate loans	**–**	0
Others	**–**	–
Total	**¥ 227**	¥ 627

Not applicable for the following items;

• Credit risk mitigation for resecuritization exposure

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

SECURITIZATION EXPOSURE IN WHICH THE BANK GROUP INVESTS (MARKET RISK)

(1) Amount of securitization exposure the Bank Group has by type of original asset

Excluding resecuritization exposure

As of March 31	Millions of yen	
	2018	2017
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 4,086**	¥ 747
Consumer loans	**–**	568
Commercial real estate loans	**–**	–
Corporate loans	**–**	–
Others	**–**	13,736
Total	**¥ 4,086**	¥ 15,052

Resecuritization exposure

As of March 31	Millions of yen	
	2018	2017
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ –**	¥ 1
Consumer loans	**–**	–
Commercial real estate loans	**–**	–
Corporate loans	**–**	–
Others	**–**	–
Total	**¥ –**	¥ 1

(2) Amount of securitization exposure and required capital for the Bank Group has by risk weight ratio

Excluding resecuritization exposure

As of March 31	Millions of yen			
	2018		2017	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
1.6%	**¥ 4,086**	**¥ 65**	¥ 14,484	¥ 231
4%	**–**	**–**	–	–
8%	**–**	**–**	568	45
28%	**–**	**–**	–	–
Total	**¥ 4,086**	**¥ 65**	¥ 15,052	¥ 277

Resecuritization exposure

As of March 31	Millions of yen			
	2018		2017	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
3.2%	**¥ –**	**¥ –**	¥ 1	¥ 0
8%	**–**	**–**	–	–
18%	**–**	**–**	–	–
52%	**–**	**–**	–	–
Total	**¥ –**	**¥ –**	¥ 1	¥ 0

Not applicable for the following items;

- **Amount of securitization exposure targeted for comprehensive risk**
- **Amount of securitization exposure which should be deducted from capital under the Accord Article 302.5.2**

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

7. MARKET RISK (UNDER INTERNAL MODEL APPROACH)

(1) VAR AT THE END OF MARCH 2018 AND MARCH 2017 AND THE HIGH, MEAN AND LOW VAR

	Millions of yen	
As of March 31	**2018**	2017
VaR at term end	**¥ 783**	¥ 1,231
VaR through this term		
High	**1,391**	2,444
Mean	**956**	1,627
Low	**572**	1,042

(2) STRESSED VAR AT THE END OF MARCH 2018 AND MARCH 2017 AND THE HIGH, MEAN AND LOW VAR

	Millions of yen	
As of March 31	**2018**	2017
VaR at term end	**¥ 3,915**	¥ 3,171
VaR through this term		
High	**4,161**	4,248
Mean	**2,869**	2,923
Low	**1,832**	2,050

The trading portfolio experienced no losses that exceeded the specified VaR threshold.

Not applicable for the following items;

- The amount of required capital related to additional risk and comprehensive risk as of the period-end, as well as the maximum, minimum and average values for the amount of required capital for additional risk and comprehensive risk during the disclosure period

8. EQUITY EXPOSURE IN BOOK

(1) BOOK VALUE AND FAIR VALUE

	Millions of yen	
As of March 31	**2018**	2017
Market-based approach		
Listed equity exposure	**¥ 5,131**	¥ 6,851
Unlisted equity exposure	**8,909**	6,817
PD/LGD method		
Listed equity exposure	**9,879**	12,442
Unlisted equity exposure	**1,832**	8,515

(2) GAIN OR LOSS ON SALE OR DEPRECIATION OF EQUITY EXPOSURE

	Millions of yen	
	FY2017	FY2016
Gain (loss) on sale	**¥ 8,337**	¥ 4,787
Loss of depreciation	**656**	126

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(3) UNREALIZED GAIN OR LOSS WHICH IS RECOGNIZED ON BALANCE SHEET AND NOT RECOGNIZED ON PROFIT AND LOSS STATEMENT

	Millions of yen	
As of March 31	**2018**	2017
Unrealized gain (loss)	**¥ 11,306**	¥ 15,547

(4) AMOUNT FOR EACH PORTFOLIO CLASSIFICATION OF EQUITY EXPOSURE

	Millions of yen	
As of March 31	**2018**	2017
Market-based approach	**¥ 14,041**	¥ 13,669
PD/LGD Method	**11,712**	20,958
RW100% Applied	**51**	51
RW250% Applied	**59,236**	49,982

Not applicable for the following items;

• UNREALIZED GAIN OR LOSS WHICH IS NOT RECOGNIZED BOTH ON BALANCE SHEET AND ON PROFIT AND LOSS STATEMENT

9. AMOUNT OF REGARDED EXPOSURE UNDER THE ACCORD ARTICLE 167

	Millions of yen	
As of March 31	**2018**	2017
Regarded exposure (fund)	**¥ 52,720**	¥ 50,989

10. INTEREST RATE RISK (IRRBB) THE INCREASE/DECREASE IN ECONOMIC VALUE FOR UPWARD/DOWNWARD RATE SHOCKS ACCORDING TO MANAGEMENT'S METHOD FOR IRRBB

Change in economic values from a 2% interest-rate shock:

	Billions of yen	
As of March 31	**2018**	2017
JPY	**¥ (89.8)**	¥ (94.0)
USD	**(4.0)**	(4.3)
Others	**(12.6)**	(6.2)
Total	**¥ (106.5)**	¥ (104.6)

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED)

1. CAPITAL ADEQUACY

(1) AMOUNT OF REQUIRED CAPITAL FOR CREDIT RISK

Portfolios under the Standardized Approach (SA)

As of March 31	2018 Required capital amount	2017 Required capital amount
	Millions of yen	
Shinsei Bank	**¥ 411**	¥ 467

Portfolios under the Internal Ratings-Based Approach (IRB)

As of March 31	2018 Required capital amount	2017 Required capital amount
	Millions of yen	
Corporate (Excluding Specialized Lending)[1]	**¥ 131,640**	¥ 137,868
Specialized Lending[2]	**76,851**	64,009
Sovereign	**5,544**	5,373
Bank	**8,890**	10,210
Residential mortgages	**11,170**	14,819
Qualified revolving retails	**59,430**	55,246
Other retails	**3**	4
Equity	**122,091**	123,648
Regarded (Fund)	**10,673**	15,110
Securitization	**23,534**	29,630
Purchase receivables	**9,981**	23,674
Other assets	**1,677**	2,091
CVA risk	**8,795**	7,359
CCP risk	**85**	95
Total	**¥ 470,372**	¥ 489,144

1"Corporate" includes "Small and Medium-sized Entities."
2"Specialized Lending" refers to a claim whose source of recovery is solely dependent on the cash flow generated from a transaction such as a real estate nonrecourse loan.

(2) AMOUNT OF REQUIRED CAPITAL FOR EQUITY EXPOSURE UNDER IRB

As of March 31	2018 Required capital amount	2017 Required capital amount
	Millions of yen	
Market-Based Approach Simplified Method	**¥ 5,016**	¥ 4,889
PD/LGD Method	**115,995**	118,749
RW100% Applied	**4**	4
RW250% Applied	**1,075**	5
Total	**¥ 122,091**	¥ 123,648

(3) AMOUNT OF REQUIRED CAPITAL FOR REGARDED-METHOD EXPOSURE UNDER IRB

As of March 31	2018 Required capital amount	2017 Required capital amount
	Millions of yen	
Look Through	**¥ 1,753**	¥ 2,216
Revised Naivete Majority	**7,984**	7,381
Simplified [400%]	**935**	1,153
Simplified [1,250%]	**–**	4,359
Total	**¥ 10,673**	¥ 15,110

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

(4) AMOUNT OF REQUIRED CAPITAL FOR MARKET RISK

Millions of yen

As of March 31	2018 Required capital amount	2017 Required capital amount
The Standardized Approach	**¥ 193**	¥ 236
Interest rate risk	**35**	57
Equity position risk	**5**	9
FX risk	**151**	168
Securitization risk	**–**	–
The Internal Models Approach (IMA) (General Market Risk)	**11,937**	11,285

(5) AMOUNT OF REQUIRED CAPITAL FOR OPERATIONAL RISK

Millions of yen

As of March 31	2018 Required capital amount	2017 Required capital amount
The Standardized Approach	**¥ 15,083**	¥ 15,390

(6) TOTAL REQUIRED CAPITAL (DOMESTIC STANDARD)

Millions of yen

As of March 31	2018	2017
Total Required Capital (Risk-weighted Assets x 4%)	**¥ 224,010**	¥ 225,201

