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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 Personal 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 data¹:					
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 III, Domestic Standard)	12.8%	13.1%	14.2%	14.9%	13.6%
Total capital adequacy ratio (Basel II)	—	—	—	—	13.8%
Tier I capital ratio (Basel II)	—	—	—	—	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)

Fiscal years ended March 31	Billions of yen (except Yield/Rate)					
	2018			2017		
	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

NET TRADING INCOME

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

TABLE 2. NET TRADING INCOME (CONSOLIDATED)

Fiscal years ended March 31	Billions of yen		
	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.

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 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)

Fiscal years ended March 31	Billions of yen		
	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)

Fiscal years ended March 31	Billions of yen		
	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)

Fiscal years ended March 31	Billions of yen		
	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)

Fiscal years ended March 31	Billions of yen		
	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)

Fiscal years ended March 31	Billions of yen		
	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)

Fiscal years ended March 31	Billions of yen					
	2018			2017		
	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

Fiscal years ended March 31	Billions of yen		
	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/Other²:			
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

Fiscal years ended March 31	Billions of yen		
	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 Leasing³:			
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

Fiscal years ended March 31	Billions of yen		
	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)
Others²:			
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

Fiscal years ended March 31	Billions of yen		
	2018	2017	Change (Amount)
Retail Banking²:			
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 Lake³:			
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 profit (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 FINANCIAL⁴:			
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 profit (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
Others⁵:			
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 profit (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 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

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)

Fiscal years ended March 31	Billions of yen		
	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)
Others¹:			
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/Other¹:			
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)

Fiscal years ended March 31	Billions of yen (except percentages)			
	2018		2017	
	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

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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)

As of March 31	Billions of yen (except percentages)			
	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 risk-monitored 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}		Risk-monitored Loans ²	
				Total loans and bills discounted:	Other	Total loans and bills discounted:	
				4,637.9	86.1	4,637.9	
Legally bankrupt		9E	100.0% for unsecured portion	Claims against bankrupt and quasi-bankrupt obligors (Amount of coverage, coverage ratio) 1.8 (1.8*, 100.0%)		Loans to bankrupt obligors	0.5
Virtually bankrupt		9D	100.0% for unsecured portion	*Amount of reserve for loan losses is 0.4, collateral and guarantees is 1.3			
Possibly bankrupt		9C	55.7% for unsecured portion	Doubtful claims (Amount of coverage, coverage ratio) 3.5 (2.0*, 57.4%)		Non accrual delinquent loans	4.7
Need caution	Substandard	9B	39.7% for unsecured portion	Substandard claims (loan account only) (Amount of coverage, coverage ratio) 3.0 (1.6*, 55.3%)		Loans past due for three months or more	
	Other need caution	9A	5.4% for total claims	*Amount of reserve for loan losses is 1.9, collateral and guarantees is 0.1		Restructured loans	3.0
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 (Total amount of coverage, coverage ratio) 8.3, 0.2% (5.5*, 65.8%)		Total risk-monitored loans and ratio to total loans and bills discounted	8.3, 0.2%
				*Total amount of reserve for loan losses is 3.0, collateral and guarantees is 2.5			

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 Shinsai, 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

OBLIGOR CLASSIFICATION	DEFINITION OF OBLIGOR CLASSIFICATIONS	
		DEFINITION
Legally bankrupt (<i>hatan-saki</i>)	Obligors who have already gone bankrupt, from a legal and/or formal perspective.	
Virtually bankrupt (<i>jisshitsu hatan-saki</i>)	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 (<i>hatan kenen-saki</i>)	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 (<i>youchui-saki</i>)	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" (<i>youkanri-saki</i>), 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" (<i>sono ta youchui-saki</i>).	
Normal (<i>seijou-saki</i>)	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 (<i>hasan kosei saiken oyobi korera ni junzuru saiken</i>)	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 (<i>kiken saiken</i>)	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 (<i>youkanri saiken</i>)	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 (<i>seijou saiken</i>)	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 (<i>hatan-saki saiken</i>)	Loans to legally bankrupt obligors.
Non accrual delinquent loans (<i>entai-saki saiken</i>)	Loans to virtually bankrupt and possibly bankrupt obligors.
Loans past due for three months or more (<i>san-ka-getsu ijou entai saiken</i>)	Loans on which principal and/or interest are past due three months or more.
Restructured loans (<i>kashidashi jouken kanwa saiken</i>)	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.

