SHINSEI BANK

2017

ANNUAL REPORT

For the fiscal year ended March 31, 2017

MANAGEMENT PRINCIPLES

- To be a banking Group that is sought out by customers, with stable profitability, and contributing to be the development of the industrial economies in Japan and overseas
- To be a banking Group that values diverse talents and cultures and that is continually able to take on new challenges in a changing environment while taking into consideration experience and history
- To be a banking Group that has highly transparent management as well as be trusted by all stakeholders including customers, investors and employees

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Forward-Looking Statements
This annual report contains statements that constitute forward-looking statements. These statements appear in a number of places in this annual report and include statements regarding our intent, belief or current expectations, and/or the current belief or current expectations of our officers with respect to the results of our operations and the financial condition of the Bank and its subsidiaries. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Our forward-looking statements are not a guarantee of future performance and involve risks and uncertainties. Actual results may differ from those in such forward-looking statements as a result of various factors.

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Sources of Corporate Value

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ESG as Foundation Increasing Corporate Value

SHINSEI BANK GROUP'S BUSINESS PROFILE

Innovative Financial Services via Integration of Many Group Companies

Offering innovative financial services, the Shinsei Bank Group has integrated many Group companies with a broad spectrum of financial functions from banking to unsecured loans to individuals, shopping credit and other credit businesses, leasing, securities, and trusts.

Domestic subsidiaries | Overseas subsidiaries

SHINSEI BANK GROUP IN NUMBERS

Rankings

Ranked No.1 in the "Internet Banking" category for a second successive year in the 2017 Oricon Japan Customer Satisfaction Survey

No.1

(2016, 2017)

League Table: Project Finance (Japan)

No.2

On the basis of the number of project finance transactions from April 2016 to March 2017
Source: Dealogic [Japan Project Finance League Table]

People Working at Shinsei Bank Group

Employees (consolidated basis)

5,360

(as of March 31, 2017)

Ratio of Female Managers (nonconsolidated basis)

29.6%

(as of March 31, 2017)

Contributing to Society

Total Participants in Volunteer Activities

3,396

Number of Volunteer Activities

217

The Shinsei Bank Group is actively engaging in social contribution activities. We have promoted employee participatory volunteer programs since 2009, and along with our employees, aim for the realization of a sustainable society. Group employees have participated in a total of 217 volunteer events since 2009, with cumulative Group employee participation totaling 3,396 as of March 31, 2017.

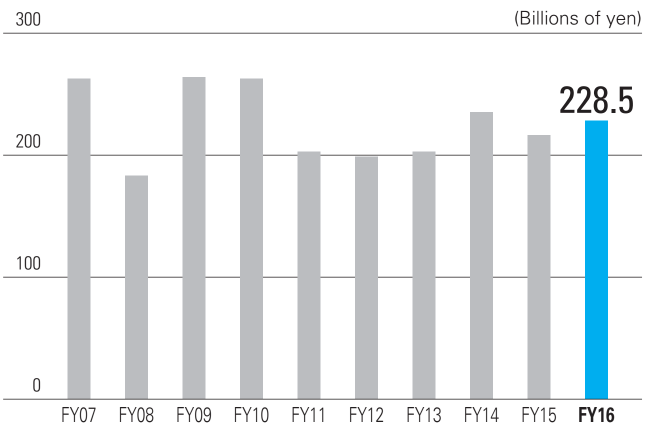
FINANCIAL HIGHLIGHTS

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

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

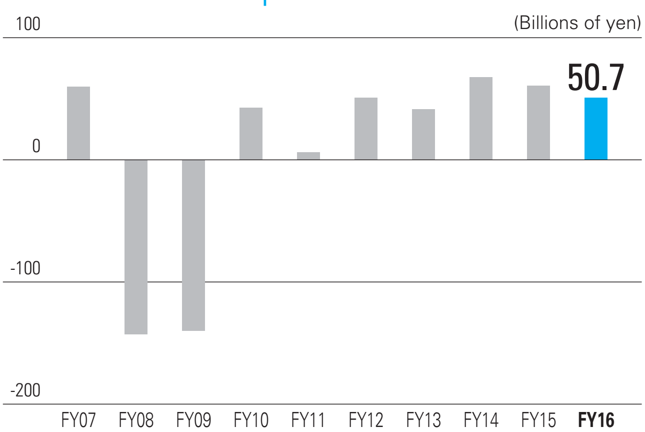
1 Since all yen figures have been truncated rather than rounded, the totals do not necessarily equal the sum of the individual amounts.
2 Return on assets is calculated by dividing profit (loss) attributable to owners of the parent by the average of total assets at the beginning and end of the period presented.
3 Return on equity (fully diluted) is calculated by dividing profit (loss) attributable to owners of the parent by the average amount of (total equity at the BOP – share warrants at the BOP – noncontrolling interests at the BOP) at the beginning and end of the period presented.

Total revenue



- Total revenue is composed of "Net interest income" such as interest from loans and "Noninterest income" such as fee income, as indicated by gross profit from core business operations.
- While earnings have been lifted since fiscal year 2010 on factors such as gains from repurchasing preferred securities and items such as gains on the sale of assets on which loss disposals had been recorded in the past, total revenue has steadily grown since fiscal year 2011 when such one-off gains dropped out of the picture. From fiscal year 2016 onward, we applied "selection and concentration" tests to our businesses in accordance with the Group's strengths and the growth potential of each business to identify growth areas, and we have actively invested management resources into them.

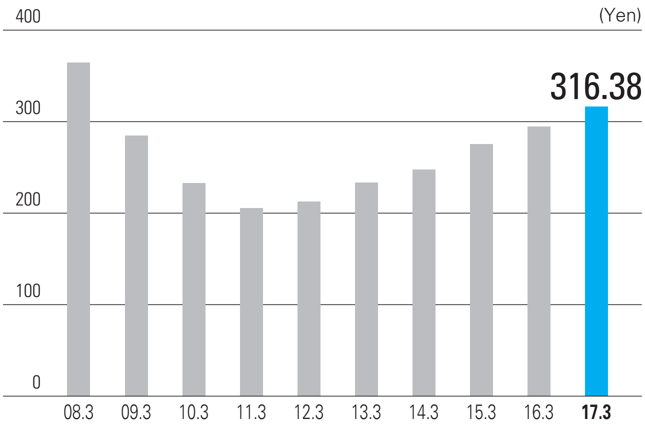
Profit attributable to owners of the parent



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

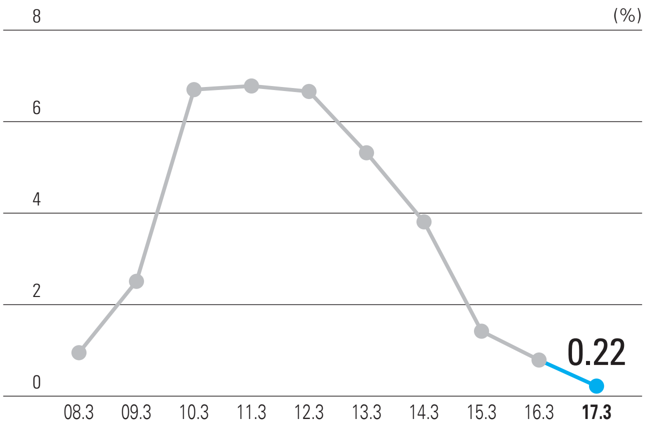
	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
	¥ 202.9	¥ 199.0	¥ 203.0	¥ 235.3	¥ 216.6	**¥ 228.5**
	130.3	130.9	135.0	144.2	141.3	**144.2**
	12.2	5.5	0.2	11.8	3.7	**31.8**
	6.4	51.0	41.3	67.8	60.9	**50.7**
	¥ 8,609.6	¥ 9,029.3	¥ 9,321.1	¥ 8,889.8	¥ 8,928.7	**¥ 9,258.3**
	7,982.0	8,345.6	8,598.5	8,136.0	8,135.6	**8,437.5**
	627.6	683.6	722.5	753.7	793.1	**820.7**
	¥ 212.67	¥ 233.65	¥ 247.82	¥ 275.45	¥ 294.41	**¥ 316.38**
	2.42	19.24	15.59	25.57	22.96	**19.46**
	1.00	1.00	1.00	1.00	1.00	**1.00**
	0.1	0.6	0.5	0.7	0.7	**0.6**
	1.2	8.6	6.5	9.8	8.1	**6.3**
	64.2	65.8	66.5	61.3	65.3	**63.1**
	10.27	12.24	—	—	—	**—**
	—	—	13.58	14.86	14.20	**13.06**
	6.66	5.32	3.81	1.42	0.79	**0.22**

Common equity per share



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

Nonperforming loan ratio under the Financial Revitalization Law



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

COMPANY HISTORY: TIMELINE OF SHINSEI BANK

From Shinsei Bank's launch through March 2016

In 2000, the Long-Term Credit Bank of Japan, Limited (LTCB) changed its name to Shinsei Bank, Limited. Since then, subsidiaries offering sales credit, credit cards, leases, and unsecured loan services were added to the consolidated Group.

2000	Shinsei Bank launched
2004	APLUS Co., Ltd. was renamed APLUS FINANCIAL Co., Ltd. and converted into a consolidated subsidiary (a subsidiary also named APLUS Co., Ltd. was established in 2009)
2005	Showa Leasing Co., Ltd. was converted into a consolidated subsidiary
2007	SHINKI Co., Ltd. (now Shinsei Personal Loan Co., Ltd.) was converted into a consolidated subsidiary
2008	GE Consumer Finance Co., Ltd. (now Shinsei Financial Co., Ltd.) was converted into a consolidated subsidiary
2011	Shinsei Bank (parent) commenced card loan service under the Lake brand

Fiscal Year 2016

In the Third Medium-Term Management Plan (Third MTMP) launched in fiscal year 2016, we identified unsecured loans and structured finance as growth areas and are actively allocating management resources to them, and in other operational areas, we are advancing selective initiatives. With Group integration as an important theme, we aim to improve corporate value over the medium and long term as a unified Group.

Apr.

Commenced Third MTMP

Strategic Initiative Areas Began offering settlement agent services in Japan for Chinese mobile settlement service WeChat Pay

May

Growth Areas Arranged project finance for megasolar facilities in Iwate Prefecture (Ichinoseki City) and Nagano Prefecture (Suwa City)

Jun.

Named No.1 in the "Internet Banking" category in Oricon Japan Customer Satisfaction Survey

Growth Areas Established SecondXight, Inc. as a Fintech joint venture with Griffin Strategic Partners, Inc. to use artificial intelligence (AI)

Aug.
- **Spent about ¥10 billion to repurchase own shares**
- Total number of individual customer bank accounts at Shinsei Bank exceeded three million

Oct.
- Strategic Initiative Areas: Launched a vendor leasing business as a collaborative venture between Showa Leasing and APLUS Co., Ltd.

Nov.
- Stable Revenue Area: APLUS Co., Ltd. issued credit cards for high net worth individuals under the "Luxury Card" brand in Japan for the first time as a joint partnership with parent Shinsei Bank, Limited.

Dec.
- **Showa Leasing Co., Ltd. converted into a consolidated subsidiary**
- Growth Areas: Entered unsecured personal loan market in Vietnam through a joint venture with Military Commercial Joint Stock Bank

Mar.
- **Spent about ¥2.0 billion to repurchase own shares**

Fiscal Year 2017

Shinsei Bank, Limited and Shinsei Bank Group companies in effect consolidated their back-office functions at "Group Headquarters," with the aim of enhancing each back-office function and optimizing them at a Group level, including a wide array of nonbank and financial functions, and thus enable stronger Group governance.