2. CREDIT RISK EXPOSURE (EXCLUDING SECURITIZATION AND REGARDED EXPOSURE)

(1) AMOUNT OF CREDIT RISK EXPOSURE

Geographic, Industries or Maturity

Millions of yen

	2018				2017			
	Amount of Credit Risk Exposure				Amount of Credit Risk Exposure			
As of March 31	Total	Loans, etc.[1]	Securities[2]	Derivatives[3]	Total	Loans, etc.[1]	Securities[2]	Derivatives[3]
Manufacturing	**¥ 258,849**	**¥ 243,833**	**¥ 50**	**¥ 14,966**	¥ 292,595	¥ 281,048	¥ 60	¥ 11,487
Agriculture	**–**	**–**	**–**	**–**	55	55	–	–
Mining	**528**	**526**	**–**	**2**	534	531	–	3
Construction	**23,326**	**23,326**	**–**	**–**	8,541	8,540	–	0
Electric power, gas, water supply	**326,933**	**313,528**	**–**	**13,404**	297,287	286,441	–	10,846
Information and communication	**58,464**	**58,460**	**–**	**3**	40,614	40,605	–	9
Transportation	**190,116**	**185,700**	**3,699**	**715**	175,581	172,538	1,999	1,043
Wholesale and retail	**128,159**	**113,852**	**100**	**14,207**	136,328	117,406	8,633	10,288
Finance and insurance	**2,158,416**	**2,063,428**	**70,892**	**24,095**	2,078,560	1,990,477	61,273	26,809
Real estate	**700,404**	**568,890**	**128,750**	**2,763**	663,503	580,539	79,285	3,678
Services	**410,026**	**408,958**	**921**	**146**	403,460	397,329	5,894	236
Government	**563,609**	**58,804**	**504,804**	**–**	559,856	66,294	493,562	–
Individuals	**1,573,267**	**1,573,068**	**–**	**199**	1,606,034	1,606,034	–	–
Others	**656**	**656**	**–**	**–**	1,294	1,248	–	45
Domestic Total	**6,392,758**	**5,613,035**	**709,218**	**70,504**	6,264,249	5,549,092	650,708	64,447
Foreign	**933,020**	**612,795**	**254,185**	**66,038**	899,965	583,178	236,111	80,675
Total	**¥ 7,325,778**	**¥ 6,225,831**	**¥ 963,404**	**¥ 136,542**	¥ 7,164,214	¥ 6,132,270	¥ 886,819	¥ 145,123
To 1 year	**1,437,473**	**1,256,116**	**162,403**	**18,953**	1,310,180	1,242,828	46,812	20,538
1 to 3 years	**1,353,779**	**1,028,546**	**299,623**	**25,610**	1,298,293	959,563	306,317	32,412
3 to 5 years	**892,522**	**627,889**	**247,028**	**17,604**	1,096,440	720,533	359,241	16,665
Over 5 years	**2,192,684**	**1,864,961**	**253,348**	**74,375**	2,128,787	1,881,670	171,610	75,507
Undated	**1,449,319**	**1,448,317**	**1,001**	**–**	1,330,512	1,327,674	2,837	–
Total	**¥ 7,325,778**	**¥ 6,225,831**	**¥ 963,404**	**¥ 136,542**	¥ 7,164,214	¥ 6,132,270	¥ 886,819	¥ 145,123

1 Excluding purchased receivables.
2 Excluding equity exposures.
3 Credit equivalent amount basis.

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

(2) AMOUNT OF DEFAULT EXPOSURE BEFORE PARTIAL WRITE-OFF

Geographic, Industries

	Millions of yen	
	2018	2017
As of March 31	**Default Exposure**	Default Exposure
Manufacturing	**¥ 3,150**	¥ 4,088
Agriculture	**–**	–
Mining	**–**	–
Construction	**19**	19
Electric power, gas, water supply	**–**	–
Information and communication	**264**	82
Transportation	**50**	1,471
Wholesale and retail	**1,524**	1,107
Finance and insurance	**257**	268
Real estate	**0**	1,542
Services	**1,882**	1,239
Government	**–**	–
Individuals	**4,134**	4,440
Others	**–**	–
Domestic Total	**11,283**	14,261
Foreign	**2,899**	30,935
Total	**¥ 14,183**	¥ 45,196

(3) AMOUNT OF LOAN LOSS RESERVES (GENERAL, SPECIFIC AND COUNTRY RISK) BEFORE PARTIAL WRITE-OFF

	Millions of yen					
	2018			2017		
As of March 31	**Start Amount**	**Change Amount**	**End Amount**	Start Amount	Change Amount	End Amount
General	**¥ 22,896**	**¥ 1,494**	**¥ 24,391**	¥ 21,643	¥ 1,253	¥ 22,896
Specific	**34,709**	**(28,177)**	**6,531**	34,388	320	34,709
Country	**0**	**(0)**	**–**	0	(0)	0
Total	**¥ 57,605**	**¥ (26,683)**	**¥ 30,922**	¥ 56,032	¥ 1,573	¥ 57,605

Geographic

	Millions of yen							
	2018				2017			
As of March 31	**Total**	**General**	**Specific**	**Country**	Total	General	Specific	Country
Domestic	**¥ 20,060**	**¥ 14,304**	**¥ 5,756**	**¥ –**	¥ 20,834	¥ 13,592	¥ 7,241	¥ –
Foreign	**10,861**	**10,086**	**774**	**–**	36,771	9,303	27,467	0
Total	**¥ 30,922**	**¥ 24,391**	**¥ 6,531**	**¥ –**	¥ 57,605	¥ 22,896	¥ 34,709	¥ 0

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

Industries

As of March 31	Millions of yen 2018 Reserve Amount	2017 Reserve Amount
Manufacturing	¥ 2,759	¥ 3,435
Agriculture	–	0
Mining	4	3
Construction	74	53
Electric power, gas, water supply	778	612
Information and communication	370	223
Transportation	2,081	2,049
Wholesale and retail	1,985	1,687
Finance and insurance	2,399	2,311
Real estate	3,658	4,478
Services	3,017	2,607
Government	–	–
Individuals	2,929	3,369
Others	0	0
Foreign	10,861	36,771
Non-classified	–	–
Total	¥ 30,922	¥ 57,605

1 Although the specific allowance for credit losses does not include the allowance relating to any securitization exposures and exposures relating to funds, the allowance relating to these exposures is not excluded from both the general allowance for credit losses and the allowance for loans to specific foreign borrowers, because we do not manage provisioning with respect to each asset class based on Basel III.

(4) AMOUNT OF WRITE-OFFS

Industries

	Millions of yen FY2017 Amount of write-off	FY2016 Amount of write-off
Manufacturing	¥ 306	¥ –
Agriculture	–	–
Mining	–	–
Construction	5	–
Electric power, gas, water supply	–	–
Information and communication	–	–
Transportation	–	322
Wholesale and retail	144	86
Finance and insurance	–	–
Real estate	–	–
Services	392	78
Government	–	–
Individuals	644	126
Others	–	–
Foreign	1,864	1,527
Non-classified	–	–
Total	¥ 3,357	¥ 2,141

(5) AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)

	Millions of yen			
	2018		2017	
As of March 31	Rated	Unrated	Rated	Unrated
0%	¥ –	¥ –	¥ –	¥ –
10%	–	–	–	–
20%	–	–	–	–
35%	–	3,211	–	2,991
50%	–	–	–	–
75%	–	5,261	–	6,323
100%	–	79	–	57
150%	–	–	–	–
350%	–	–	–	–
1,250%	–	–	–	–
Total	¥ –	¥ 8,552	¥ –	¥ 9,373

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

(6) SPECIALIZED LENDING EXPOSURE UNDER SLOTTING CRITERIA AND EQUITY EXPOSURE UNDER MARKET-BASED SIMPLIFIED METHOD

Specialized lending excluding high-volatility commercial real estate

	Millions of yen	
As of March 31	**2018**	2017
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
50%	**¥ 138,862**	¥ 80,590
70%	**431,582**	360,178
90%	**124,124**	130,701
115%	**55,764**	86,510
250%	**12,441**	10,003
0% (Default)	**–**	–
Total	**¥ 762,776**	¥ 667,984

Specialized lending for high-volatility commercial real estate

	Millions of yen	
As of March 31	**2018**	2017
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
70%	**¥ 11,108**	¥ 11,000
95%	**32,208**	26,086
120%	**6,077**	22,426
140%	**45,532**	22,957
250%	**40,306**	14,821
0% (Default)	**–**	–
Total	**¥ 135,233**	¥ 97,292

Equity exposure under Market-Based Simplified Method

	Millions of yen	
As of March 31	**2018**	2017
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
300%	**¥ 4,939**	¥ 6,123
400%	**11,083**	9,821
Total	**¥ 16,023**	¥ 15,944