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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)

As of March 31	Billions of yen (except percentages)	
	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			Coverage ratio
Reserve for loan losses		Collateral and guarantees	Total		
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)

As of March 31	Billions of yen (except percentages)	
	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)

As of March 31	Percentages	
	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)

As of March 31	Billions of yen (except percentages)	
	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	Billions of yen (except percentages)	
	2018	2017
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	Billions of yen	
	2018	2017
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

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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 continue 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, an 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

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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)

Payments due by period as of March 31, 2018	Billions of yen		
	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

Payments due by period as of March 31, 2017	Billions of yen		
	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

Year tax loss carry-forwards generated/renewed	Billions of yen	
	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.

PLUS 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. PLUS 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
	2018	2017	U.S. dollars (Note 1)
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.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal year ended March 31, 2018

Millions of yen

	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income				Total	Noncontrolling interests	Total equity
						Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans			
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 31 2018	¥ 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)

	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income				Total	Noncontrolling interests	Total equity
						Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans			
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.

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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

- 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.
- 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.
- 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:

- 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

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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)

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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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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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 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)

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(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		As previously Reported	
			Millions of yen	Thousands of U.S. dollars	Millions of yen	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)

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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)

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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)

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Notes	Items	Date	As restated		As previously Reported	
			Millions of yen	Thousands of U.S. dollars	Millions of yen	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

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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.

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4. CASH AND CASH EQUIVALENTS

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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

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(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:

	2018				2017			
	Amortized/ Acquisition cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized/ Acquisition cost	Gross unrealized gain	Gross unrealized loss	Fair value
Millions of yen								
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

	2018			
	Amortized/ Acquisition cost	Gross unrealized gain	Gross unrealized loss	Fair value
Thousands of U.S. dollars				
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

※See Note2 (AB)

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.

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		Thousands of U.S. dollars
					2018	2017	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		Thousands of U.S. dollars
	2018	2017	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		Thousands of U.S. dollars
	2018	2017	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		Thousands of U.S. dollars
					2018	2017	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.

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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.

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		Date of expiry
	Millions of yen	Thousands of U.S. dollars	
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**

- 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."
- 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."
- 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.

※See Note2 (AB)

(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.

36. SEGMENT INFORMATION (CONTINUED) (Restated) ※

CONSOLIDATED

(c) REVENUE, PROFIT (LOSS), ASSETS, LIABILITIES AND OTHER ITEMS BY REPORTABLE SEGMENTS

Millions of yen

Fiscal year ended March 31, 2018	Institutional Business				Global Markets Business	
	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

Fiscal year ended March 31, 2018	Individual Business							Corporate/Other	
	Retail Banking	Consumer Finance				Treasury	Other ⁷	Total	
		Shinsei Financial	APLUS FINANCIAL	Other					
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

Fiscal year ended March 31, 2017	Millions of yen						
	Institutional Business				Global Markets Business		
	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	

Fiscal year ended March 31, 2017	Millions of yen						
	Retail Banking	Individual Business			Corporate/Other		
		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						
	Retail Banking	Individual Business			Corporate/Other		
		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:

Fiscal Year ended March 31	Millions of yen		Thousands of U.S. dollars
	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:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	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:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	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:

Fiscal Year ended March 31	Millions of yen		Thousands of U.S. dollars
	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:

Related party	Description of the transaction	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	
		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 counterparty defaulting on contractual terms
(3) Liquidity Risk	Risk that additional costs are incurred associated with closing out the position of the financial instrument held

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

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

※See Note2 (AB)

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) (Restated) ※

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(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)

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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						
Estimated Residual Value ³	171,429			191,488		
Reserve for credit losses	(4,971)			(5,425)		
Net	(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) ※

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	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) ※

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(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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(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

As of March 31,	Millions of yen		Thousands of U.S. dollars
	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

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
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

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(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		Fair value	Unrealized gain (loss)	Contract/Notional principal		Fair value	Unrealized gain (loss)
Total	Maturity over 1 year	Total			Maturity over 1 year			
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		Fair value	Unrealized gain (loss)
	Total	Maturity over 1 year		
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:

- Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.
- 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:

- Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.
- The fair values are calculated primarily by using the DCF method or option pricing models.