Apr.
- **Shinsei Bank Group established Group Headquarters**
- **Named No.1 in the "Internet Banking" category in Oricon Japan Customer Satisfaction Survey for a second successive year**
- Shinsei Investment Management Co., Ltd. awarded first prize in the global equity fund aggregate category in "R&I Fund Award 2017"

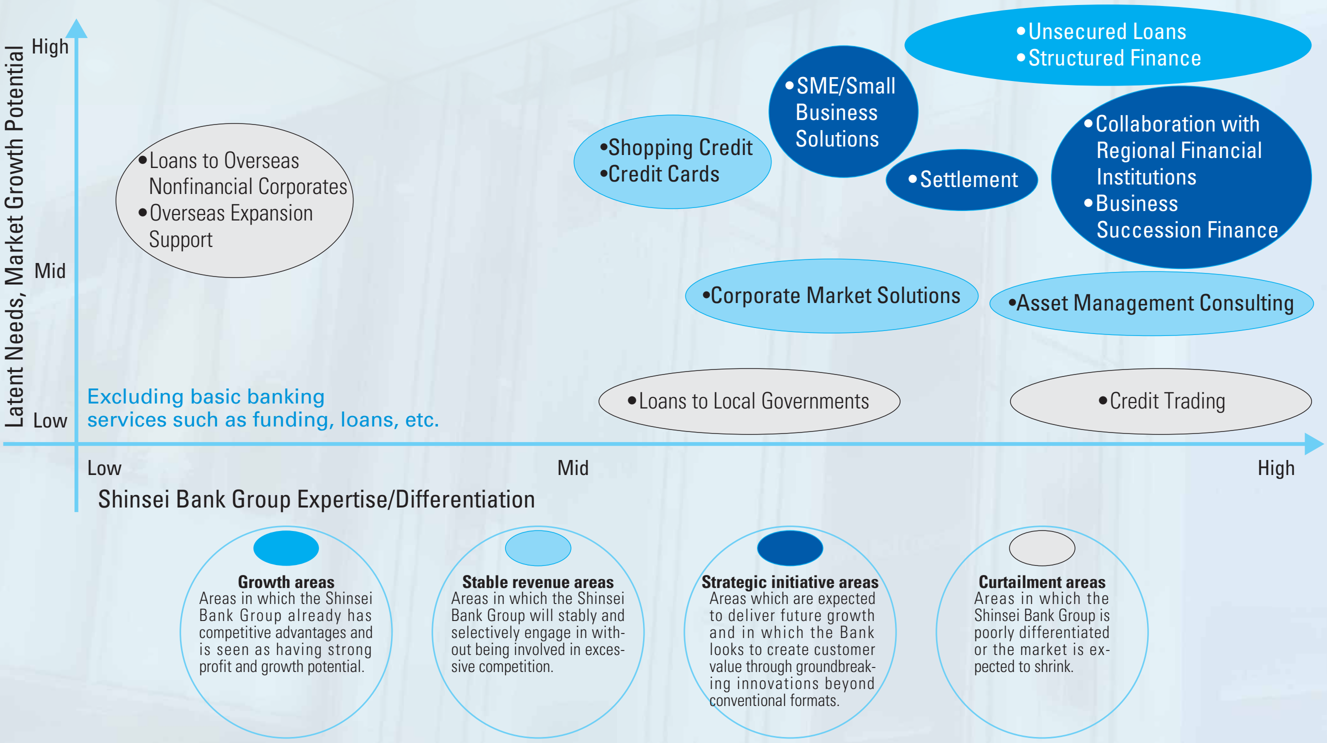
Jun.
- **Established "the policy on customer-oriented business conduct" and a related "action plan" to focus on providing the best options to its customers**

Overview of Third Medium-Term Management Plan

Shinsei Bank Group has formulated its Third Medium-Term Management Plan (Third MTMP) for the three-year plan from fiscal year 2016 to fiscal year 2018.

Business Strategy

Strategic Mapping of Businesses



Group Management Infrastructure Supporting Our Businesses

Group Management Infrastructure:
Achieve Responsive, Flexible Business Management and Lean Operations throughout the Bank Group

- Flexible and proactive reallocation/optimal use of Group management resources based upon business environment changes and plan progression
- Business management framework which enables maximum realization of organization and employee latent potential while eliminating waste and overextension
- Robust Group governance through unified Group management and enhancement of horizontal business functions

Financial Plan

FY2018 financial plan announced on January 29, 2016 was as follows.

		FY2018 Plan
Sustainability	Profit Attributable to Owners of the Parent	64.0 billion yen
Efficiency	RORA[1,2]	Around 1%
	Expense-to-Revenue Ratio	Below 60%

1 RORA is calculated as net income divided by fiscal year end risk assets
2 Basel III international standard fully loaded basis

Progress in First Year of Third Medium-Term Management Plan

In fiscal year 2016, the first year of the Third MTMP, we ran our businesses so they were responsive to changes in the economy and business environment while we focused on executing the management strategy in the Third MTMP. (Please see "Special Feature: Shinsei IR Day" on page 32 for more information.)

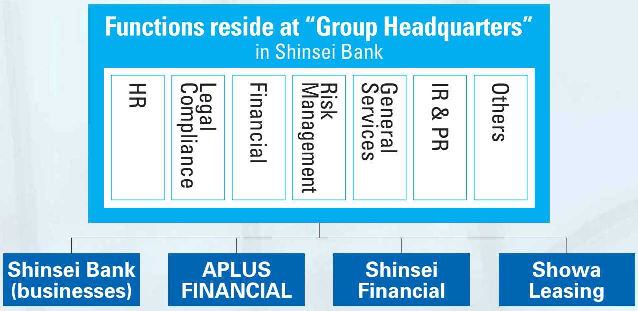
Progress on Business Strategies (Review and Challenges)

	Business	Review	Challenges
Growth Areas	Unsecured loans	Loan balance growth by proactive deployment of management resources	Search for organic/inorganic room to grow
	Structured finance	Robust trend in new transactions	Coordinated management of Group's human resources and use of its know-how
Stable Revenue Areas	Asset management consulting	Lackluster sales of asset management products reflect opaque market environment	Optimizing channels and HR deployments, improving products and services
	Corporate market solutions	Derivative-related income weak on stagnant market conditions	Service lineup expansion aimed at differentiation
	Shopping credit, credit cards	Shopping credit transaction value trended sideways but operating revenue grew	Increase in number of new credit cards issuance
Strategic Initiative Areas	SME/small business solutions	Commence vendor leasing	Integrate Group know-how
	Settlements	Expand outlet network accepting WeChat Pay	Expand franchise and proper monitoring
	Business with regional financial institutions	Progress in distribution, structured product sales, unsecured loan guarantees	Realize Group based benefits, deepen collaboration with regional banks
	Business succession finance	Shift management resources to support for change or discontinuance of business	Verify commercial potential based on methods for approaching customers, market scale of supporting business for change or discontinuance of business

Integrate Group Management Infrastructure Supporting Our Businesses

The integration of head-office functions of Shinsei Bank Group companies into the Group Headquarters will allow us to 1) enhance each function and optimize from a Group-wide standpoint to strengthen the Group's governance, and 2) realize greater productivity and efficiency by integrating overlapping functions at each Group company. (Please see "Special Feature: Progress Assessment of Group Integration" on page 30 for more information.)

Group Headquarters established in April 2017
- Virtual "Group Headquarters" established at Shinsei Bank in April 2017
- Complete our transition to the by-function line system in October 2017, from a stage where some lines still remain at Group companies



Financial Results

In fiscal year 2016, consolidated profit attributable to owners of the parent came to ¥50.7 billion. The expense-to-revenue ratio came to 62.3%. (Please see "Letter from Finance" on page 13 for more information.)

Strategies to Increase Value for Stakeholders

CEO MESSAGE

To Our Shareholders, Customers and Employees

Hideyuki Kudo
President and Chief Executive Officer

For the Sake of Staying Ahead of Change

There is a question I am often asked when I meet with stakeholders for a discussion. If Shinsei Bank Group is neither a mega-bank nor a regional bank, then what kind of financial group is it? Here is what I think about that. The Shinsei Bank Group goes beyond the boundaries separating the financial industry as a frontrunner in identifying and staying ahead of the trends that shape how finance will evolve from here. That's what we aspire to become both in terms of our asset scale and business portfolio, and at the same time we understand our stakeholders have high expectations for the Shinsei Bank Group in executing this role. Considering our unique standing, we view no other financial institution as a benchmark and recognize comparing the Group to industry competitors is difficult. Even so, we think this is a winning strategy given our view that the financial industry is poised to enter an era of sweeping, fundamental change.

Times when the prevailing order or paradigm wavers are threatening to established interests who are highly adapted to that environment but new opportunities also often emerge at such times. The foundation of the business model the Shinsei Bank Group seeks to construct lies in going beyond conventional industry boundaries in reconsidering the Group's financial functions from the customer's viewpoint, unearthing genuine needs that customers were not even aware they had, and aiming to offer new businesses and services that transcend conventional thinking.

We see three key management issues for this business model to become reality and the Group to succeed as a new kind of integrated financial group. In the CEO message, I discuss initiatives and results in the first year of the third Medium-Term Management Plan (Third MTMP) that address these management issues, and share with all our stakeholders what our future policies will be.

Three Key Management Issues for the Shinsei Bank Group

The three key management issues are: 1) the Shinsei Bank Group's profitability; 2) our capability to respond to a changing environment; and 3) our capital policies and public fund repayment efforts.

The Shinsei Bank Group's Profitability

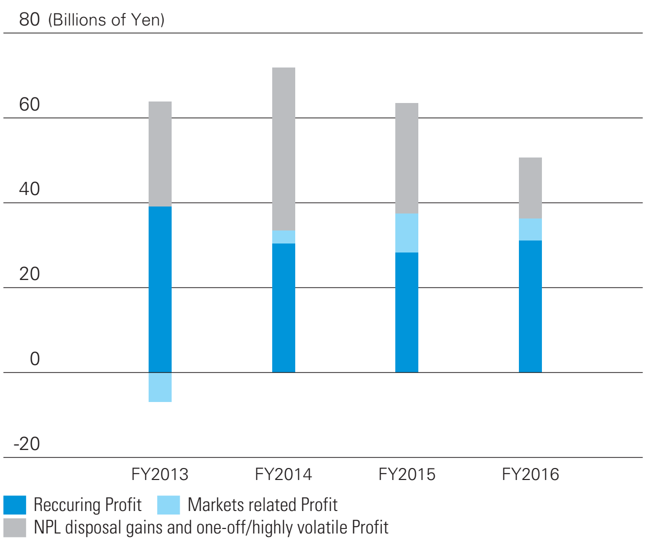
From the early stages when we devised the Third MTMP we are now executing, we recognized the magnitude of our earnings volatility and the weakness of our core profitability as issues. The Shinsei Bank Group has so far been highly reliant on non-reoccurring forms of income such as gains on the reversal of net credit costs from drawing down reserves for loan losses accumulated in the past, and income realized by exiting investments and loans held by investment-linked operations. In conforming to the growth imperative by expanding our businesses in every direction, we have lapsed into a shortage of logistical support for each of our business fields, so in business fields where we ought to have grown, we could not fully realize our latent growth potential.

We need to add more heft to our core profitability while limiting factors that contribute to high earnings volatility to ensure the market properly assesses the Shinsei Bank Group's corporate value. In the Third MTMP, we applied "selection and concentration" tests to our businesses in accordance with the Group's strengths and expertise and the growth potential of each business, turning away from the all-directional expansion course we had been pursuing (Please see "Progress in First Year of Third MTMP" on page 9 for more information.).

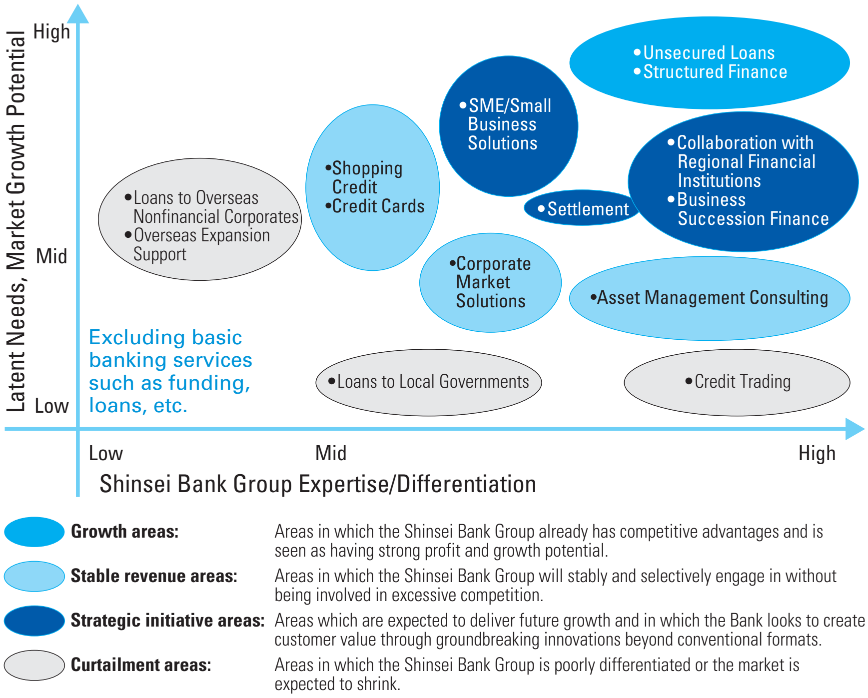
As a start, we are directing even more of the Group's management resources into the unsecured loan business and structured finance as growth drivers. These businesses earn higher margins than other businesses and have growth potential, and, despite stepped-up competition stemming from the Bank of Japan's negative interest rate policy, these businesses have developed into core sources of profitability where the Shinsei Bank Group can deploy the expertise and advantages it has harnessed for years.