(7) PORTFOLIOS UNDER IRB EXCLUDING THE AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)

• Estimated average PD, LGD, Risk Weight Ratio and Exposure at Default (EAD) (on-balance and off-balance) for Corporate, Sovereign and Bank exposure

Corporate

	Millions of yen (except percentages)									
As of March 31	**2018**					2017				
Credit Rating	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
0–4	**0.15%**	**44.87%**	**39.65%**	**¥1,575,535**	**¥ 180,553**	0.17%	45.02%	42.14%	¥1,592,262	¥ 214,502
5–6	**1.55%**	**43.87%**	**96.52%**	**586,414**	**86,656**	1.63%	43.87%	96.63%	540,056	50,609
9A	**9.72%**	**44.45%**	**186.32%**	**29,650**	**2,308**	9.87%	44.56%	189.32%	54,052	2,273
Default	**100.00%**	**53.87%**	**–**	**9,217**	**535**	100.00%	49.82%	–	15,567	–

Note: LGD is shown after credit risk mitigation

Sovereign

	Millions of yen (except percentages)									
As of March 31	**2018**					2017				
Credit Rating	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
0–4	**0.00%**	**45.00%**	**2.85%**	**¥2,200,922**	**¥ 5,727**	0.00%	45.00%	2.95%	¥2,043,993	¥ 2,404
5–6	**0.56%**	**45.00%**	**55.42%**	**3,012**	**–**	0.59%	45.00%	56.95%	3,588	–
9A	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Default	**100.00%**	**45.00%**	**–**	**10**	**–**	100.00%	45.00%	–	11	–

Note: LGD is shown after credit risk mitigation

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

Bank

Millions of yen (except percentages)

As of March 31	2018					2017				
Credit Rating	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
0–4	**0.08%**	**44.97%**	**36.55%**	**¥ 119,936**	**¥ 92,653**	0.08%	44.97%	34.35%	¥ 154,529	¥ 113,065
5–6	**0.73%**	**45.00%**	**83.60%**	**21,976**	**4,745**	0.89%	45.00%	88.07%	15,646	4,743
9A	**9.72%**	**45.00%**	**182.11%**	**1,201**	**–**	9.87%	45.00%	189.51%	3,427	–
Default	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–

Note: LGD is shown after credit risk mitigation

• Estimated average PD, risk weight ratio and amount of exposure for equity exposure under PD/LGD method

Millions of yen (except percentages)

As of March 31	2018				2017			
Credit Rating	**PD**	**LGD**	**Risk Weight**	**Amount**	PD	LGD	Risk Weight	Amount
0–4	**0.22%**	**90.00%**	**301.10%**	**¥ 370,102**	0.28%	90.00%	300.94%	¥ 396,356
5–6	**0.70%**	**90.00%**	**305.77%**	**25,766**	1.09%	90.00%	327.91%	8,287
9A	**9.72%**	**90.00%**	**881.32%**	**19,819**	9.87%	90.00%	886.27%	20,347
Default	**100.00%**	**90.00%**	**1,125.00%**	**0**	100.00%	90.00%	1,125.00%	0

• Estimated average PD, LGD, risk weight ratio, Exposure at Default (EAD) (on- and off-balance), amount of undrawn commitments and estimated average Credit Conversion Factors (CCF) of undrawn commitments for residential mortgage exposure, qualified revolving retail exposure and other retail exposure

Residential mortgage exposure

Millions of yen (except percentages)

As of March 31	2018							2017						
Pool	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	**Undrawn Amount**	**Commitment CCF**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)	Undrawn Amount	Commitment CCF
Normal	**0.25%**	**16.28%**	**8.10%**	**¥ 1,262,621**	**¥ –**	**¥ –**	**–**	0.28%	18.36%	10.23%	¥ 1,334,019	¥ –	¥ –	–
Need caution	**65.16%**	**19.28%**	**73.68%**	**1,960**	**–**	**–**	**–**	64.97%	22.10%	84.86%	1,699	–	–	–
Default	**100.00%**	**38.87%**	**49.14%**	**3,533**	**–**	**–**	**–**	100.00%	47.35%	45.19%	3,974	–	–	–

Note: LGD is shown after credit risk mitigation

Qualified revolving retail exposure

Millions of yen (except percentages)

As of March 31	2018							2017						
Pool	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	**Undrawn Amount**	**Commitment CCF**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)	Undrawn Amount	Commitment CCF
Normal	**8.82%**	**86.30%**	**129.63%**	**¥ 287,364**	**¥ 24,424**	**¥ 487,184**	**5.01%**	9.01%	90.80%	138.73%	¥ 248,452	¥ 22,833	¥ 419,825	5.43%
Need caution	**86.53%**	**86.30%**	**102.83%**	**1,477**	**48**	**1,560**	**3.12%**	87.67%	90.80%	100.34%	1,129	38	1,185	3.25%
Default	**100.00%**	**86.30%**	**–**	**147**	**–**	**–**	**–**	100.00%	90.80%	–	101	–	–	–

Note: LGD is shown after credit risk mitigation

Other retail exposure

Millions of yen (except percentages)

As of March 31	2018							2017						
Pool	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	**Undrawn Amount**	**Commitment CCF**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)	Undrawn Amount	Commitment CCF
Normal	**0.45%**	**17.13%**	**11.56%**	**¥ 338**	**¥ –**	**¥ –**	**–**	0.46%	18.11%	12.63%	¥ 417	¥ –	¥ –	–
Need caution	**–**	**–**	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–	–	–
Default	**–**	**–**	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–	–	–

Note: LGD is shown after credit risk mitigation

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

(8) COMPARATIVE RESULTS OF ACTUAL LOSSES AND EXPECTED LOSSES FOR THE LAST THREE YEARS UNDER F-IRB APPROACH

Corporate, Sovereign & Bank

	Millions of yen		
	FY2017	FY2016	FY2015
Results of actual losses (a)	**¥ 1,080**	¥ 2,812	¥ 1,367
Expected losses (b)	**7,147**	6,910	7,914
Differences ((b) - (a))	**6,067**	4,098	6,547

Retail

	Millions of yen		
	FY2017	FY2016	FY2015
Results of actual losses (a)	**¥ 14,451**	¥ 11,853	¥ 169
Expected losses (b)	**22,476**	19,146	1,111
Differences ((b) - (a))	**8,024**	7,292	942

The above matrix shows the results of default (downgrade below substandard) losses (increase of reserve, write-offs and loss on sale) for the twelve-month period ended March 31, 2016, 2017 and 2018 for the Bank's non-default exposures at the start of the twelve-month period, with expected losses. The exposures for Shinsei Bank Card Loan - Lake are calculated through the F-IRB approach starting from March 31, 2017.

3. CREDIT RISK MITIGATION (CRM)

(1) COVERED AMOUNT OF CRM BY COLLATERAL

FIRB

	Millions of yen			
	2018		2017	
As of March 31	**Eligible financial collateral**	**Other eligible FIRB collateral**	Eligible financial collateral	Other eligible FIRB collateral
Corporate	**¥ 5,254**	**¥ 192,207**	¥ 4,947	¥ 180,309
Sovereign	**–**	**–**	–	–
Bank	**–**	**1,263**	–	1,565
Total	**¥ 5,254**	**¥ 193,471**	¥ 4,947	¥ 181,875

(2) COVERED AMOUNT OF CRM BY GUARANTEE OR CREDIT DERIVATIVES

IRB

	Millions of yen	
As of March 31	**2018**	2017
Corporate	**¥ 457**	¥ 1,743
Sovereign	**13,650**	25,217
Bank	**–**	–
Residential mortgages	**–**	–
Qualified revolving retail	**–**	–
Other retail	**–**	–
Total	**¥ 14,108**	¥ 26,961

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

4. COUNTERPARTY CREDIT RISK OF DERIVATIVES

As of March 31	2018 (Millions of yen)	2017 (Millions of yen)
Total amount of gross positive fair value	**¥ 291,664**	¥ 336,040
Amount of gross add-on	**92,497**	103,900
EAD before CRM	**384,161**	439,940
FX-related	**155,528**	111,977
Interest-related	**207,841**	204,392
Equity-related	**10,444**	5,374
Commodity-related	**–**	–
Credit derivatives	**10,251**	14,240
Others	**94**	55
Amount of net	**247,618**	294,816
EAD after net	**136,542**	145,123
Amount covered collateral	**–**	–
EAD after CRM	**136,542**	145,123

Note: Current Exposure Method

• Notional amount of credit derivatives which have counterparty risk

As of March 31	2018 (Millions of yen)		2017 (Millions of yen)	
Notional amount	**Protection-buy**	**Protection-sell**	Protection-buy	Protection-sell
Single name	**¥ 44,500**	**¥ 44,050**	¥ 95,386	¥ 93,466
Multi name	**31,500**	**32,500**	29,500	29,500

Not applicable for the following items;

• Amount covered collateral
• Notional amount of credit derivatives which cover exposures by CRM

5. SECURITIZATION

SECURITIZATION EXPOSURE ORIGINATED BY THE BANK (CREDIT RISK)

(1) Amount of original assets

Securitization by transfer of assets

As of March 31	2018 (Millions of yen)	2017 (Millions of yen)
Type of original assets	**Amount of original assets**	Amount of original assets
Residential mortgages	**¥ 5,270**	¥ 8,208
Consumer loans	**–**	–
Commercial real estate loans	**–**	–
Corporate loans	**–**	–
Others	**116,327**	114,656
Total	**¥ 121,597**	¥ 122,865

Note: Includes originally securitized assets originated by the Bank during the period, even though the Bank had no exposure to these particular assets.