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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:

- Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.
- 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		Fair value	Unrealized gain (loss)	Contract/Notional principal		Fair value	Unrealized gain (loss)
Total	Maturity over 1 year	Total			Maturity over 1 year			
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		Fair value	Unrealized gain (loss)
	Total	Maturity over 1 year		
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:

- Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.
- 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		Fair value	Unrealized gain (loss)	Contract/Notional principal		Fair value	Unrealized gain (loss)
Total	Maturity over 1 year	Total			Maturity over 1 year			
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		Fair value	Unrealized gain (loss)
	Total	Maturity over 1 year		
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:

- Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.
- The fair values are calculated primarily by using the DCF method.
- "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)

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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 L L C

June 14, 2018

Member of
Deloitte Touche Tohmatsu Limited

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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.

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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				Treasury stock, at cost	Total equity
	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		
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									5,115	1,856
Transfer to capital surplus from retained earnings						(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				Treasury stock, at cost	Total equity
	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		
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

- Number of consolidated subsidiaries
83 consolidated subsidiaries.
- 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.

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 through FY	¥ 783	¥ 740
High	1,391	1,353
Mean	956	917
Low	572	540

	Millions of yen	
	Consolidated	Nonconsolidated
Stressed VaR at the end of year through FY	¥ 3,915	¥ 3,690
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

Type of Exposures	Corporate Exposures (Shinsei Bank, and Showa Leasing (large amount exposures))	
	(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)	(e) Specialized Lending
Structure of Internal Rating System	<p>A obligor rating system benchmarked against external ratings (R&I) which reflects credit status of obligor is in place.</p> <p>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.</p> <p>Obligor ratings for Sovereign/Bank exposures are assigned based on specific rules.</p>	<p>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.</p> <p>Ratings are assessed according to facility type as follows.</p> <ul style="list-style-type: none"> 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.
Usage of Various Estimated Value (Use Test)	Obligor rating and facility rating are used in the standards of credit approval authority procedures, pricing, portfolio management, 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 designing the rating system and ratings are assigned by the section in charge of credit analysis.	
Validation Procedures	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.	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.
Estimation of Parameters	<p>Definition of Default Obligor categorization under self assessment falls to sub-standard (9B) or lower, etc.</p> <p>PD Long-term averages are calculated based on internal data, and margin for estimation error is added to derive estimates.</p> <p>LGD/EAD Parameters are not estimated as a bank using Fundamental Internal Ratings-Based Approach.</p>	Internal ratings are allocated to slotting criteria, and parameters are not estimated.

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	<p>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.</p> <p>(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.)</p>	<p>Portfolios which the bank originated are classified as qualifying revolving retail exposures.</p> <p>Pools are classified quantitatively by obligor risk characteristics and etc.</p>	<p>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).</p> <p>Exposures are assigned to appropriate pools established for each subsidiary, considering obligor risk characteristics, transaction risk characteristics, and delinquency status.</p>
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	<p>Key methodologies of validation are as follows:</p> <ul style="list-style-type: none"> • 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. 	<p>Key methodologies of validation are as follows:</p> <ul style="list-style-type: none"> • 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 	<p>Key methodologies of validation are as follows:</p> <ul style="list-style-type: none"> • 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	<p>Definition of Default Any of the following:</p> <ol style="list-style-type: none"> past due three months or more, relaxation of terms and conditions, legal bankruptcy <p>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.</p>	<p>Definition of Default Subrogated for late payment and etc.</p> <p>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.</p>	<p>Definition of Default Any of the following:</p> <ol style="list-style-type: none"> past due three months or more, relaxation of terms and conditions, legal bankruptcy, etc. <p>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.</p>