In the unsecured loan business, with growth in the credit guarantee business that partners with regional financial institutions contributing, our unsecured loan balance grew at an 12% average annual rate in fiscal year 2016, outpacing the overall market. This was accompanied by steady growth in the number of customers at Shinsei Bank Card Loan—Lake (Shinsei Bank Lake). The scale of the domestic unsecured loan market is about ¥8 trillion but in view of Japan's demographic trends,

Profit Composition Trend



Strategic Mapping of Businesses



the market is unlikely to keep growing at the same pace over the next five or ten years. Against this medium-to-long-term outlook for a changing macro-environment, we see two solutions. First is to use artificial intelligence (AI) to expand loan applications and our unsecured loan balance. We plan to do the former by deploying AI to respond to the needs of prospective customers who so far have not been able to meet our standards. We plan to do the latter by harnessing AI to develop more detailed credit assessments of the demographic cohorts we are targeting as customers at present. Second is to deploy our systems and marketing expertise not only in Japan but also overseas, especially in small loan demand in Asia. I believe one way to do this for the Shinsei Bank Group, which does not have a customer base overseas, is to partner with local financial institutions that have a customer base. In February 2016, we began to supply the core systems the Group developed for consumer finance operations to a Thai company engaged in mobile phone sales and shopping mall management. In November 2016, we formed a joint venture with Military Commercial Joint-Stock Bank, a major private-sector bank in Vietnam, and began preparing the way to launch an unsecured loan business (Please see “Special Feature: Shinsei IR Day: Unsecured Loans” on page 35 for more information.).

In structured finance, we engaged selectively in real estate finance in view of possible overheating in some domestic real estate transaction prices. In project finance both in Japan and overseas, on the other hand, with project initiatives and syndications with regional financial institutions becoming more active, fee income from project originations and our operating asset balance trended steadily in fiscal year 2016. In domestic project finance, we have mostly focused on megasolar projects but with revisions to the feed-in tariff (FIT) system, we expect the importance of wind, geothermal, biomass and other forms of renewable energy as sources for electric power generation to grow. The Shinsei Bank Group will consistently offer new solutions as it strives to remain a pioneer in the project finance field, harnessing its capabilities in securing megasolar projects, assessing project risks, and partnering with regional financial institutions (Please see “Special Feature: Shinsei IR Day: Structured Finance” on page 34 for more information.).

One of the stable revenue areas is asset management consulting. I think this is the biggest challenge in the business strategy of the Third MTMP. Market turmoil stemming from factors such as the negative interest rate policy has sharply diminished the investment appetite of retail customers. Signs of recovery emerged in the second half of fiscal year 2016 but asset management consulting cannot be satisfied with a simple self-sustaining recovery in investor confidence as it has not yet addressed enormous untapped needs. It is thus no exaggeration to say this field is one of intense interest for the Japanese people but financial institutions have yet to fashion a genuine response to such needs. The Shinsei Bank Group sees enormous untapped business opportunities if it can go beyond its own network and collaborate with companies outside the Group and harness AI to ascertain the asset management needs of customers in the age 30-40 cohort who are ready to accumulate financial assets and savings. Leveraging AI, the Group is working on developing customer analysis models for marketing and providing customers with products that match their specific needs through channels that are convenient for them, and on renovating our customer relationship management (CRM) systems linking up multiple channels such as the internet, smartphones, branches and call centers (Please see "Special Feature: Shinsei IR Day: Retail Banking" on page 33 for more information.).

In fields we expect to deliver future growth and where the Bank looks to create customer value through groundbreaking innovation, we group settlement services, business solutions for SMEs, collaboration and alliances with regional financial institutions, and business succession finance in the strategic initiative areas.

In settlement services, APLUS Co., Ltd. (APLUS) commenced offering a settlement agent service in Japan for Chinese mobile settlement service WeChat Pay, which is operated in China by WeChat, China's largest SNS service. The Group is working to add more merchants accepting WeChat Pay and rapidly build out the WeChat Pay outlet network in Japan. In business solutions for SMEs, we launched a vendor leasing business as a collaborative venture between Showa Leasing Co., Ltd. (Showa Leasing) and APLUS. The latter is engaged in installment sales business for its member merchants and is responsible for credit decision functions. The former is responsible for the leasing and leased asset administration functions. The venture proposes leases as a form of finance to individual business owners that are APLUS member merchants with plans to purchase equipment. For the Shinsei Bank Group, the venture is expected to offer a means to achieve stronger engagement and lock-in with a new customer base.

Even after the Bank of Japan introduced the negative interest rate policy, we have not sought to substantially alter the direction of the basic policies in the Third MTMP, and as a result of resolute efforts to improve our core profitability, the two businesses we identified as growth areas are steadily growing, and there are promising signs emerging in each of the businesses we classify as strategic initiative areas.

Our Capabilities to Respond to a Changing Environment

We believe the environment facing the financial industry is entering an era of sweeping, fundamental change. Considering the advance of financial technologies and entry of non-financial firms into the financial area, it is not important whether banks or some other kind of entity provide the products and services from the vantage point of customers. Companies that survive will be those offering more attractive products and services that customers prefer, regardless of the field from which they originate. The Shinsei Bank Group has a broad spectrum of business know-how and a customer base in so-called non-bank fields such as consumer finance and leasing that fall outside the conventional boundaries of banking, securities and trusts, and it is able to manage these in a coordinated manner. For the Group, an era of sweeping change is a welcomed entry point to new opportunities.

Upon reflection, we realized the Group was up against real limits in adapting to the changes reshaping the business environment if it stayed the course as a result of the growing tendency of the Group's organizational management to create silos through the bundling of our Group-based organization structure and the erection of boundaries delineating fields of finance. As I mentioned at the start, we are a new kind of integrated financial group, so the Shinsei Bank Group needs organizational capabilities. Along with Shinsei Bank, it is vitally important that we encourage Group companies such as Shinsei Financial Co., Ltd., APLUS, Showa Leasing, Shinsei Trust & Banking Co., Ltd., Shinsei Securities Co., Ltd., and SHINSEI PRINCIPAL INVESTMENTS LTD. (Shinsei PI Group) to draw out the best from their human resources, business bases and product development capabilities so they can reinforce the appeal of their product lineups while reminding them to move with sufficient speed. This is a matter of high urgency for integrating the Group.

The key ideas for advancing Group integration are integrating operations, bringing our people together, and integrating our businesses (Please see "Special Feature: Progress Assessment of Group Integration" on page 30 for more information.). For starters, prime examples of integrating operations is the retirement of the Group-based organization structure we had used for many years along with the consolidation in effect of head-office functions of Group companies into the "Group Headquarters," which was established at Shinsei Bank in April 2017. The consolidation of Group company head-office functions has enabled us to streamline operations and improve productivity as well as work to improve our operational performance by providing high value-added services to business divisions and bolstering our capabilities for devising Group-based strategies. With the Group Headquarters now in place, what we aim to achieve next is the reorganization of the Group's business structure according to each function provided to customers. We will start work on this from fiscal year 2017. Our goal is to construct an organization that optimizes the Shinsei Bank Group as a whole in ways that transcends boundaries splitting finance into different fields.

What we also need to achieve to lower barriers among fields is to bring our people together. What we aim for is not merely

putting personnel together to exchange information and ideas or a policy of employee rotations. Our ambition is to strategically deploy human resources from the overall pool of Shinsei Bank Group employees from the perspective of what person is best suited to which business. It is our expectation that when human resources from a different field or corporate culture work toward achieving common goals within the context of a single organization, new points of focus and ideas will emerge that are a clean break from what had been the case before. The latent potential of the Shinsei Bank Group to become a driving force for identifying new focal points and proposing new ideas is enormous. Of the benefits we expect to derive from bringing our people together, this is one of the most important. To achieve this, the management team, including me, will be steadfast in communicating with Group employees and strive to develop organizational management and personnel systems from a Group-wide perspective.

Our efforts in bringing our people together will necessarily help integrate our businesses. The expertise and business experiences each of our employees possess will organically connect dots from which new businesses will emerge, and existing businesses will hit upon solutions they never even conceived of before that move them forward. As a mean for achieving this, we launched the "Cross-Company Business Unit" in April 2017. The unit is tasked with sharing information by transcending Group company boundaries in specific areas—business units aimed at corporate clients and financial institutions, structured finance, businesses aimed at individuals, and analytics—as well as generating ideas that advance Group-based businesses, with a particular focus on unit leaders, and examining whether organizational restructuring or function consolidation are necessary to move forward.

Through our efforts at integrating operations, bringing our people together, and integrating our businesses, I believe the Shinsei Bank Group has the organizational capabilities to adapt to all kinds of environmental changes.

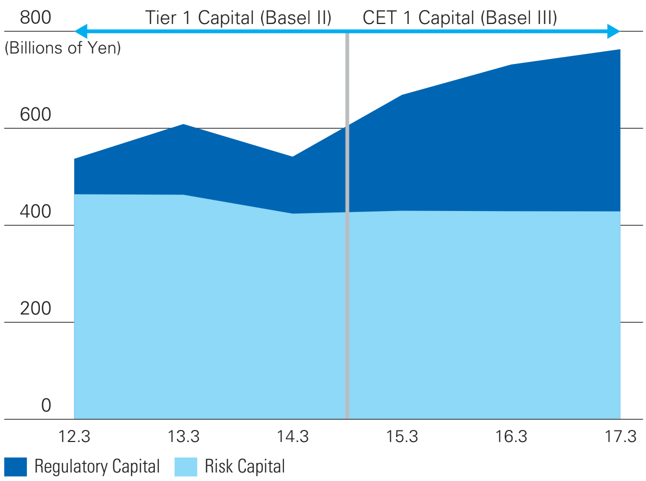
Our Capital Policies and Public Fund Repayment Efforts

We recognize communicating with the market about our capital policies has become even more important in view of the progress we have made in accumulating capital that can be used for public fund repayments as a result of our booking of solid earnings in the past several years.

As a way of returning profits to shareholders, we announced a common stock repurchase plan with a maximum aggregate value of ¥10 billion in May 2016 based on our current level of capital accumulation to enhance per-share value. With regards to public fund repayments, given that the public capital supplied to Shinsei Bank has been converted to common shares, we are studying viable plans for repaying public funds in an effort to construct and execute such a plan.

We remain mindful of the need to secure earnings that can fund public fund repayments but also of the need to pursue a suitably balanced approach to capital allocation between deploying capital in our businesses and returning profits to our shareholders to enhance per-share value.

Regulatory Capital / Risk Capital Trends



The Goal for Shinsei Bank Group
Strategies to Increase Value for Stakeholders
Sources of Corporate Value
ESG as Foundation Increasing Corporate Value
Data Section

In Closing

We are resolutely pressing ahead with the three key management issues of our core profitability, our capabilities to respond to a changing environment, and our capital policies and public fund repayment efforts. We believe properly explaining the results of these initiatives to the market will contribute to enhancing the sustainable corporate value of the Shinsei Bank Group. We also think this will enable us to meet the expectations of all stakeholders connected to the Shinsei Bank Group.

Going forward, we hope to continue to seek the understanding and support of all our stakeholders.

July 2017

Hideyuki Kudo
President and Chief Executive Officer

LETTER FROM FINANCE

We aim for sustainable growth of stable earnings through optimal allocation of management resources in accordance with the Group's management strategy.

Earnings Performance in Fiscal Year 2016

In fiscal year 2016, the Third MTMP's first fiscal year, we applied "selection and concentration" tests to our businesses to achieve effective modulation in our financial management. We selectively directed more management resources to growth areas and racked up commensurate results.