Who We Are?
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QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

(2) Amount of original assets in default or past due 3 months or more
Securitization by transfer of assets

As of March 31	Millions of yen 2018	2017
Type of original assets	**Amount of Default**	Amount of Default
Residential mortgages	**¥ 176**	¥ 244
Consumer loans	**–**	–
Commercial real estate loans	**–**	–
Corporate loans	**–**	–
Others	**–**	–
Total	**¥ 176**	¥ 244

Note: Includes originally securitized assets originated by the Bank during the period, even though the Bank had no exposure to these particular assets.

(3) Amount of securitization exposure the Bank has by type of original assets
Securitization by transfer of assets
Excluding resecuritization

As of March 31	Millions of yen 2018	2017
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ –**	¥ –
Consumer loans	**–**	–
Commercial real estate loans	**–**	–
Corporate loans	**–**	–
Others	**100,000**	100,000
Total	**¥ 100,000**	¥ 100,000

Resecuritization exposure

As of March 31	Millions of yen 2018	2017
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ –**	¥ –
Consumer loans	**–**	–
Commercial real estate loans	**–**	–
Corporate loans	**–**	–
Others	**–**	–
Total	**¥ –**	¥ –

(4) Amount of securitization exposure and required capital the Bank has by risk weight ratio
Securitization by transfer of assets
Excluding resecuritization exposure

As of March 31	Millions of yen 2018		2017	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 12%	**¥ 100,000**	**¥ 593**	¥ 100,000	¥ 1,017
Over 12% to 20%	**–**	**–**	–	–
Over 20% to 50%	**–**	**–**	–	–
Over 50% to 75%	**–**	**–**	–	–
Over 75% to 100%	**–**	**–**	–	–
Over 100% to 250%	**–**	**–**	–	–
Over 250% to 425%	**–**	**–**	–	–
Over 425% under 1,250%	**–**	**–**	–	–
Total	**¥ 100,000**	**¥ 593**	¥ 100,000	¥ 1,017

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

Resecuritization exposure

As of March 31	2018		2017	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 30%	¥ –	¥ –	¥ –	¥ –
Over 30% to 50%	–	–	–	–
Over 50% to 100%	–	–	–	–
Over 100% to 225%	–	–	–	–
Over 225% to 500%	–	–	–	–
Over 500% under 1,250%	–	–	–	–
Total	¥ –	¥ –	¥ –	¥ –

Millions of yen

(5) Amount of increase of capital by securitization (to be deducted from capital)

As of March 31	2018	2017
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 5,370**	¥ 5,442
Consumer loans	–	–
Commercial real estate loans	–	–
Corporate loans	–	–
Others	–	–
Total	**¥ 5,370**	¥ 5,442

Millions of yen

(6) Amount of securitization exposure applied risk weight 1,250%

As of March 31	2018	2017
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 40**	¥ 1,384
Consumer loans	–	–
Commercial real estate loans	–	–
Corporate loans	–	–
Others	–	–
Total	**¥ 40**	¥ 1,384

Millions of yen

Not applicable for the following items;

- **Amount of assets held for securitization trade**
- **Summary of current year's securitization activities**
- **Amount of recognized gain/loss by original asset type during FY2017**
- **Securitization exposure subject to early amortization**
- **Credit risk mitigation for resecuritization exposure**

SECURITIZATION EXPOSURE IN WHICH THE BANK INVESTS

(1) Amount of securitization exposure the Bank has by type of original asset

Excluding resecuritization exposure

As of March 31	2018	2017
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 21,372**	¥ 14,371
Consumer loans	–	–
Commercial real estate loans	**65,568**	61,332
Corporate loans	**34,981**	21,213
Others	**98,130**	20,246
Total	**¥ 220,052**	¥ 117,164

Millions of yen

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

Resecuritization exposure

As of March 31	Millions of yen 2018	2017
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ —**	¥ —
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	1,765
Others	**—**	—
Total	**¥ —**	¥ 1,765

(2) Amount of securitization exposure and required capital for the Bank by risk weight ratio

Excluding resecuritization exposure

As of March 31	Millions of yen 2018		2017	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 12%	**¥ 145,617**	**¥ 1,075**	¥ 54,384	¥ 347
Over 12% to 20%	**11,165**	**169**	—	—
Over 20% to 50%	**—**	**—**	229	4
Over 50% to 75%	**—**	**—**	—	—
Over 75% to 100%	**8,314**	**644**	1,395	111
Over 100% to 250%	**27,862**	**4,069**	16,686	2,451
Over 250% to 425%	**7,001**	**2,175**	11,578	3,537
Over 425% under 1,250%	**20,090**	**9,152**	32,890	14,555
Total	**¥ 220,052**	**¥ 17,286**	¥ 117,164	¥ 21,007

Resecuritization exposure

As of March 31	Millions of yen 2018		2017	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 30%	**¥ —**	**¥ —**	¥ 1,765	¥ 29
Over 30% to 50%	**—**	**—**	—	—
Over 50% to 100%	**—**	**—**	—	—
Over 100% to 225%	**—**	**—**	—	—
Over 225% to 500%	**—**	**—**	—	—
Over 500% under 1,250%	**—**	**—**	—	—
Total	**¥ —**	**¥ —**	¥ 1,765	¥ 29

(3) Amount of securitization exposure applied risk weight 1,250%

As of March 31	Millions of yen 2018	2017
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 227**	¥ 627
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	0
Others	**—**	—
Total	**¥ 227**	¥ 627

Not applicable for the following items;

• Credit risk mitigation for resecuritization exposure

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

6. MARKET RISK (UNDER INTERNAL MODEL APPROACH)

(1) VAR AT THE END OF MARCH 2018 AND MARCH 2017 AND THE HIGH, MEAN AND LOW VAR

	Millions of yen	
As of March 31	**2018**	2017
VaR at term end	**¥ 740**	¥ 1,155
VaR through this term		
High	**1,353**	1,998
Mean	**917**	1,367
Low	**540**	919

(2) STRESSED VAR AT THE END OF MARCH 2018 AND MARCH 2017 AND THE HIGH, MEAN AND LOW VAR

	Millions of yen	
As of March 31	**2018**	2017
VaR at term end	**¥ 3,690**	¥ 2,992
VaR through this term		
High	**4,017**	3,604
Mean	**2,728**	2,485
Low	**1,755**	1,843

The trading portfolio experienced no losses that exceeded the specified VaR threshold

Not applicable for the following items;

• The amount of required capital related to additional risk and comprehensive risk as of the period-end, as well as the maximum, minimum and average values for the amount of required capital for additional risk and comprehensive risk during the disclosure period

7. EQUITY EXPOSURE IN BOOK

(1) BOOK VALUE AND FAIR VALUE

	Millions of yen	
As of March 31	**2018**	2017
Market-based approach		
Listed equity exposure	**¥ 4,939**	¥ 6,123
Unlisted equity exposure	**11,083**	9,821
PD/LGD method		
Listed equity exposure	**8,529**	10,321
Unlisted equity exposure	**407,160**	414,670

(2) GAIN OR LOSS ON SALE OR DEPRECIATION OF EQUITY EXPOSURE

	Millions of yen	
	FY2017	FY2016
Gain (loss) on sale	**¥ 4,535**	¥ 2,754
Loss of depreciation	**164**	–

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(3) UNREALIZED GAIN OR LOSS WHICH IS RECOGNIZED ON BALANCE SHEET AND NOT RECOGNIZED ON PROFIT AND LOSS STATEMENT

	Millions of yen	
As of March 31	**2018**	2017
Unrealized gain (loss)	**¥ 9,464**	¥ 12,562