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+	
3B	A	High capability to meet its financial commitments on the obligations and some good factors.
3C	A-	
4A	BBB+	
4B	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.
4C	BBB-	
5A	BB+	
5B	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.
5C	BB-	
6A	B+	
6B	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.
6C	B-	
9A		
9B		Classified as "Other Need Caution" in the self-assessment.
9C		Classified as "Sub-Standard" in the self-assessment.
9D		Classified as "Possibly Bankrupt" in the self-assessment.
9E		Classified as "Virtually Bankrupt" in the self-assessment.
		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%	

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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

Millions of yen (except percentages)

As of March 31
Items2018
Basel III
(Domestic Standard) Amounts excluded
under transitional
arrangements

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	¥ 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%	

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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	
	2018	2017
As of March 31	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	Securities²	Derivatives³	Total	Loans, etc.¹	Securities²	Derivatives³
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

As of March 31	Millions of yen	
	2018	2017
	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

As of March 31	Millions of yen					
	2018			2017		
	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

As of March 31	Millions of yen							
	2018				2017			
	Reserve Amount				Reserve Amount			
	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	Millions of yen	
	2018	2017
	Reserve Amount	Reserve Amount
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

	Millions of yen	
	FY2017	FY2016
	Amount of write-off	Amount of write-off
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

As of March 31	2018		2017	
	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
	Amount of Exposure	Amount of Exposure
Risk weight ratio		
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
	Amount of Exposure	Amount of Exposure
Risk weight ratio		
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
	Amount of Exposure	Amount of Exposure
Risk weight ratio		
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						
	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						
	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						
	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

As of March 31	Millions of yen			
	2018		2017	
	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

As of March 31	Millions of yen	
	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

As of March 31	Millions of yen	
	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

As of March 31	Millions of yen			
	2018		2017	
	Protection-buy	Protection-sell	Protection-buy	Protection-sell
Notional amount	¥ 55,500	¥ 44,050	¥ 107,316	¥ 89,536
Single name	31,500	32,500	31,500	27,500
Multi name	—	—	—	—

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	¥ —	¥ —

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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%

As of March 31	Millions of yen	
	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

As of March 31	Millions of yen	
	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

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

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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**

As of March 31	Millions of yen	
	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

As of March 31	Millions of yen	
	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**

As of March 31	Millions of yen	
	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**

As of March 31	Millions of yen	
	2018	2017
Unrealized gain (loss)	¥ 11,306	¥ 15,547

(4) AMOUNT FOR EACH PORTFOLIO CLASSIFICATION OF EQUITY EXPOSURE

As of March 31	Millions of yen	
	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

As of March 31	Millions of yen	
	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:

As of March 31	Billions of yen	
	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)

	Millions of yen	
	2018	2017
As of March 31	Required capital amount	Required capital amount
Shinsei Bank	¥ 411	¥ 467

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	¥ 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

	Millions of yen	
	2018	2017
As of March 31	Required capital amount	Required capital amount
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

	Millions of yen	
	2018	2017
As of March 31	Required capital amount	Required capital amount
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	
	2018 Required capital amount	2017 Required capital amount
As of March 31		
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	
	2018 Required capital amount	2017 Required capital amount
As of March 31		
The Standardized Approach	¥ 15,083	¥ 15,390

(6) TOTAL REQUIRED CAPITAL (DOMESTIC STANDARD)

	Millions of yen	
	2018	2017
As of March 31		
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)

As of March 31	Millions of yen			
	2018		2017	
	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

As of March 31	Millions of yen	
	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

As of March 31	Millions of yen	
	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

As of March 31	Millions of yen	
	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

As of March 31	Millions of yen (except percentages)									
	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

As of March 31	Millions of yen (except percentages)									
	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

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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	
	Eligible financial collateral	Other eligible FIRB collateral	Eligible financial collateral	Other eligible FIRB collateral
As of March 31				
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	
	2018	2017
As of March 31		
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	Millions of yen	
	2018	2017
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	Millions of yen			
	2018		2017	
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	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	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.