Total revenue increased to ¥228.5 billion, up ¥11.9 billion from fiscal year 2015. Of that, net interest income totaled ¥122.2 billion, about even with the fiscal year 2015 level, while noninterest income totaled ¥106.2 billion, up ¥11.9 billion from fiscal year 2015. As for interest income, the negative effects of the base rate reduction and spread compression due to stiffer competition caused by the introduction of the negative interest rate policy were offset by steady income growth on expansion in the unsecured personal loan balance. As for noninterest income, revenue related to asset management product sales declined at the retail banking business but fees increased on buoyant initiatives for new projects at the structured finance business and large gains were booked on sales of investment securities. Noninterest income also benefited from the nonrecurrence of losses on the reassessment of a fund investment at the principle transactions business that was recorded in fiscal year 2015.
Expenses increased to ¥142.4 billion, up ¥1.9 billion from fiscal year 2015, due to the effects of the tax code revisions and allocations to growth areas such as IT system costs aimed at supporting business base expansion. The expense-to-revenue ratio improved to 62.3% from 64.9% in fiscal year 2015.
Net credit costs increased to ¥31.8 billion on provisioning to general reserves attendant with loan balance expansion in growth areas.
Additional provisions to reserves for losses on interest repayments for APLUS FINANCIAL and Shinsei Personal Loan totaled ¥5.1 billion. As a result, profit attributable to owners of the parent totaled ¥50.7 billion in fiscal year 2016.

Asset quality is shown by nonperforming loans (NPLs) under the Financial Revitalization Law (nonconsolidated basis). The ratio of NPLs to the overall loan balance improved to 0.22% as of March 31, 2017 from 0.79% as of March 31, 2016.
Capital has been built up as the Bank has recorded profits year after year, and its Basel III international standard (fully loaded basis) Common Equity Tier 1 Capital Ratio stood at 12.3%. The Bank has kept its capital level at a sufficient level against financial regulatory capital requirements and the level needed to operate its businesses as spelled out in the Third MTMP. Based on an overall assessment of our share price, capital level, profitability, and per-share value, we executed a common stock buyback program, repurchasing a total of 75,564,000 shares. We continue to aim to improve per-share value through appropriate capital allocation policies predicated on maintaining adequate capital levels.

Financial Management Policies for Fiscal Year 2017

In fiscal year 2017, we will implement financial management in a way to achieve the best allocation of management resources based on the Group's management strategy while continuing to monitor trends in financial markets attendant with murky political-economic conditions, especially overseas. We will continue to selectively direct more management resources to the growth areas of unsecured personal loans and structured finance and turn these into a rock-solid earnings base. We will also work to improve productivity through operational streamlining and execute rigorous cost management. We intend to forge ahead further with integration the Shinsei Bank Group across our operations, businesses and people.

		3rd Medium Term Management Plan	
		FY2016 Actual	FY2018 Plan[2]
Sustainability	Profit Attributable to Owners of the Parent	50.7 billion yen	64.0 billion yen
Efficiency	RORA[1]	0.8%	Around 1%
	Expense-to-Revenue Ratio	62.3%	Below 60%

1 RORA is calculated as net income divided by fiscal year end risk assets
2 Announced on January 29, 2016

We will continue to work tirelessly in order to meet the expectations of all of our stakeholders.

July 2017

Masayuki Nankouin
Chief Officer
Group Corporate Planning and Finance

Moderator:
Yoshinobu Yamada
Managing Director, Senior Analyst
Global Markets Research
Deutsche Securities Inc.

Hideyuki Kudo
Representative Director, President and CEO
Shinsei Bank, Limited

Jun Makihara
Outside Director
Shinsei Bank, Limited

SPECIAL FEATURE

President and CEO × Outside Director

DISCUSSION

↓

INCREASING VALUE
for stakeholders

We held the special feature program under the theme of “Increasing value for stakeholders”.

Mr. Jun Makihara, Outside Director with extensive experience in finance both in Japan and overseas, and Mr. Hideyuki Kudo, Representative Director, President and CEO, had a discussion how to increase corporate value over the medium- and long-term.

This program was moderated by Mr. Yoshinobu Yamada, the banking sector senior analyst at Deutsche Securities Inc.

The banking sector's current state and future

Given the needs of society, the traditional business model for commercial banking of accepting deposits and making loans no longer generates substantial value added. A future is approaching where the need to be closely wedded to the banking model will fade.

Yamada Can you share with us your current recognition of the banking model around the world?

Kudo From a business standpoint for the Shinsei Bank Group, we see no need to stick with the banking model. To start with, commercial banking comes with various restrictions. These are not necessarily well aligned with the way society is changing and, in some cases, no longer match the needs of customers. In addition, when I think about the wide-ranging functions of Shinsei Group companies from the standpoint of providing value added to our customers, we do not necessarily provide our services as a "Bank."

In view of what I've said, one aspect that comes to my attention in looking at the situation facing commercial banking is the restrictions and hurdles posed by capital regulations and various regulations on operational execution. In particular, I think it is becoming a constrictive format for banks seeking to be responsive to diversifying customer needs. And while the situation in Japan and overseas markets differ somewhat, there is a recognition the value added from a simple lending business is growing extremely minuscule. There is little doubt the traditional business, where a bank is deemed eligible for the special funding method of accepting deposits and then lends out those funds, no longer generates substantial added value.

Makihara As conventional loan-deposit banking became increasingly commoditized, banks sought to move into different fields but this came back to bite in the form of the global financial crisis. On top of the financial damage, many layers of regulations have been imposed on banks, so I think it has become exceedingly difficult to manage banks. On this score, I think the situation facing banks is similar in Japan and overseas.

Furthermore, it has become much harder to earn profits with a traditional banking model since the sector entered the current era of low interest rates, and banks are extremely hampered by regulatory costs. The banking sector in Japan is saturated, so the situation facing banks is one where there must be a sense of what businesses earn money, what businesses must be retained in the public interest and what else should banks do. I think these are the sorts of questions increasingly directed at the sector. What is happening now, moreover, is a wide assortment of ventures can tap into money flows through FinTech. I think this has led banks to feel regulation has swung too far toward strictness and prompted them to consider pursuing opportunities in new fields.

Yamada In view of the current situation, please tell us what a sustainable business model looks like for a bank five or ten years from now.

Kudo I don't think there is a single business model for the bank of the future. Our Group, for one, has identified a direction it seeks to go using the strengths and management resources we possess but looking at the banking sector as a whole, I do not necessarily think there are all that many commonalities.

I believe, for example, the world will clearly become even more digital. Even so, I think there are unique attributes to this trend in Japan such as a climate where high-touch customer services are oddly pursued to a degree that is burningly fervent but are then only half-baked into the final product. In some ways, customers have become acclimated to this pattern. If you think this is a digital age, is it smart to simply try to put everything online? In my view, just putting services online or making them smartphone accessible does not make for good services. I think there is a need to create business models for Japan where services are not merely rendered into a digital format or made available online.

Makihara Banks basically accept deposits, a function that comes with public interest obligations, and they must then put these funds to work for business purposes. The strenuous pursuit of cost cutting is a part of the work of conventional lending and deposit gathering. That said, I don't think it is necessary to compete solely by channeling enormous energy into cost cutting but banks cannot afford to stop doing it either.

The remaining businesses that can boost earnings are advisory. Such businesses include asset management, asset bequests and succession advisory for the elderly, and financial advisory for companies that require some degree of expertise. Another example is so-called investment banking. Putting aside the matter of whether or not Shinsei Bank will pursue such work, it is a business where risks can balloon to a gigantic scale unless management is paying sufficient attention to them.

What comes next is to ask whether to run a domestic business or to operate globally. Even if a bank thinks the domestic market is overcrowded and sought to grow globally, each country presents different cultures, regulations and risks to consider. What is really hurting U.S. and European banks is oversight from multiple regulators. Some regulations are even contradictory, and regulatory compliance costs are very high.

In many cases, banks are squeezed as regulatory authorities complete with each other. Regulators in Japan are fairly careful to avoid such contradictions among regulators, so the absence of that dynamic is one of the positives of doing business only in Japan in my view.

It is very difficult to envision what banks will become in five or ten years. To an extent, the best approach will likely be to keep costs as low as possible by using technology in commoditized businesses and to assemble and retain capable teams with expertise and specialized knowledge and pursue advisory work in customizable businesses.

Challenges and Initiatives the Shinsei Bank Group must address to realize corporate value over the medium- and long-term

We already collect enormous volumes of data and use these collections to provide products for individuals and small businesses and offer high value-added financial services through customization. Two things we need to address from here are: 1) transcending boundaries segmenting the financial industry and striving rigorously to improve productivity using technology for functions that support automation; and 2) providing services based on even deeper expertise and knowledge in areas where we excel for functions that provide added value to customers.

Yamada What should the Shinsei Bank Group do to increase corporate value as it looks down the road at the bank of the future sketched out above? Alternatively, what and how do you think about the risks attendant with such endeavors?

Kudo Going back to what Mr. Makihara touched on earlier, it is important in services to separate the customer interface piece from the back-office operation piece. In the latter, there is little choice but to improve productivity as much as possible. I think the technologies applied to that end can be applied over and over again.

In contrast, figuring out how to build in the customer interface piece in ways that creates a value-added experience for customers is the essence of design itself. That is where I think uniquely Japanese ingenuity is necessary.

What I don't think we necessarily need to do, for example, is to strive on our own to advance a basic technology such as Blockchain, even though it will undoubtedly find its way into the financial business. As de-facto standards emerge, we naturally expect to apply those to our operations. That said, Blockchain is not an area where we intend to play a leading role in technology development.

When vaguely dropping the term "FinTech" into discussions, we need to ask ourselves two separate questions when considering this trend. Do we really need to channel our efforts into such ventures? Is it enough just to keep up properly with changes in society? I would like us to focus our energies on our customer touch points.

Yamada With financial institutions around the world moving in more or less the same direction on how to apply artificial intelligence (AI) and FinTech, what are your thought on the Shinsei Bank Group's unique attributes, strengths and points of differentiation versus other banks?

Kudo Technologies are something any financial institution can adopt. In the initial phase after a technology is adopted, this can be a source of appeal but I do not think staying at that level is a source of lasting differentiation. In the end I think what is important is the kinds of products and services you can provide via the application of technologies. I see two entry points in thinking about deploying technologies.

First, the current boundaries that separate the financial sector are not necessarily consumer oriented. A sector structure where banks and card issuers exist side by side, each with separate regulatory systems, will undoubtedly erode and crumble. From the standpoint of putting the consumer first, the current sector structure is certainly strange. As the boundaries segmenting the financial sector dissolve, we intend to be a frontrunner in what we see as a natural process of financial institutions providing more integrated services from a customer standpoint. We think it will not be easy for other banks to mimic our approach to this opportunity. Each of our competitors is already large, so copying us will be easier said than done. The Group is moving forward on many fronts but even at our smaller scale, reorganizing around such initiatives within the Group is no easy task and we doubt other banks will be able to easily replicate our approach. In that sense, we think our hard-to-mimic approach to this opportunity is a source of differentiation.

The other entry point is the substantial differences in how we deploy technology, and here in turn is precisely how we build up customer interfaces and how we apply design ideas and specifications. We think design will become an especially important matter in the years ahead. This is the case in ensuring pages can be viewed on a single screen on a smartphone, for example. I think the difference between us and our competitors will come from whether we can build interfaces by remaining aware of the user experience.

Yamada My impression of President Kudo's core message in what he shared just now is that the high convenience, one-stop component is important for individuals. As for corporations, responding to various problems in a tailor-made manner is important. To move in that direction, what are the problems that must be addressed here today?

Kudo Thank you for bringing up the distinction between individuals and corporations. Even among companies, we think we can build models for smaller enterprises from the enormous data flows we process, like we do for individuals. For enterprises with greater scale, we need to have a structure that is useful in addressing problems they face so they feel we add value. Given the Shinsei Bank Group's smaller scale, we need to develop genuine niches and fields of strength rather than attempt to do everything relying on intuition. Outside of real estate finance and project finance, for example, we need to decide on several fields such as business succession, support for closing down or restructuring small businesses, and health care. While those are just examples of what we could pursue, we need to decide on several fields and dig deeper.

Makihara There are not any companies or people without relationships, so providing new services to our existing customers is fine but in developing new customers, there will always be competitors. It is next to impossible to stand out from the crowd and offer something new without seeing who the competition is. There are teams with skillfully constructed capabilities who grasp that at Shinsei Bank Group but they need to be nurtured and tested to grow. It is a truism for any company that management's most important tasks are to foster outstanding teams, provide them with incentives, and point them in the right direction.