(4) AMOUNT FOR EACH PORTFOLIO CLASSIFICATION OF EQUITY EXPOSURE

	Millions of yen	
As of March 31	**2018**	2017
Market-based approach	**¥ 16,023**	¥ 15,944
PD/LGD Method	**415,690**	424,991
RW100% Applied	**51**	51
RW250% Applied	**5,074**	26

Not applicable for the following items;

• UNREALIZED GAIN OR LOSS WHICH IS NOT RECOGNIZED BOTH ON BALANCE SHEET AND ON PROFIT AND LOSS STATEMENT

8. AMOUNT OF REGARDED EXPOSURE UNDER THE ACCORD ARTICLE 167

	Millions of yen	
As of March 31	**2018**	2017
Regarded exposure (fund)	**¥ 34,500**	¥ 36,162

9. INTEREST RATE RISK (IRRBB) THE INCREASE/DECREASE IN ECONOMIC VALUE FOR UPWARD/DOWNWARD RATE SHOCKS ACCORDING TO MANAGEMENT'S METHOD FOR IRRBB

Change in economic values from a 2% interest-rate shock:

	Billions of yen	
As of March 31	**2018**	2017
JPY	**¥ (65.9)**	¥ (53.2)
USD	**(4.0)**	(4.3)
Others	**(12.6)**	(6.2)
Total	**¥ (82.6)**	¥ (63.8)

DISCLOSURE ITEMS CONCERNING REMUNERATION, ETC.

1. ORGANIZATIONAL STRUCTURE REGARDING REMUNERATION, ETC. FOR APPLICABLE OFFICERS AND EMPLOYEES OF SHINSEI BANK (GROUP)

(1) Scope of "Applicable Officers and Employees"

The scope of "Applicable Officers" and "Applicable Employees, etc." (collectively, "Applicable Officers and Employees") prescribed in the announcement on remuneration subject to disclosure is as shown below.

1) "Applicable Officers"

Applicable Officers refer to the Directors and Audit & Supervisory Board Members of Shinsei Bank, excluding outside Directors and outside Audit & Supervisory Board Members.

2) "Applicable Employees, etc."

At Shinsei Bank, "Applicable Employees, etc." who are subject to disclosure refer to the "persons who receive a high level of remuneration, etc." and who have a material impact on business operations or the situation of assets of Shinsei Bank and its major consolidated subsidiaries, etc. among the officers and employees of Shinsei Bank and officers and employees of its major consolidated subsidiaries, etc., excluding Applicable Officers. There are no officers or employees of Shinsei Bank or officers or employees of its major consolidated subsidiaries, etc., excluding Applicable Officers, who fall under the definition of "Applicable Employees, etc."

(a) Scope of "major consolidated subsidiaries, etc."

Major consolidated subsidiaries etc. refer to the subsidiaries that are independently mentioned in the business report and consolidated financial statements and which are important for the operations of the Shinsei Bank Group, taking into account the significance of their impact on the financial conditions and business results of the Shinsei Bank Group. More specifically, they refer to the following seven companies. While there are three consolidated subsidiaries, etc. with total assets accounting for 2% or more of consolidated total asset, all of those three companies are included in the following seven companies.

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

(b) Scope of the "persons who receive a high level of remuneration, etc."

The "persons who receive a high level of remuneration, etc." refer to the persons who receive remuneration, etc. at the amount equal to or above the "average amount of remuneration paid to Applicable Officers (which was 41 million yen in the fiscal year reported)." In the fiscal year reported, there was no Applicable Employee who received remuneration at the amount equal to or above the "average amount of remuneration paid to Applicable Officers."

With respect to lump-sum retirement allowances, the amount calculated by deducting from the amount of remuneration etc. the entire amount of the lump-sum retirement allowance and then adding the "amount obtained by dividing the lump-sum retirement allowance by the number of years of service" shall be deemed as the amount of remuneration, etc. for the relevant person in judging whether the said person is within the scope of "persons who receive a high level of remuneration, etc."

(c) Scope of the "persons who have a material impact on business operation or the situation of assets of the Shinsei Bank Group"

The "persons who have a material impact on business operation or the situation of assets of the Shinsei Bank Group" refer to the persons who, in their normal duties, execute transactions and manage matters which have a significant degree of impact on the business operations of Shinsei Bank, Shinsei Bank Group, and its major consolidated subsidiaries, etc. or who have a material impact on the situation of assets through losses incurred in transactions, etc. More specifically, these include the Executive Officers and persons in similar positions at Shinsei Bank, and Directors, Executive Officers, etc. of its major consolidated subsidiaries.

DISCLOSURE ITEMS CONCERNING REMUNERATION, ETC. (CONTINUED)

(2) Names, compositions, and duties of the Committee and other major bodies, etc. supervising the determination of remuneration, etc. for Applicable Officers and Employees, the payment of remuneration, etc., and other business execution related to remuneration, etc.

1) Establishing and securing the Compensation Committee, etc.
At Shinsei Bank, the General Meeting of Shareholders determines the total maximum amount of remuneration paid to its officers (for Directors: up to 180 million yen a year (of this amount, 60 million yen is for outside directors); for Audit & Supervisory Board Members: up to 60 million yen a year) and separately from this maximum remuneration the total maximum amount of the Subscription Warrants to be allotted as equity remuneration type stock options (for Full-Time Directors: up to 50 million yen a year). The allocation to each individual of the remuneration of Directors approved at the General Meeting of Shareholders is left to the discretion of the Board of Directors. The allocation to each individual of the remuneration for Audit & Supervisory Board Members is left to the consultations among Audit & Supervisory Board Members.

2) Total amount of remuneration, etc. paid to the members of the Compensation Committee, etc. and the number of the meetings of the Compensation Committee, etc. held

	Number of meetings held (April 2017 to March 2018)	Total amount of remuneration, etc.
Board of Directors	2	–
Audit & Supervisory Board	1	–

(Notes) 1. The number of meetings held represents the number of meetings which discussed remuneration-related items.
2. The total amount of remuneration, etc. is not indicated because the portion equivalent to consideration for business execution by the Compensation Committee, etc. cannot be calculated separately.

2. EVALUATION OF THE APPROPRIATENESS OF THE DESIGN AND APPLICATION OF THE SYSTEM RELATED TO REMUNERATION, ETC. FOR APPLICABLE OFFICERS AND EMPLOYEES OF SHINSEI BANK (GROUP)

(1) Policy on remuneration, etc. for Applicable Officers and Applicable Employees, etc.

1) Policy on remuneration, etc. for "Applicable Officers"
Remuneration for Applicable Officers of Shinsei Bank is determined at the Board of Directors attended by five outside Directors, Audit & Supervisory Board Members (Full-Time), and two outside Audit & Supervisory BoardMembers, based on an appropriate evaluation of the responsibilities, and contributions to the Bank's performance, of each officer in his/her duties and sufficient discussions taking into account the Bank's business results, market standards, etc.

(2) Explanation on the categories of persons included in Applicable Officers and Employees and the number of persons by category
The definitions of "Applicable Officers" and "Applicable Employees, etc." are as indicated in 1. (1). There are three "Applicable Officers" and there are no persons who fall under the definition of "Applicable Employees, etc."

3. CONSISTENCY BETWEEN THE SYSTEM FOR REMUNERATION, ETC. OF APPLICABLE OFFICERS AND EMPLOYEES OF SHINSEI BANK (GROUP) AND RISK MANAGEMENT AND THE LINKAGE BETWEEN REMUNERATION, ETC. OF APPLICABLE OFFICERS AND EMPLOYEES OF SHINSEI BANK (GROUP) AND BUSINESS RESULTS

When determining remuneration, etc. of Applicable Officers, the total amounts of remuneration payable to Directors and Audit & Supervisory Board Members are each determined at the General Meeting of Shareholders, while the amount of remuneration, etc. payable to each Director and Audit & Supervisory Board Member is determined at the Board of Directors or through consultations among Audit & Supervisory Board Members, respectively.

Moreover, the performance-linked remuneration accounts for a very small percentage of the amount of remuneration, etc. for Applicable Officers, and we have not adopted a remuneration system which may have a negative impact on risk management.

<Types of remuneration, etc. placing emphasis on creating corporate value from a longer perspective in accordance with the duties and operations of Applicable Officers and Employees, and remuneration, etc. payment method taking into account the period until risk is materialized>

The Shinsei Bank Group has adopted equity remuneration-type stock options in order to share the risk and advantage of share price fluctuations with shareholders and enhance motivation to contribute to medium- and long-term performance and share price increases. The exercise periods are as follows. The stock option contract stipulates that exercise shall be deferred to the resignation of the Bank's Director even during the exercise period.