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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	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

(6) 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	¥ 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 INVESTS

(1) Amount of securitization exposure the Bank 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	¥ 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

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**

As of March 31	Millions of yen	
	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

As of March 31	Millions of yen	
	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**

As of March 31	Millions of yen	
	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**

As of March 31	Millions of yen	
	2018	2017
Unrealized gain (loss)	¥ 9,464	¥ 12,562

(4) AMOUNT FOR EACH PORTFOLIO CLASSIFICATION OF EQUITY EXPOSURE

As of March 31	Millions of yen	
	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

As of March 31	Millions of yen	
	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:

As of March 31	Billions of yen	
	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 Board Members, 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)

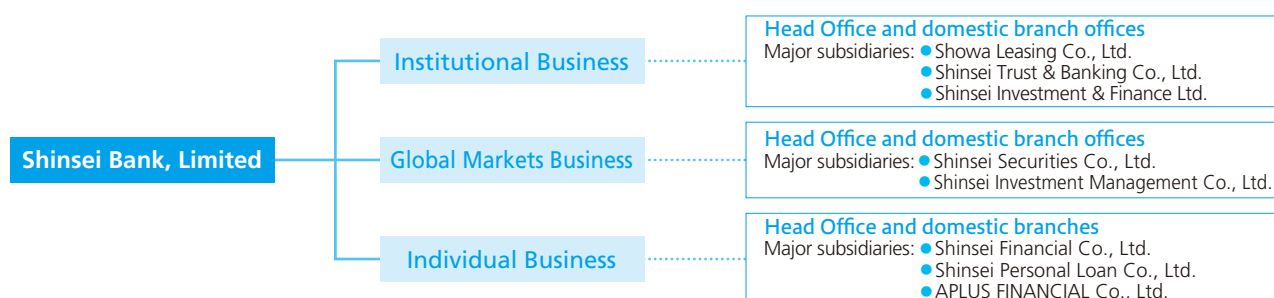
Deferred remuneration, etc.		A	B	C	D	E
		Balance of deferred remuneration, etc.	Of Item A, balance of deferred remuneration, etc. subject to adjustments or fluctuations	Amount of changes to allocated remunerations, etc. subject to adjustments for the fiscal year not linked to fluctuations in indicators, 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.”



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.