Kudo In essence, the direction we will likely go is to identify targets our competitors are unlikely to pursue and seek niches within those targets based on a granular understanding of them. Our approach will be to use the fields where we have already built top-notch teams as a point of departure to venture out into other areas. As I mentioned earlier, in the field of structured finance, for example, despite some missteps, our teams have learned a lot and individual members have grown. I think we are now able to add new human resources in such fields and expand the size of our teams while training new people, and then expand outward from there. I believe we are ready to do this in several fields.

Makihara For example, consider asset management products. I doubt there is anyone who is entirely satisfied with the products available now. Yet there are clearly unmet needs. Rather than source only in Japan, I think one potential growth field is to bring in overseas asset management firms and offer their funds through alliances with regional financial institutions. But is it actually possible to do that? If such partnerships were easy to launch, I think many others would have already done it. Sizing up and identifying a good asset management firm, sealing an alliance, and then building a good marketing network is an enormous undertaking. I think this is an example of something the Shinsei Bank Group is well placed to pursue.

Yamada In pursuing expertise, I think the most important point is cost. In the startup phrase, upfront investments are invariably necessary. In terms of increasing overall corporate value, how one thinks about cost management is important.

Kudo In fields where existing businesses are proceeding with current operations, managers have little choice but to be thoroughgoing in their focus on improving productivity. I think we need to continue to seek to find any points of entry that enable us to pursue productivity gains but this would mean forming new habits of the mind. Some Japanese manufacturers are able to improve productivity in such ways but financial institutions do not have such cultures. The mindset that seems to invariably prevail at financial institutions is pursuit of the blockbuster deal. That said, in the years ahead, especially in the case of commercial banks, chasing such "whales" is unlikely to be fruitful. In operational functions, banks must seek openings anywhere they can be found to pursue comprehensive productivity gains. As a starting point to achieve this, building such mindsets will be important in my view.

On top of that, for many things to be substantially altered, investments will be necessary, as Mr. Yamada mentioned. For justifying each investment, I think what matters is the degree to which the underlying "big picture" story is convincing. If management is able to make a powerful case, investors with medium- and long-term horizons will be convinced. To the extent management achieves that, I think some level of investment is possible. Of course, we in management think about single-year earnings performance and balancing that against capital levels but these depend on the viability of balanced decision-making and the importance of the big picture narrative and its viability.

Yamada With regards to how profits are allocated, a normal non-financial company chooses between forward-looking investments and returning profits to shareholders but in the case of banks, a third option is regulatory response. Getting the balance right on the three options is very difficult. What sort of balance do you think is likely to be sought in the coming five to ten years?

Kudo With regards to the third option, we naturally need to respond but we are a bank subject to domestic standards. There are others in the industry that must meet regulatory capital requirements even sooner. Fortunately, we have a good overall grasp of the direction this issue is going. Our approach will be to minimize regulatory costs and focus instead on the two remaining options for profit allocation.

Makihara Shinsei Bank is a public fund injected bank. The Japanese government is one of our shareholders and we are required to build up retained earnings as a source for public fund repayment. In returning profits, we must take into account how to build up our capital base in the future even as we execute policies to return profits to shareholders. Even more than normal regulatory compliance, it is a major burden to always be thinking about the public capital we received.

Yes, the three options are forward-looking investments, repaying public funds, and returning profits to shareholders. These are the choices all banks face. Within the forward-looking investment bucket, the biggest is IT investment. At Shinsei Bank, we must actually allocate funds to operations and upgrades and just as we feel relieved when those funds are at last deployed, then something like a cyber attack requires a response. At such times, it always feels to me like IT is a potentially unlimited reservoir of needs. Navigating in such situations is very challenging. One of our outside directors is an IT expert, so we tap into his knowledge.

Value provided to stakeholders

In addition to increasing the absolute size of our earnings, it is also important to assure market participants sustainable growth. That said, even as we seek to boost profits, we must objectively examine what that entails, weighting risk against prospective reward.

Yamada What are the methods for increasing over time stakeholder value? Does it ultimately come down to profits?

Kudo Of course that is the case. A very simple truth is that without increasing net profits, we cannot make all our stakeholders happy. The key is how to steadily increase net profits. Moreover, beyond increasing the absolute size of our earnings, it is important to assure the stock market, for example, that we can keep sustainable growth, and ultimately, confidence in our ability to deliver will impact share price valuation. On the basis of these two perspectives, I think the initiatives we are working on are probably right and that we have probably found a good balance.

Makihara Unlike manufacturers, financial institutions do not have patents, so when something we try starts off well, rivals will copy us. We must always look for new ideas but we cannot rely solely on new ideas. Regarding sources of sustainable, stable revenue, what I think has the most promising outlook is our relationship with individual consumers. They feel safe in borrowing money from a bank. If they feel they can count on us to do business safely, it will be hard for a competitor to swoop in from the side and snatch them away. I feel a very big piece of Shinsei Bank's future is our relationship with consumers, including Shinsei Financial Co., Ltd. and APLUS FINANCIAL Co., Ltd.

Yamada Considering that taking on risk can translate into higher profits but not doing so can lead to stagnation, how does Shinsei Bank plan to manage the risks that come from business expansion going forward?

Makihara For example, our Board of Directors as a whole is very aware that expanding overseas would be a high-risk venture, so apart from pursuing niches we are really confident will go well, there is not much of an inclination to go after overseas opportunities. All of our Board members have had a variety of experiences overseas, so each of them can be objective in weighing risk against reward in making business decisions. When an opportunity overseas comes up for consideration, the debate is quite rigorous.

Kudo This may seem counterintuitive but if our Board were entirely Japanese, I imagine we would debate going overseas to seek opportunities because of the limited scope for growth in Japan. But when we listen to an American for instance, he would tell us that doing business in the U.S. is not a simple proposition. Given our Board composition, executive officers at the Bank realize they must gather enough materials to be able to convince all our directors. On that basis, we look at various overseas opportunities.

Roles outside directors are expected to fulfill and what outside directors expect of management and executive officers regarding the Shinsei Bank Group's efforts to increase corporate value over the medium- and long-terms

Whether good or bad, information steadily flows up to the Board, so outside directors are expected to exhaustively debate relevant matters based on the knowledge and expertise each brings to the Board. Shinsei Bank's corporate governance really excels in keeping executives on their toes.

Yamada Mr. Makihara, how does the role of an outside director at a bank differ from that at a normal non-financial company?

Makihara From a general theory perspective, they are the same. Yet, given their oversight responsibilities, I think boards tend to be conservative. They tend to focus on risks. So how does the Board of Directors at a bank differ? Banks face many intangible risks. I also serve as an outside director at a tobacco company, and I understand the risks and whether or not what I am told is consistent. In contrast, banks have many intangible risks. For an outside director of a bank, information that comes to the Board from management and information that we exchange with management are very important. Unless both good and bad information are both properly escalated to the Board, our decision-making will become more and more skewed.

At a normal non-financial company, shareholders are the most important stakeholder but at a bank, shareholders and regulators are. Banks perform key public functions and if they cause problems for depositors, it becomes a national problem. A bank's board must pay attention to shareholders but they must also keep an eye on regulatory authorities as well. This is one way banks differ from non-financial companies.

Yamada Given that, how do you feel about Shinsei Bank's current corporate governance? Or are there issues you would like to raise?

Makihara I think corporate governance at Shinsei Bank is very robust. Outside directors comprise a majority on the Board. Each director has a distinct personality and confidently states his views. Board meetings go on for five or six hours, so we debate many issues in detail. Many of our directors are unwilling to move on to the next item even if discussion goes past its allocated time, so each issue is thoroughly debated. In that sense, I think governance is robust. On the matter of information provision, both good and bad information is steadily escalated to the Board, which is also a positive from a governance standpoint. I consider Shinsei Bank to be a governance valedictorian.

Mr. Flowers, Mr. Higa and I all have years of experience overseas and monitor what is happening both in Japan and overseas, and overseas standards and Japanese ones have both strengths and weaknesses, so we can weave all those elements into our debates. Mr. Kani and Mr. Tomimura also weigh in on our debates from their differing viewpoints. The collection of outside directors we have assembled each has his own areas of expertise—an important attribute in my view. Various data, reports, and other materials are escalated to the Board for review, and if any of us has even a morsel of doubt about what we are reviewing, then we delve into the issue and look hard for answers and debate what we find. I believe one of the important functions of governance is keeping executives on their toes. I think the Bank's executive officers constantly ask themselves how the Board will see their decisions and actions.

The ways outside directors are expected to increase the Shinsei Bank Group's corporate value over the medium- and long-terms

It is not necessary for outside directors to have complete knowledge of banking operations. Management actually thinks "a very high-level amateur" would be fine for this role. That said, each outside director must have their own important entry points into discussions, and they are expected to be rigorous in pressing executive officers for answers on those areas of focus.

Yamada President Kudo, what are your expectations for outside directors?

Kudo There are two roles I would like outside directors to fulfill. First, as Mr. Makihara said, while I will state it somewhat differently than him, I think "very high-level amateurs" are fine for this role. In my view, it is entirely unnecessary for them to have a complete understanding of banking operations but each outside director must have their own important entry points into discussions. For one, that is IT, and for another, it is governance. All of our outside directors have areas of focus that are important to running a bank, and they must be rigorous in pressing executive officers for answers in these areas. At many companies, Board members ask questions after listening to an explanation from executive officers. At that stage, executive officers respond and debate ends when directors signal understanding but at Shinsei Bank debate does not end there. Directors follow up with more questions, asking executive officers "why?" and "what for?" Executive officers must then provide even more in-depth answers. I think challenging executive officers for more detailed responses is an extremely important role for outside directors in their key areas of focus. Unless outside directors are willing to pursue high-stake matters in such a manner, just adding several more members to the Board would not add value.

Shinsei Bank Group's ambitions for increasing corporate value over the medium- and long-terms

The Shinsei Bank Group has built up functions that cross traditional financial boundaries and accumulated ample capital as a result of booking steady earnings, so the Group is now in a position where it can be flexible in various ways. We seek to swiftly convert this flexibility into advantages in terms of actual business competition. The Group would like our customers to be favorably impressed with how "cool" or "interesting" what we are doing is.

Yamada How would you as President summarize the strategy, position, and challenges facing the Shinsei Bank Group over the medium- and long-term from here?

Kudo Chance has conferred on the Shinsei Bank Group some nice pieces, and we have also benefited from several very favorable elements in the business environment. I think, for example, credit cards, shopping credit, and unsecured personal loans are important functions for the Group in our medium- to long-term strategy.

We also do not bear responsibility for a specific region of Japan nor is it necessary for us to worry about Japan's macro-economic fundamentals. We are in a position to simply search for our competitive domains, flexibly design our Group's composition without any constraints or impediments, and respond to the needs of our customers. Furthermore, we have steadily recorded profits for several years, so we have enough capital to direct some to growth investments if we deem that to be the proper course and we could increase shareholder return. In many ways, we are a position to be flexible.

I think this is an exceedingly important stage for us in terms of how swiftly can we convert this wherewithal into the accumulation of competitive advantages in actual business competition. I think the next two or three years will be decisive. With our competitors still on the fence, the extent to which we can gain and extend a lead will be important, I believe, given latent prospective rivals outside of the banking sector. For that reason, we plan to try various stratagems.

I think the Shinsei Bank Group's position and way doing of business are likely to be different in the future from now. I hope we can swiftly reach a point where the ultimate evaluation of our customers and how our customers view us will be as "cool" or "interesting." Behind the curtain in operations, we will rigorously seek to improve our productivity but in our customer-facing exteriors, we will need to deploy a variety of functions with very high cost efficiency in ways that favorably impress our customers with the interesting services we offer.

Special Feature:

Progress Assessment of Group Integration

The Shinsei Bank Group aims to be financial group providing innovative financial services through the harnessing of the full latent potential of the entire Group as an organic body.

Entry Points for Group Integration

The key themes we are promoting for Group integration are: 1) integrating operations; 2) integrating our businesses; and 3) bringing our people together.