	Exercise period
Shinsei Bank, Ltd. 1st Warrant	May 27, 2016 to May 26, 2046
Shinsei Bank, Ltd. 2nd Warrant	May 26, 2017 to May 25, 2047

DISCLOSURE ITEMS CONCERNING REMUNERATION, ETC. (CONTINUED)

4. TYPES, TOTAL AMOUNT PAYABLE, AND PAYMENT METHOD OF REMUNERATION, ETC. FOR APPLICABLE OFFICERS AND EMPLOYEES OF SHINSEI BANK (GROUP)

(Persons, Millions of Yen)

Remuneration, etc. allocated to the fiscal year			A	B
Item No.			Applicable Officers	Applicable Employees, etc.
1	Fixed remuneration	Number of Applicable Officers and Applicable Employees, etc.	3	0
2		Total amount of fixed remuneration (3+5+7)	124	0
3		Of which, amount of cash remuneration	95	0
4		Of Item 3, deferred amount	0	0
5		Of which, amount of equity remuneration or share-linked remuneration	29	0
6		Of Item 5, deferred amount	29	0
7		Of which, amount of other remuneration	0	0
8		Of Item 7, deferred amount	0	0
9	Variable remuneration	Number of Applicable Officers and Applicable Employees, etc.	3	0
10		Total amount of variable remuneration (11+13+15)	0	0
11		Of which, amount of cash remuneration	0	0
12		Of Item 11, deferred amount	0	0
13		Of which, amount of equity remuneration or share-linked remuneration	0	0
14		Of Item 13, deferred amount	0	0
15		Of which, amount of other remuneration	0	0
16		Of Item 15, deferred amount	0	0
17	Retirement allowance	Number of Applicable Officers and Applicable Employees, etc.	3	0
18		Total amount of retirement allowance	0	0
19		Of which, deferred amount	0	0
20	Other remuneration	Number of Applicable Officers and Applicable Employees, etc.	3	0
21		Total amount of other remuneration	0	0
22		Of which, deferred amount	0	0
23	Total amount of remuneration, etc. (2+10+18+21)		124	0

Note : Item 5 includes equity remuneration-type stock options of 29 million yen.

5. OTHER MATTERS THAT SHOULD BE REFERRED TO CONCERNING THE SYSTEM OF REMUNERATION, ETC. FOR APPLICABLE OFFICERS AND EMPLOYEES OF SHINSEI BANK (GROUP)

(Millions of Yen)

Deferred remuneration, etc.		A	B	C	D	E
		Balance of deferred remuneration, etc.	Of Item A, balance of deferred remuneration, etc. subject to adjustments or fluctuations	Amount of changes to allocated remunerations, etc. subject to adjustments for the fiscal year not linked to fluctuations in indicators, etc.	Amount of changes to allocated remunerations, etc. subject to adjustments for the fiscal year linked to fluctuations in indicators, etc.	Amount of deferred remuneration, etc. paid in the fiscal year
Applicable Officers	Amount of cash remuneration	0	0	0	0	0
	Amount of equity remuneration or share-linked remuneration	51	0	0	0	29
	Total amount of other remuneration	0	0	0	0	0
Applicable Employees, etc.	Amount of cash remuneration	0	0	0	0	0
	Amount of equity remuneration or share-linked remuneration	0	0	0	0	0
	Total amount of other remuneration	0	0	0	0	0
Total amount		51	0	0	0	29

CORPORATE INFORMATION

Shinsei Bank Group

(As of March 31, 2018)

As of March 31, 2018, the Shinsei Bank Group consisted of Shinsei Bank, Limited, 187 subsidiaries (comprising 83 consolidated companies including APLUS FINANCIAL Co., Ltd., Showa Leasing Co., Ltd., Shinsei Financial Co., Ltd. and Shinsei Investment & Finance Limited and 104 unconsolidated subsidiaries) and 30 affiliated companies (30 affiliated companies accounted for using the equity method, such as Jih Sun Financial Holding Co., Ltd.). The Shinsei Bank Group provides a wide variety of financial products and services to domestic institutional and individual customers through the "Institutional Business," the "Global Markets Business" and the "Individual Business."

Shinsei Bank, Limited

- **Institutional Business**
  - Head Office and domestic branch offices
  - Major subsidiaries: ● Showa Leasing Co., Ltd. ● Shinsei Trust & Banking Co., Ltd. ● Shinsei Investment & Finance Ltd.
- **Global Markets Business**
  - Head Office and domestic branch offices
  - Major subsidiaries: ● Shinsei Securities Co., Ltd. ● Shinsei Investment Management Co., Ltd.
- **Individual Business**
  - Head Office and domestic branches
  - Major subsidiaries: ● Shinsei Financial Co., Ltd. ● Shinsei Personal Loan Co., Ltd. ● APLUS FINANCIAL Co., Ltd.

Major Subsidiaries and Affiliates

Name	Location	Main business
Major Domestic Subsidiaries		
Showa Leasing Co., Ltd.	Tokyo, Japan	Leasing[1]
Shinsei Trust & Banking Co., Ltd.	Tokyo, Japan	Trust banking[1]
Shinsei Securities Co., Ltd.	Tokyo, Japan	Securities[2]
Shinsei Investment Management Co., Ltd.	Tokyo, Japan	Investment trust and discretionary investment advising[2]
Shinsei Investment & Finance Limited[5]	Tokyo, Japan	Financial instruments business[1]
Shinsei Corporate Investment Limited	Tokyo, Japan	Investment[1]
APLUS FINANCIAL Co., Ltd.	Osaka, Japan	Holding company[3]
APLUS Co., Ltd.	Osaka, Japan	Installment credit[3]
APLUS Personal Loan Co., Ltd.	Osaka, Japan	Finance[3]
Zen-Nichi Shinpan Co., Ltd.	Okayama, Japan	Installment credit[3]
Shinsei Financial Co., Ltd.	Tokyo, Japan	Finance[3]
Shinsei Personal Loan Co., Ltd.	Tokyo, Japan	Financing for individuals and small businesses[3]
Shinsei Business Services Co., Ltd.	Tokyo, Japan	Outsourcing services[4]
Alpha Servicer Co., Ltd.[6]	Tokyo, Japan	Servicing business[3]
Major Overseas Subsidiaries		
Shinsei International Limited	London, UK	Securities[2]
OJBC Co. Ltd.	Tortola, British Virgin Islands	Financial holding company[3]
Nippon Wealth Limited	Kowloon, Hong Kong	Investment trust and discretionary investment advising[3]
Major Affiliates Accounted for Using the Equity Method		
Jih Sun Financial Holding Co., Ltd.	Taipei, Taiwan	Financial holding company[1]
Nissen Credit Service Co., Ltd.[5]	Kyoto, Japan	Credit card[3]
MB Shinsei Finance Limited Liability Company	Hanoi, Vietnam	Finance[3]

1 Institutional Business
2 Global Markets Business
3 Individual Business
4 Corporate/Other
5 Shinsei Principal Investments Ltd., the surviving company, Shinsei Investment & Finance Limited and Shinsei Property Finance Co., Ltd. merged on October 1, 2017 and Shinsei Principal Investments Ltd. changed its company name to Shinsei Investment & Finance Limited.
6 Alpha Servicer Co., Ltd., the surviving company, and Shinsei Servicing & Consulting Limited merged on October 1, 2017.

Employees

		2016	2017	2018
Consolidated	Number of Employees	5,356	5,360	**5,307**
Nonconsolidated	Number of Employees	2,210	2,207	**2,188**
	Male	1,272	1,272	**1,265**
	Female	938	935	**923**
Average age		40 years 7 months	40 years 11 months	**41 years 3 months**
Average years of service		11 years 7 months	11 years 11 months	**12 years 5 months**
Average monthly salary		¥489 thousand	¥482 thousand	**¥479 thousand**

"Average monthly salary" includes overtime wages but excludes annual bonus.