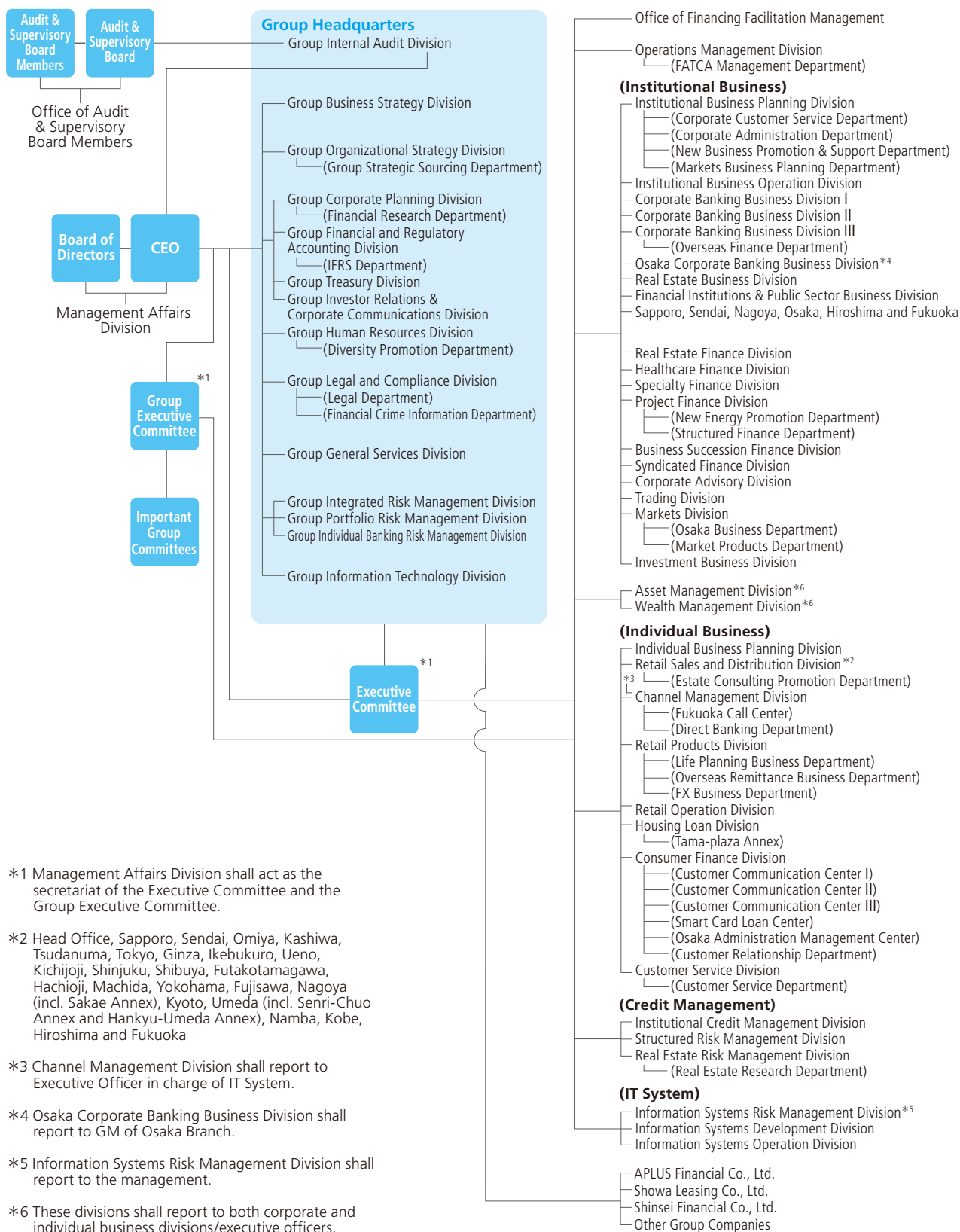
Employees

		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%	—



Board of Directors (7)

Hideyuki Kudo

Representative Director, President

Yoshiaki Kozano

Director

J. Christopher Flowers*¹Director
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.Audit & Supervisory
Board Members (3)**Shinya Nagata**

Audit & Supervisory Board Member

Shiho Konno*²Audit & Supervisory Board Member
Lawyer**Michio Shibuya*²**Audit & Supervisory Board Member
Certified Public Accountant

* 1 Outside Directors

* 2 Outside Audit & Supervisory Board
Members

Group Headquarters Officers and Shinsei Bank Executive Officers (34)

Hideyuki KudoRepresentative 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 SystemNote: 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. Touchiro 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.(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 YanaseManaging Executive Officer, Executive
Officer in charge of Institutional
Business,
General Manager, Osaka Branch

(Executive Officer (EO) and equivalent to EO)

Toichiro ShiomiChief 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*³Executive 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*⁵Head 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

Senior Advisor

David MorganSupervisory 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
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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

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

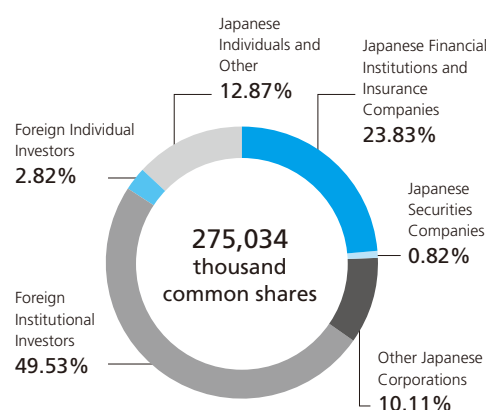
Largest Shareholders

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