1 Integrating Operations

1) Unification: Consolidate back-office functions of Group companies at the "Group Headquarters," improve efficiency via coordinated management
2) Streamlining: Improve efficiency of operational processes, improve productivity via optimization

Productivity Enhancement Projects

- Project to consolidate Group company back-office functions at Group headquarters
- Project to improve call center efficiency
- Project to reduce back-office non-personnel expenses
- Project to improve installment sales processes, etc.
- Project to enhance housing loan processes

2 Integrating Our Businesses

1) Create synergies among Group businesses from the customer's viewpoint
2) Allocate management resources flexibly and efficiently to each business based on overall optimization

3 Bringing our People Together

1) Implement Group-based talent management (identify, nurture and assign promising human capital) based on the principle of "Inclusion & Diversity"
2) Overhaul and administrate human resource systems to achieve the above

Consolidate Back-office Functions for Unified Management

Shinsei Bank in effect consolidated Group company back-office functions, including those of the parent, into the Group Headquarters, which was established in April 2017.

The purpose for establishing the Group Headquarters:

1) **Provide high value-added services to business divisions:** Along with promoting unified management of Group back-office functions and the sharing of best practices, we have achieved the construction of new functions such as fostering Group human resources that can be deployed to where they are best suited and making budgetary allocations in a highly transparent manner. In such ways, we provide higher value-added services to business divisions and sections.

2) **Innovate for higher productivity in both business divisions and back-office functions:** We have created an environment where business divisions and sections can execute initiatives from a customer-centric perspective by reducing their operational load through improvements in the productivity of the Group's back-office functions.

3) **Bolster strategic fields for growth:** Through efforts to improve the productivity of Group back-office functions, we will direct human resources we foster to business fields designated as growth areas and strategic initiative areas in particular.

Structure to date

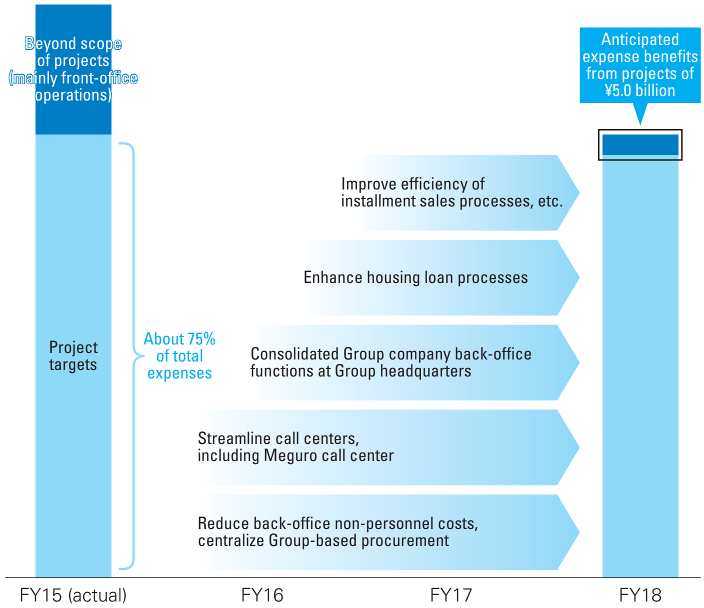
- Each Group company retains a full suite of back-office functions
- A holding company structure with Shinsei Bank at the top

Shinsei Bank

APLUS FINANCIAL	Shinsei Financial	Showa Leasing
• Joined the Group in Sep. 2004 • Listed on first section of TSE	• Joined the Group in Sep. 2008 • Became a wholly-owned subsidiary in Oct. 2015	• Joined in March 2005 • Became a wholly-owned subsidiary in Dec. 2016

Productivity Enhancement Projects

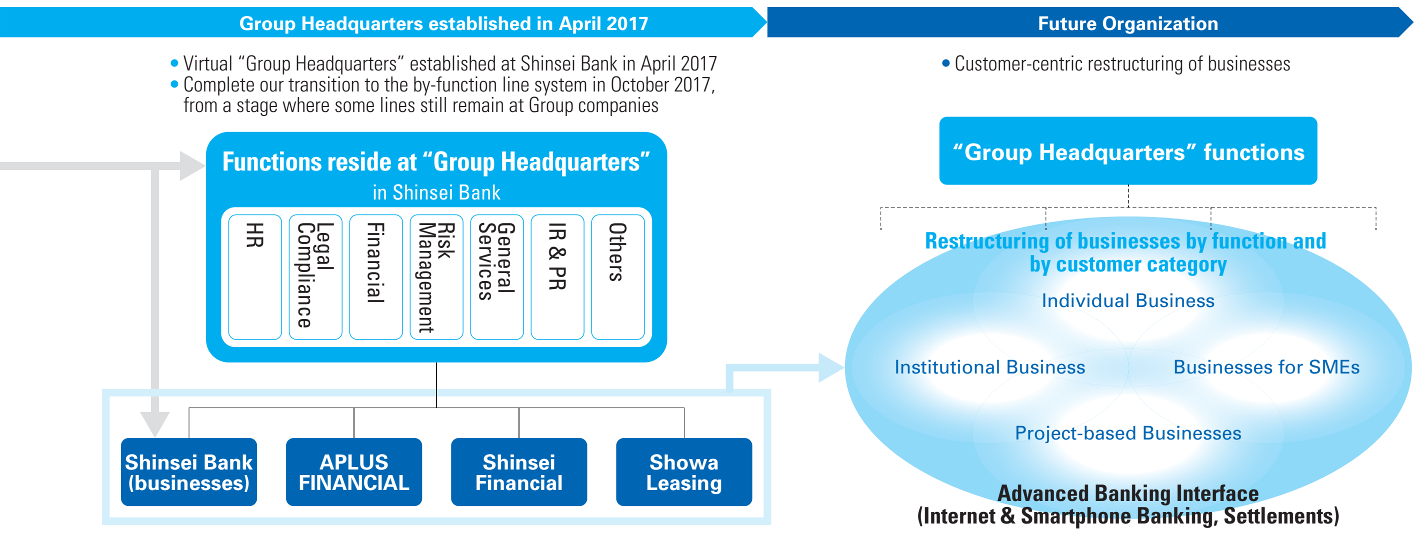
We are promoting productivity enhancement projects, having identified areas where projects were likely to yield high results. Back-office functions and call centers, for example, are areas identified as ripe for swift improvements in efficiency and productivity because there is overlap in these functions at the parent bank and Group companies. Housing loans and installment sales, for example, are areas identified as ripe for process improvements from the viewpoint of operating asset scale and work volume.



Communication between President and Group Employees

Shinsei Bank is working to energize communication between President Kudo and its employees with the aim of promoting a deeper understanding among Group employees of the Shinsei Bank Group's direction and management strategy. A total of 513 employees participated in a total of 15 meetings aimed at Shinsei Bank Group employees as of end-June 2017, including meetings based on participant rank at the Bank's Head Office, Group companies, and financial centers. We promote the shared values and direction the Shinsei Bank Group is aiming for through frank communication between employees and the president in meetings that can evolve into lively Q&A sessions.

The first-stage consolidation of Group back-office functions at "Group Headquarters" enables us to 1) enhance each function and optimize them from a Group-wide standpoint to strengthen the Group's governance, and 2) realize greater productivity and efficiency by consolidating overlapping functions at each Group company.



Special Feature:

Shinsei IR Day

We believe it is of great importance that we not only communicate our financial results but that we provide a comprehensive view of our key businesses including their strategies, performance and future developments in order to facilitate engagement between the management of the Bank Group and our stakeholders.

As part of our efforts to achieve this, we hosted the Shinsei IR Day in fiscal year 2016.

Event Overview

Date: Monday, February 20, 2017

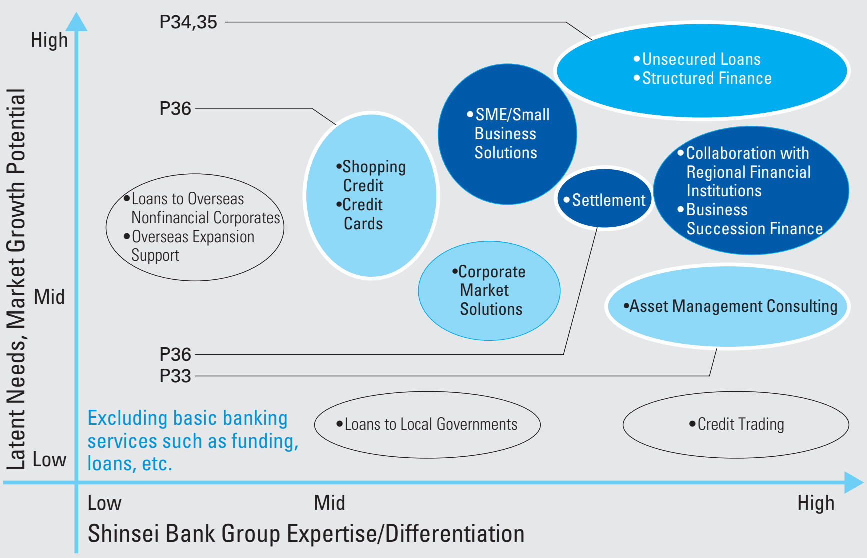
- **The Summary of the First Year of the Third MTMP**
  Hideyuki Kudo
  President and Chief Executive Officer
- **Structured Finance**
  Shinichirou Seto
  Senior Managing Executive Officer, Head of Institutional Business
  Nozomi Moue
  Managing Executive Officer, Executive Officer in charge of Institutional Business
- **Retail Banking**
  Tetsuro Shimizu
  Managing Executive Officer, Head of Individual Business
- **Consumer Finance**
  Riku Sugie
  Managing Executive Officer in charge of Individual Business, President and CEO of Shinsei Financial Co., Ltd.
  Akira Watanabe
  Managing Executive Officer in charge of Individual Business, Representative Director and President and CEO of APLUS FINANCIAL Co., Ltd.

Hideyuki Kudo
President and Chief Executive Officer

The purpose of holding Shinsei IR Day was two-fold: 1) to explain the origins of the views of the team management, i.e., the foundation of our strategy in the Third Medium-Term Management Plan (Third MTMP), to market participants such as investors and analysts, and 2) to promote a better understanding of the Shinsei Bank Group through direct explanations from the heads of major businesses.

Based on the strategic mapping of businesses in the Third MTMP, executive officers responsible for each business area explained their views. From the Institutional Business segment, two executives discussed structured finance. From the Individual Business segment, an executive overseeing retail banking, including asset management consulting, discussed its direction, and two subsidiary CEOs discussed consumer finance, including the unsecured loan business, shopping credit and credit cards, and the settlements business.

Strategic Mapping of Businesses



Growth areas
Areas in which the Shinsei Bank Group already has competitive advantages and is seen as having strong profit and growth potential.

Stable revenue areas
Areas in which the Shinsei Bank Group will stably and selectively engage in without being involved in excessive competition.

Strategic initiative areas
Areas which are expected to deliver future growth and in which the Bank looks to create customer value through groundbreaking innovations beyond conventional formats.

Curtailment areas
Areas in which the Shinsei Bank Group is poorly differentiated or the market is expected to shrink.

RETAIL BANKING

Tetsuro Shimizu
Managing Executive Officer,
Head of Individual Business

Market Overview

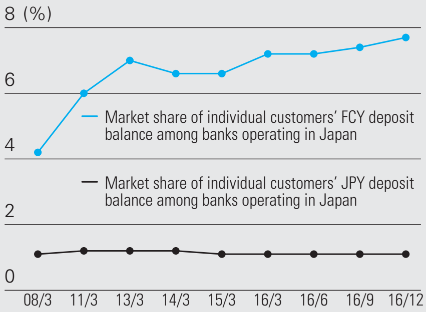
Deposits

With an extensive lineup of foreign currency deposits and high quality services which allow our customers to make FX transactions more easily, our foreign currency deposits are very popular and we have 7% market share in Japan.

Asset Management Products

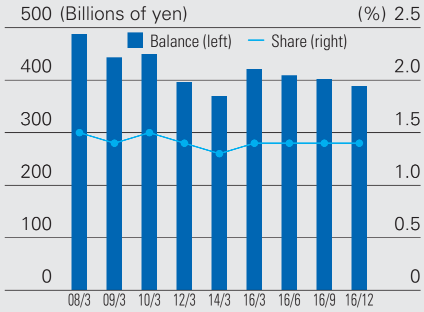
We support our customers' asset building and management over the medium- and long-term by expanding our product lineup with higher quality of service, especially in investment trusts and insurance products. We take these actions to respond to various types of needs and investment policies of our customers.