(As of March 31, 2018)

	Capital (in millions)	Established	Acquired	Equity stake held by Shinsei Bank and consolidated subsidiaries (%)		
					Equity stake held by Shinsei Bank	Equity stake held by consolidated subsidiaries of Shinsei Bank
	¥29,360	1969. 4	2005. 3	100.0%	100.0%	—%
	5,000	1996.11	—	100.0%	100.0%	—
	8,750	1997. 8	—	100.0%	100.0%	—
	495	2001.12	—	100.0%	100.0%	—
	100	2006. 4	2012.12	100.0%	100.0%	—
	50	2012.11	—	100.0%	100.0%	—
	15,000	1956.10	2004. 9	95.0%	2.6%	92.3%
	15,000	2009. 4	—	100.0%	—	100.0%
	1,000	2009. 4	—	100.0%	—	100.0%
	1,000	1957. 4	2006. 3	100.0%	—	100.0%
	100	1991. 6	2008. 9	100.0%	100.0%	—
	100	1954.12	2007.12	100.0%	—	100.0%
	54	1985. 2	—	100.0%	100.0%	—
	500	2005.12	2017. 7	100.0%	100.0%	—
	£3	2004. 9	—	100.0%	100.0%	—
	$46	2013. 6	—	50.0%	50.0%	—
	HK$363	2013. 8	—	100.0%	—	100.0%
	NT$35,423	2002. 2	2006. 7	36.2%	—	36.2%
	¥4,050	1997.12	2016.12	50.0%	50.0%	—
	VND800,000	2016. 3	2017.10	49.0%	49.0%	—

Organization of Shinsei Bank, Limited

(As of June 20, 2018)

- Audit & Supervisory Board Members
- Audit & Supervisory Board
  - Office of Audit & Supervisory Board Members
- Board of Directors
- CEO
  - Management Affairs Division
- Group Executive Committee *1
- Important Group Committees
- Executive Committee *1

Group Headquarters

- Group Internal Audit Division
- Group Business Strategy Division
- Group Organizational Strategy Division
  - (Group Strategic Sourcing Department)
- Group Corporate Planning Division
  - (Financial Research Department)
- Group Financial and Regulatory Accounting Division
  - (IFRS Department)
- Group Treasury Division
- Group Investor Relations & Corporate Communications Division
- Group Human Resources Division
  - (Diversity Promotion Department)
- Group Legal and Compliance Division
  - (Legal Department)
  - (Financial Crime Information Department)
- Group General Services Division
- Group Integrated Risk Management Division
- Group Portfolio Risk Management Division
- Group Individual Banking Risk Management Division
- Group Information Technology Division

- Office of Financing Facilitation Management
- Operations Management Division
  - (FATCA Management Department)

(Institutional Business)

- Institutional Business Planning Division
  - (Corporate Customer Service Department)
  - (Corporate Administration Department)
  - (New Business Promotion & Support Department)
  - (Markets Business Planning Department)
- Institutional Business Operation Division
- Corporate Banking Business Division I
- Corporate Banking Business Division II
- Corporate Banking Business Division III
  - (Overseas Finance Department)
- Osaka Corporate Banking Business Division *4
- Real Estate Business Division
- Financial Institutions & Public Sector Business Division
- Sapporo, Sendai, Nagoya, Osaka, Hiroshima and Fukuoka
- Real Estate Finance Division
- Healthcare Finance Division
- Specialty Finance Division
- Project Finance Division
  - (New Energy Promotion Department)
  - (Structured Finance Department)
- Business Succession Finance Division
- Syndicated Finance Division
- Corporate Advisory Division
- Trading Division
- Markets Division
  - (Osaka Business Department)
  - (Market Products Department)
- Investment Business Division
- Asset Management Division *6
- Wealth Management Division *6

(Individual Business)

- Individual Business Planning Division
- Retail Sales and Distribution Division *2
  - (Estate Consulting Promotion Department)
- *3 Channel Management Division
  - (Fukuoka Call Center)
  - (Direct Banking Department)
- Retail Products Division
  - (Life Planning Business Department)
  - (Overseas Remittance Business Department)
  - (FX Business Department)
- Retail Operation Division
- Housing Loan Division
  - (Tama-plaza Annex)
- Consumer Finance Division
  - (Customer Communication Center I)
  - (Customer Communication Center II)
  - (Customer Communication Center III)
  - (Smart Card Loan Center)
  - (Osaka Administration Management Center)
  - (Customer Relationship Department)
- Customer Service Division
  - (Customer Service Department)

(Credit Management)

- Institutional Credit Management Division
- Structured Risk Management Division
- Real Estate Risk Management Division
  - (Real Estate Research Department)

(IT System)

- Information Systems Risk Management Division *5
- Information Systems Development Division
- Information Systems Operation Division

- APLUS Financial Co., Ltd.
- Showa Leasing Co., Ltd.
- Shinsei Financial Co., Ltd.
- Other Group Companies

*1 Management Affairs Division shall act as the secretariat of the Executive Committee and the Group Executive Committee.

*2 Head Office, Sapporo, Sendai, Omiya, Kashiwa, Tsudanuma, Tokyo, Ginza, Ikebukuro, Ueno, Kichijoji, Shinjuku, Shibuya, Futakotamagawa, Hachioji, Machida, Yokohama, Fujisawa, Nagoya (incl. Sakae Annex), Kyoto, Umeda (incl. Senri-Chuo Annex and Hankyu-Umeda Annex), Namba, Kobe, Hiroshima and Fukuoka

*3 Channel Management Division shall report to Executive Officer in charge of IT System.

*4 Osaka Corporate Banking Business Division shall report to GM of Osaka Branch.

*5 Information Systems Risk Management Division shall report to the management.

*6 These divisions shall report to both corporate and individual business divisions/executive officers.

As of July 1, 2018

Board of Directors (7)

Hideyuki Kudo
Representative Director, President

Yoshiaki Kozano
Director

J. Christopher Flowers*1
Director
Managing Director and Chief Executive Officer, J.C. Flowers & Co., LLC

Ernest M. Higa*1
Director
Chairman, President & Chief Executive Officer,
Higa Industries Co., Ltd.

Shigeru Kani*1
Director
Former Director, Administration Department,
The Bank of Japan, Former Professor, Yokohama College of Commerce

Jun Makihara*1
Director
Director, Monex Group, Inc.
Director, Philip Morris International Inc.

Ryuichi Tomimura*1
Director
President, Representative Director, SIGMAXYZ Inc.

*1 Outside Directors

Audit & Supervisory Board Members (3)

Shinya Nagata
Audit & Supervisory Board Member

Shiho Konno*2
Audit & Supervisory Board Member
Lawyer

Michio Shibuya*2
Audit & Supervisory Board Member
Certified Public Accountant

*2 Outside Audit & Supervisory Board Members

Group Headquarters Officers and Shinsei Bank Executive Officers (34)

Hideyuki Kudo
Representative Director
President and Chief Executive Officer

(Senior Managing Executive Officer (SMEO) and equivalent to SMEO)

Sanjeev Gupta
Senior Managing Executive Officer
Advisor to the President and Chief Executive Officer

Akira Hirasawa
Chief Officer, Group Organizational Strategy, Group Human Resources
Senior Managing Executive Officer, Executive Officer in charge of Operations Management

Yoshiaki Kozano
Director
Chief Officer, Group Business Strategy

Michiyuki Okano
Chief Officer, Group IT
Senior Managing Executive Officer, Head of IT System

(Managing Executive Officer (MEO) and equivalent to MEO)

Shouichi Hirano
Chief Officer, Group Corporate Planning and Finance, Managing Executive Officer, Executive Officer in charge of Financing Facilitation, General Manager, Office of Financing Facilitation Management

Kiyohiro Kiyotani*1
Managing Executive Officer,
Executive Officer in charge of Institutional Business

Takahisa Komoda
Managing Executive Officer, Head of Institutional Business

Tsukasa Makizumi
Managing Executive Officer, Head of Credit Risk Management

Masanori Matsubara
Managing Executive Officer,
General Manager, Information Systems Development Division

Kyohei Matsumoto
Chief Officer, Group Legal and Compliance

Tetsuro Shimizu
Senior Officer, Group Business Strategy
Managing Executive Officer, Head of Individual Business
General Manager, Housing Loan Division

Akira Watanabe*2
Senior Officer, Group Business Strategy
Managing Executive Officer, Executive Officer in charge of Individual Business

Masaharu Watanabe
Chief Officer, Group General Services

Shigeto Yanase
Managing Executive Officer, Executive Officer in charge of Institutional Business,
General Manager, Osaka Branch

(Executive Officer (EO) and equivalent to EO)

Toichiro Shiomi
Chief Officer, Group Risk
GM, Group Portfolio Risk Management Division

Takako Hayashi
Senior Officer, Group Human Resources
GM, Group Human Resources Division

Etsuko Ichiba
Executive Officer, General Manager,
Retail Operation Division

Taichi Kawai
Executive Officer, Executive Officer in charge of Institutional Business

Hirohisa Kazami
Senior Officer, Group Legal and Compliance

Soichiro Komori
Senior Officer, Group IT

Takahiro Kubo*3
Executive Officer, Executive Officer in charge of Institutional Business

Hirofumi Kusakabe
Executive Officer, Executive Officer in charge of Institutional Business

Nozomi Moue*4
Head of Group Structured Product Unit
Executive Officer, Executive Officer in charge of Institutional Business

Shinichirou Nagai
Executive Officer, Executive Officer in charge of Institutional Business, General Manager,
Asset Management Division

Nobuyasu Nara
Executive Officer, General Manager,
Institutional Credit Management Division

Hiroki Otake
Executive Officer, General Manager,
Retail Sales and Distribution Division

Hiroshi Ooyama
Executive Officer, General Manager,
Institutional Business Planning Division

Kouichi Sawaji
Senior Officer, Group Human Resources

Shinichirou Seto*5
Head of Group Institutional Business Coverage Unit,
Executive Officer, Executive Officer in charge of Institutional Business

Noboru Takemura
Senior Officer, Group Corporate Planning and Finance

Masayoshi Tomita
Executive Officer, Executive Officer in charge of Individual Business

Hiroyuki Torigoe*6
Senior Officer, Group Business Strategy
Executive Officer, Executive Officer in charge of Individual Business

Takahiro Yoshida
Senior Officer, Group Corporate Planning and Finance
GM, Group Treasury Division

Note: Chief Officer and Senior Officer are positions of Group Headquarters.
Note: Officers and Executive Officers are listed in alphabetical order.
Note: Mr. Yoshiaki Kozano is equivalent to Senior Managing Executive Officer of Shinsei Bank, and Messrs. Touichiro Shiomi, Takako Hayashi and Takahiro Yoshida are equivalent to Executive Officers of Shinsei Bank.
*1: Mr. Kiyohiro Kiyotani is also appointed as President & CEO, Showa Leasing Co., Ltd.
*2: Mr. Akira Watanabe is also appointed as Representative Director and President and CEO, APLUS FINANCIAL Co., Ltd.
*3: Mr. Takahiro Kubo is also appointed as Representative Director and President, Shinsei Trust & Banking Co., Ltd.
*4: Mr. Nozomi Moue is appointed as Senior Managing Executive Officer, Showa Leasing Co., Ltd.
*5: Mr. Shinichirou Seto is also appointed as Deputy President, Showa Leasing Co., Ltd.
*6: Mr. Hiroyuki Torigoe is also appointed as President and CEO, Shinsei Financial Co., Ltd.

Senior Advisor

David Morgan
Supervisory Board Member, HSH Nordbank AG, and Managing Director, Europe and Asia-Pacific,
J.C. Flowers & Co. UK LLP

Advisor

Yuji Tsushima

Special Advisor and Executive Advisor

Yukio Nakamura

Executive Advisor

Yasufumi Shimada

Network

(As of June 30, 2018)

Domestic Outlets

30 outlets (26 branches including head office, 4 annexes)

Hokkaido
- Sapporo Branch

Tohoku
- Sendai Branch

Kanto (Excluding Tokyo)
- Omiya Branch
- Kashiwa Branch
- Tsudanuma Branch
- Yokohama Branch
- Head Office—Tama-plaza Annex
- Fujisawa Branch

Tokyo
- Head Office
- Tokyo Branch
- Ginza Branch
- Ikebukuro Branch
- Ueno Branch
- Kichijoji Branch
- Shinjuku Branch
- Shibuya Branch
- Futakotamagawa Branch
- Hachioji Branch
- Machida Branch

Tokai
- Nagoya Branch
- Sakae Financial Center

Kinki
- Kyoto Branch
- Osaka Branch
- Umeda Branch
- Umeda Branch—Hankyu Umeda Annex
- Umeda Branch—Senri Chuo Annex
- Namba Branch
- Kobe Branch

Chugoku
- Hiroshima Branch

Kyushu
- Fukuoka Branch

Lake Unstaffed Branches:

Lake unstaffed branches	739 locations

Partner Train Station, Convenience Store and Supermarket ATMs:

Seven Bank, Ltd. ATMs	22,766 locations
E-net ATMs	12,788 locations
Lawson ATM Networks ATMs	13,048 locations
AEON Bank ATMs	5,327 locations
VIEW ALTTE ATMs	314 locations
Patsat ATMs	108 locations

Stock Information

(As of March 31, 2018)

Shares Outstanding and Capital

(1,000 shares, millions of yen)

Date	Shares outstanding		Capital		Capital surplus		Notes
	Change	Balance	Change	Balance	Change	Balance	
July 29, 2003	(1,358,537)	2,033,065 [1]	—	451,296	—	18,558	2-for-1 reverse share split for common shares Post reverse split common shares outstanding 1,358,537 thousand shares
July 31, 2006	(99,966)	1,933,098 [1]	—	451,296	—	18,558	Use of call feature for Series 3 Class-B preferred shares Issuance of 200,033 thousand common shares Retirement of Series 3 Class-B preferred shares -300,000 thousand shares
November 16, 2006	(85,000)	1,848,098 [1]	—	451,296	—	18,558	Cancellation of treasury shares (common) -85,000 thousand shares
August 1, 2007	(100,000)	1,748,098 [1]	—	451,296	—	18,558	Mandatory acquisition of Series 3 Class-B preferred shares Issuance of 200,000 thousand common shares Retirement of Series 3 Class-B preferred shares -300,000 thousand shares
February 4, 2008	117,647	1,865,746 [1]	25,000	476,296	25,000	43,558	Third-party allocation of shares (common shares) Subscription price ¥425, par value ¥212.5
March 31, 2008	194,600	2,060,346	—	476,296	—	43,558	Use of call feature for Series 2 Class-A preferred shares Issuance of 269,128 thousand common shares Retirement of Series 2 Class-A preferred shares -74,528 thousand shares
March 15, 2011	690,000	2,750,346	35,907	512,204	35,907	79,465	New shares issued through International Offering (common shares) Subscription price ¥108, par value ¥52.04
October 1, 2017	(2,475,312)	275,034	—	512,204	—	79,465	10-for-1 reverse share split for common shares Post reverse split common shares outstanding 275,034 thousand shares

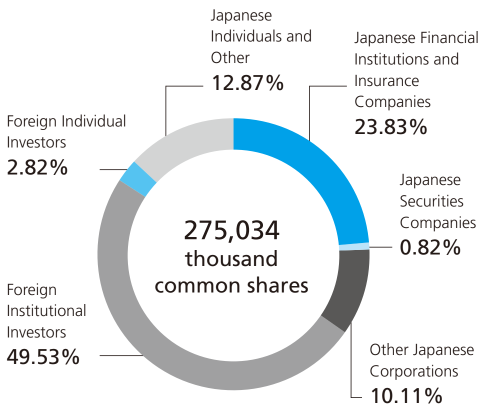
1 Figures include number of preferred shares outstanding

Largest Shareholders

Rank	Shareholders	Thousands of Common Shares	%
1	SATURN IV SUB LP (JPMCB 380111)	32,368	11.76%
2	Deposit Insurance Corporation of Japan	26,912	9.78%
3	SHINSEI BANK, LIMITED	22,166	8.05%
4	THE RESOLUTION AND COLLECTION CORPORATION	20,000	7.27%
5	THE MASTER TRUST BANK OF JAPAN, LTD. (TRUST ACCOUNT)	13,508	4.91%
6	SATURN JAPAN III SUB C.V. (JPMCB 380113)	11,044	4.01%
7	STATE STREET BANK AND TRUST COMPANY	7,886	2.86%
8	JAPAN TRUSTEE SERVICE BANK, LTD. (TRUST ACCOUNT 9)	7,687	2.79%
9	J. CHRISTOPHER FLOWERS	7,675	2.79%
10	JAPAN TRUSTEE SERVICE BANK, LTD. (TRUST ACCOUNT)	7,223	2.62%
11	GOLDMAN SACHS INTERNATIONAL	4,518	1.64%
Total (includes treasury shares)		275,034	100.00%

Notes: 1 As of March 31, 2018, a group of investors, including affiliates of J.C. Flowers & Co. LLC., holds 55,366,348 common shares or 21.89% of Shinsei Bank's outstanding common shares, excluding treasury shares.
2 As of March 31, 2018, in total, the Deposit Insurance Corporation and the Resolution and Collection Corporation hold 46,912,888 common shares or 18.55% of Shinsei Bank's outstanding common shares, excluding treasury shares.

Beneficial Ownership/ Type of Shareholder



Notes: 1 "Japanese Financial Institutions and Insurance Companies" includes the Resolution and Collection Corporation.
2 "Other Japanese Corporations" includes the Deposit Insurance Corporation.
3 "Japanese Individuals and Other" includes treasury shares.

Ratings Information

(As of July 1, 2018)

	Long-Term (Outlook)	Short-Term
R&I	A- (Stable)	a-1
JCR	A- (Stable)	J-1
S&P	BBB+ (Positive)	A-2
Moody's	Baa2 (Stable)	Prime-2

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