Market Share in Balance of Deposits



Source: Deposits: Statistics of the Bank of Japan, Domestic banks Individual deposits

Market Share in Balance of Investment Trusts



Source: Japan Investment Trust Association

Retail Banking Business: Challenges and Countermeasures

Challenges facing the retail banking business

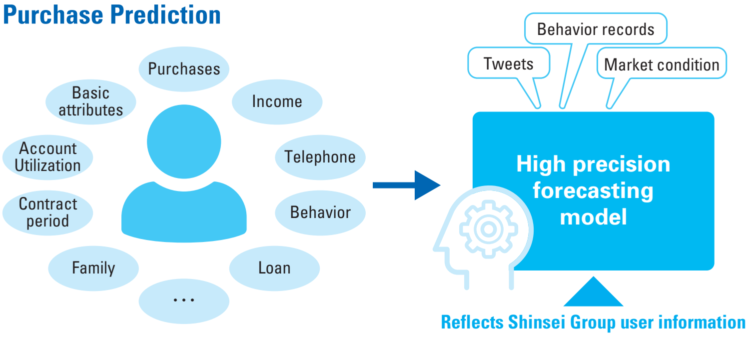
- Customers who purchase asset management products are almost fired and are growing older
- More investment opportunities for cohorts in asset building age bands and young people
- Changing profitability of investment products, reflecting the economic and financial market environment

We aim to expand our business franchise by strengthening our relationships in tandem with efforts to optimize customer touch points by properly compiling and using customer information and maximizing the number contacts with customers through the integration of business functions. We are constructing CRM systems that link customers, channels, staff and operations and implementing advanced use of customer information by employing artificial intelligence (AI).

Introduction of a model utilizing AI in the Retail Banking Business

- **Use big data and information on customers**
  Use data across categories such as loans, investment trusts and various card products for analysis as well as web behavior data
- **Use scientific and statistical methods for analysis**
  Forecast degree of certainty on what products and channels optimally align with the attributes of each customer group
- **Adopt more advanced analytical methodologies**
  Construct a forecasting model harnessing high-level machine-learning methods; feed results from implementing prior-generation models back into the latest model to promote additional learning and enhance the latest model

Purchase Prediction



STRUCTURED FINANCE

(Right)
Shinichirou Seto
Senior Managing Executive Officer,
Head of Institutional Business

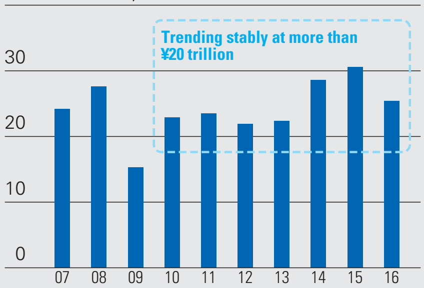
(Left)
Nozomi Moue
Managing Executive Officer,
Executive Officer in charge of
Institutional Business

Market Overview

Project Finance

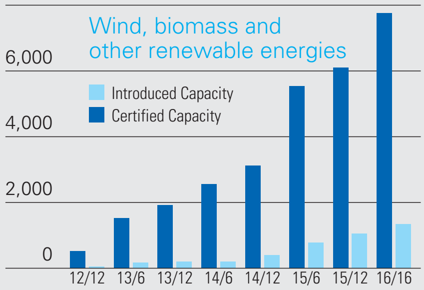
The total annual sum of project finance arrangements worldwide has steadily trended above ¥20 trillion since 2010. In domestic renewal energy generation projects, certified capacity for megasolar has peaked but non-deployed capacity is still huge and we expect growth in other forms of renewable energies, such as wind and biomass over the medium- and long-term.

Global project finance origination volumes



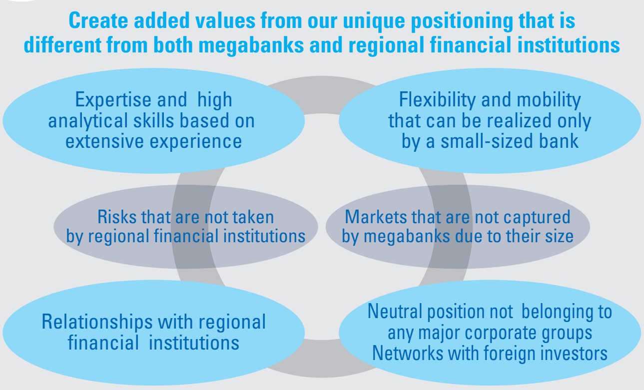
Source: Graph prepared by Shinsei Bank based on the data from Project Finance International ($1=¥110)

Renewable energy power generation facilities implemented (Japan)

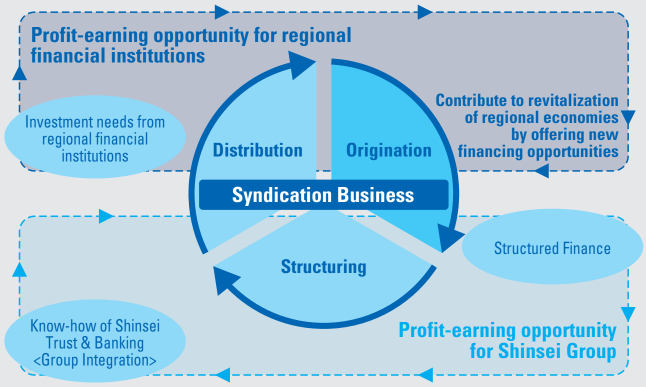


Source: Graph prepared by Shinsei Bank based on the statistical data from the Agency for Natural Resources and Energy

Shinsei Bank Group's Strengths



Building Win-Win Relationships with Regional Financial Institutions



Discussion with Project Finance Partner Japan Renewable Energy Corporation

Japan Renewable Energy Corporation, Representative Director, Executive Vice President and COO, Takahisa Nakagawa (Left)
Shinsei Bank, Project Finance Division, Tetsufumi Miyake (Right)

JRE has sought to develop wind power projects since its founding

Nakagawa Shinsei Bank has been a help in the overall project and contract-related matters, as would be expected, and it has also provided minute analysis including wind conditions and needed insurance. We have received financing using a variety of schemes Shinsei Bank conceived of and this has been very important to Japan Renewable Energy Corporation's (JRE) development.

Miyake In the context of speaking with various participants, the new wind power project has raised many points of discussion. We would propose an idea and JRE would respond with a request, asking "is it possible to arrange the financing in such-and-such a form?" Proceeding in this way resulted in a financing arrangement that pleased the parties involved.

Nakagawa It is very reassuring to know we were able to get another party outside of JRE to examine project risk carefully.

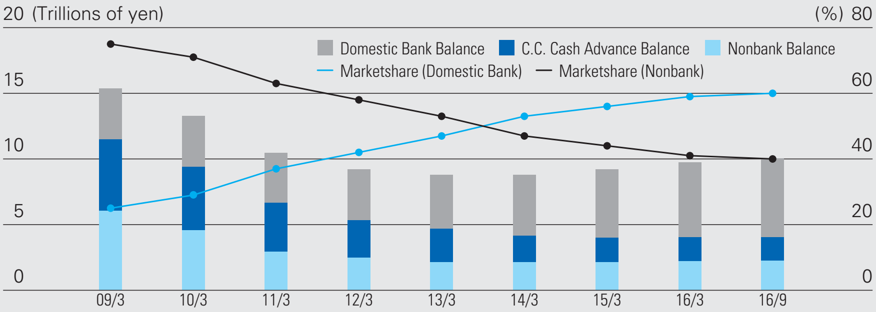
UNSECURED LOANS

Riku Sugie
Managing Executive Officer
in charge of Individual Business,
President and CEO of
Shinsei Financial Co., Ltd.

Market Overview

In the card loan business, card loans by non-banks have fallen substantially, due largely to full implementation of the revised Money Lending Business Law in 2010. In contrast, bank card loans have grown rapidly since 2011. Since Shinsei Bank Card Loan—Lake was launched in October 2011 as a bank card loan under the Lake brand, the subsidiary has continued to properly run its operations complying with the concept of the Money Lending Business Law, which was enacted to keep individual customers from multiple borrowing. Lake's position as a major consumer finance brand has been established.

Size of the card loan market



Source: Bank of Japan, Japan Financial Service Association

Future Market Trends

- Will banks also be required to comply with the total lending amount control?
- Existing consumer finance lenders could become active again
- Among emerging companies, better ones will be able to survive in the market
- Excess interest rate repayments wind down, gradual uptrend in past borrowers returning to obtain loans

Lake's focus on complying with the concept of the Money Lending Business Law could become a strength

Shinsei Bank Group's Strengths

- **Credit risk control capabilities that come from the non-banking sector**
- **Process and compliance structure premised on the Money Lending Business Law**
- **IT systems built internally and lean operations**
- **Outstanding level of service**
- **Analytical power (conventional scoring model, plus use of artificial intelligence)**

Expanding Non-Bank Business in Growing Asian Markets Using Group Strength

Since December 2016, Shinsei Bank has advanced its unsecured personal loans business in Vietnam jointly with partner Military Commercial Joint-Stock Bank, a major Vietnamese private-sector bank.

Please visit Shinsei Bank's website for more information
http://www.shinseibank.com/corporate/en/news/pdf/pdf2016/161121military_e.pdf

SHOPPING CREDIT, CREDIT CARDS, AND SETTLEMENTS

Akira Watanabe
Managing Executive Officer
in charge of Individual Business,
Representative Director and
President and CEO of
APLUS FINANCIAL Co., Ltd.

Market Overview

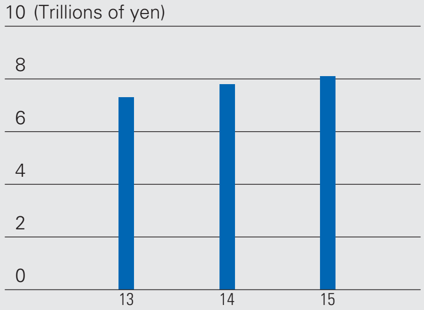
Shopping Credit

Market shrinkage caused by the revised Money Lending Business Law and the revised Installment Sales Law bottomed out. Against a backdrop of market cultivation in the past few years, there are signs of a gradual market expansion.

Credit Cards

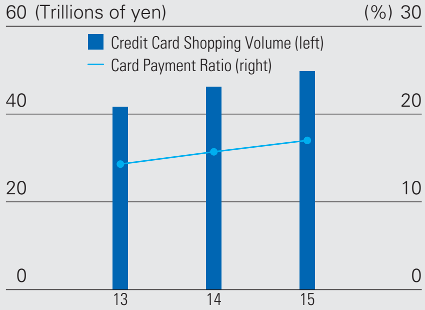
In addition to e-commerce (EC) market growth, we expect the shift to cashless transactions, as spelled out in the Japan Revitalization Strategy, to spur trends to improve related infrastructure.

Shopping Credit Market (Volume)



Source: "Japanese Credit Statistics," Japan Consumer Credit Association

Credit Card Shopping Market (Volume)



Card Payment Ratio = Market scale of Credit Card Shopping/ Private Final Consumption
Source: Market scale of Credit Card Shopping: "Japanese Credit Statistics," Japan Consumer Credit Association
Private Final Consumption: "National Accounts of Japan," Cabinet Office

Shinsei Bank Group's Strengths

Shopping credit

We are developing and introducing shopping credit with links to the T-points loyalty program platform as an effort to promote our differentiation. Thanks to our focus on shopping credit (apart from auto loans), our profitability improved, so our operating revenue tends to increase even though our transaction volume trends sideways.

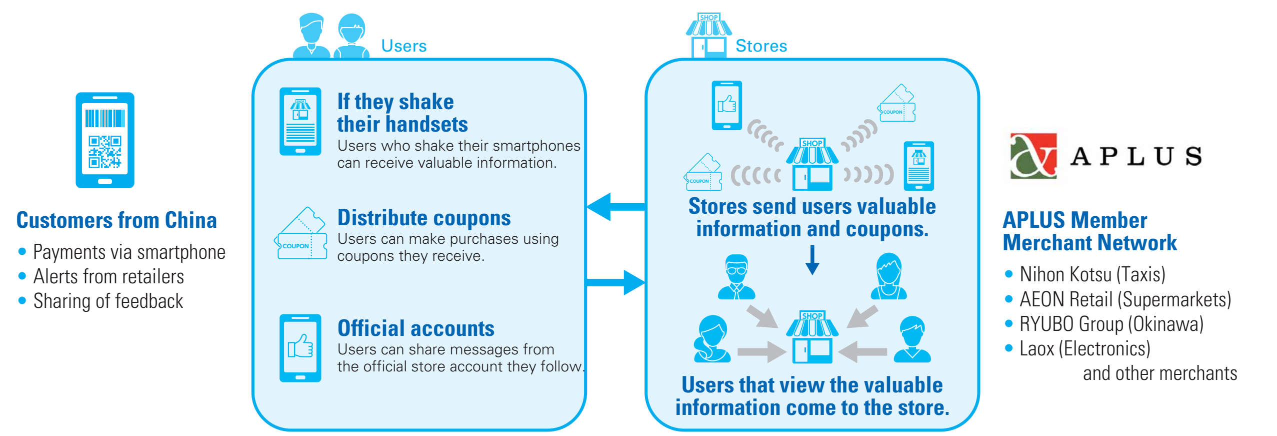
Credit cards

Thanks to implementation of outbound calls for user promotions and the introduction of cards with a default setting that puts purchases on revolving credit, growth in our revolving credit balance is contributing to profits.

Settlements

We are working to expand new settlement services such as our efforts to add more stores that handle our overseas prepaid card GAICA and develop the domestic network of outlets accepting WeChat Pay, a mobile settlement service for Chinese WeChat users.

Mobile Settlement Service "WeChat Pay" for Chinese WeChat Users



Feedback from Analysts and Investors

Comments received following Shinsei IR Day

Mr. Shinichi Ina

Analyst, Equity Research Department
UBS Securities Japan Co., Ltd.

There is a growing trend to reflect nonfinancial factors such as ESG and sustainability into corporate valuation. Under such circumstances, Shinsei Bank hosted the “Shinsei IR Day” to deepen the communication between the market and senior management team of the Bank, focusing on the areas where market participants have strong interests. It was a valuable opportunity to understand management strategy and underlying concepts behind the strategy, as it was difficult to find such implications from the financial results. I sincerely hope the Bank will continue to engage in such efforts going forward.

While I personally had concerns that the Retail Banking Business was considered less significant strategically, it was a relief to see the Bank cover the Retail Banking Business as one of the key topics in the IR Day event. In my view, the Retail Banking Business performs not only a role of stable funding for the Bank but also has potential opportunities to enhance customer convenience and reduce expense as well under the current technology developments toward digital banking. The Bank’s explanations about initiatives on the digitalization were very useful for me.

The Consumer Finance Business, which is designated as a growth area by the Bank and an area of strong interest for the market, was covered in depth during the event, and the explanations regarding the Shinsei Bank Group’s view of the overall market and its strategy therein, particularly its expansion of business in the Asia region, were especially informative.

Mr. Hiroshi Seto

Senior Investment Manager, Asset Management Division
Resona Bank, Ltd.

First, I would like to express my thanks for having been invited to Shinsei Bank’s IR Day event.

While the event itself was somewhat on the long side, running from 1:30 PM to 6:00 PM, I found the explanations provided during the course of the event, from Mr. Kudo’s summary of the Medium Term Management Plan and his frank commentary regarding the challenges the Bank faces going forward, to the explanations provided by the executives responsible for the Structured Finance and Consumer Finance Businesses, which the Bank has designated as areas of focus within its MTMP, to be rich and particularly helpful in considering investment in Shinsei Bank.

Additionally, I would like to commend the Bank from a fair disclosure perspective for providing an audio live stream of the day’s proceedings in both English and Japanese in addition to hosting on-demand streaming of the event following its conclusion.

Going forward, I sincerely hope that the Bank will continue to engage in the efforts made during the event, which I believe have furthered understanding of the Bank’s Businesses, including those considered focus areas, and the vision of management, as part of the Bank’s ongoing efforts to engage in constructive dialogue in order to sustainably grow its corporate value.

While I believe there were some points which can be improved, such as the time allotted to the presentation and question and answer sessions, I believe that later events will be much improved as the Bank gains experience in hosting such events. I hope that the Bank will continue to engage in such efficient, meaningful IR events in the future, which I hope to also attend.

IR ACTIVITIES:

Constructive Dialogue with a Market Purpose (Engagement)

Policies for IR Activities in Fiscal Year 2016

1) Clearly designate the CEO as bearing ultimate responsibility for investor relations (IR) activities and performing a core role in our strategic IR execution

2) Implement IR activities with clearly identified themes in a well-balanced manner across four regions—Japan, North America, Europe, and Asia—that reflect the role and function of the executive officers or employees who have been tasked with IR assignments

3) Promote dialogue with the market about future measures as well as progress on the Third MTMP's strategy and issues

4) Conduct gap analysis and map out the Bank's current status as a preparatory step to further improve and elevate our information disclosure

5) Foster an environment where the voice of the market can be harnessed as management information to broaden internal communication

New Initiatives in Fiscal Year 2016

1) Holding Shinsei IR Day
Executive officers in charge of each business came to IR Day, which was aimed at domestic and overseas investors, and explained each business in the Shinsei Bank Group. For Shinsei IR Day, we bolstered fair disclosure through a variety of tools all available in English and Japanese such as live online audio streaming, an archive of videos, and Q&A summaries and other materials.

2) Equity analysts from brokerages informed our executive officers about the market's view of the Bank.

3) IR training for employees


Participants at Shinsei IR Day

IR Activities Record (FY2016 Results)

Events	No. of events
Results briefings for investors and analysts, conference calls	8
Shinsei IR Day	1
Participant in conferences organized by brokerages	7
Individual meetings (includes individual meetings at conferences)	358


The executive officer in charge of investor relations reports on IR activities at a meeting of general managers and division, branch and department managers.

Individual IR Meetings and Top Management Commitment (FY2016 Results)

CEO	IR Executive Officer	IR Staff	Total
105 meetings	135 meetings	118 meetings	358 meetings
29%	38%	33%	100%

Policies for IR Activities in Fiscal Year 2017

1) Strategically engage in constructive dialogue between CEOs and investors in the four regions of Japan, North America, Europe, and Asia

2) Promote fair information disclosure with an eye to adopting fair disclosure rules

3) Foster information disclosure that factors in ESG investment and elevate our IR activities to a higher level

4) Disseminate to employees across multiple tiers the viewpoints investors and analysts express to management

Sources of Corporate Value

AT A GLANCE
Segment Data

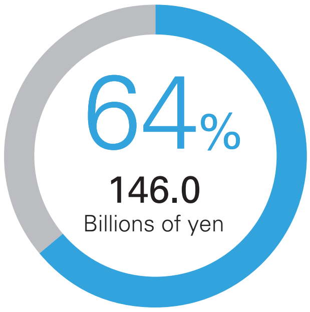
INDIVIDUAL BUSINESS

Major Business

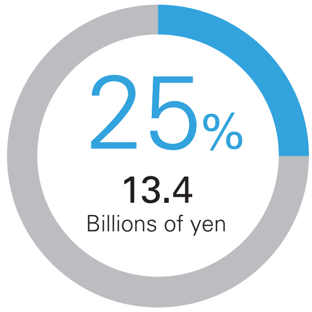
- Retail Banking
  - Deposit related products (saving deposits, time deposits, structured deposits, foreign currency deposits)
  - Asset management (consultation, mutual funds, annuity products)
  - Housing loans
- Consumer Finance
  - Unsecured personal loans (Shinsei Bank, Shinsei Financial, NOLOAN)
  - Installment sales credit, settlement, credit cards (APLUS FINANCIAL)
  - Credit Guarantees (Shinsei Financial, APLUS FINANCIAL)

Contribution[1]

Total Revenue



Ordinary Business Profit after Net Credit Costs



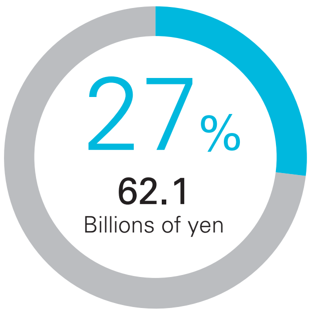
INSTITUTIONAL BUSINESS

Major Business

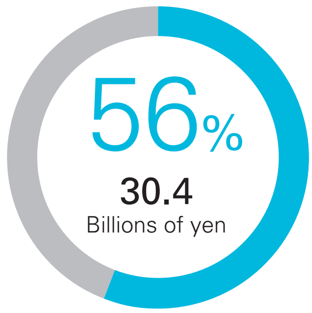
- Corporate, Financial Institutions & Public Sector Finance
- Healthcare Finance
- Real Estate Finance
- Project Finance
- Specialty Finance
- Business Succession Finance
- Corporate Restructuring
- Credit Trading
- Private Equity
- Advisory Services
- Leasing (Showa Leasing)
- Trust Operations (Shinsei Trust & Banking)

Contribution[1]

Total Revenue



Ordinary Business Profit after Net Credit Costs



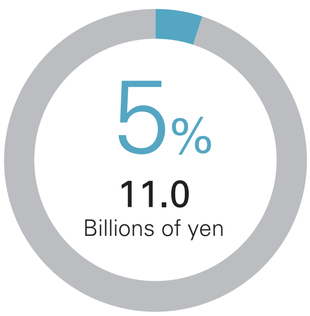
GLOBAL MARKETS BUSINESS

Major Business

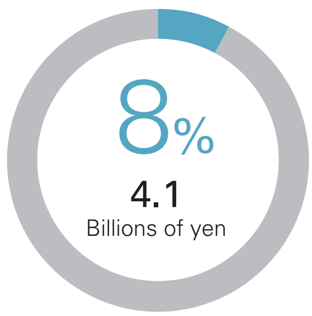
- Markets Business
- Asset Management
- Wealth Management
- Securitization (Shinsei Securities)

Contribution[1]

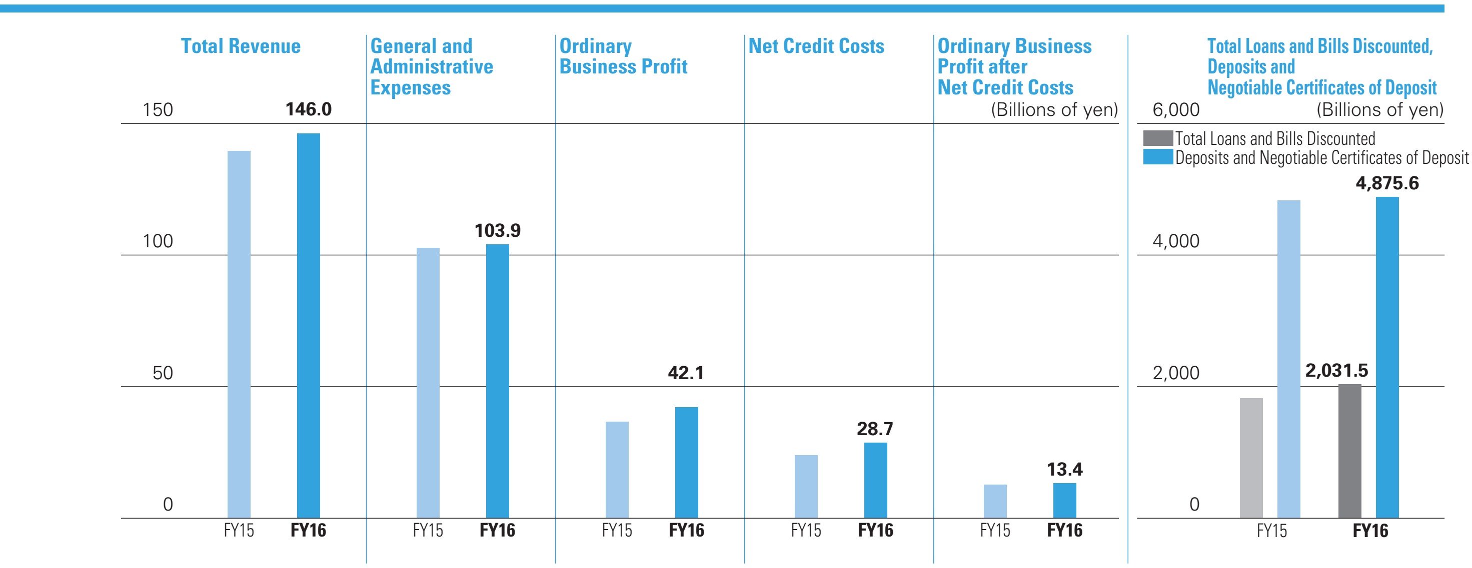
Total Revenue



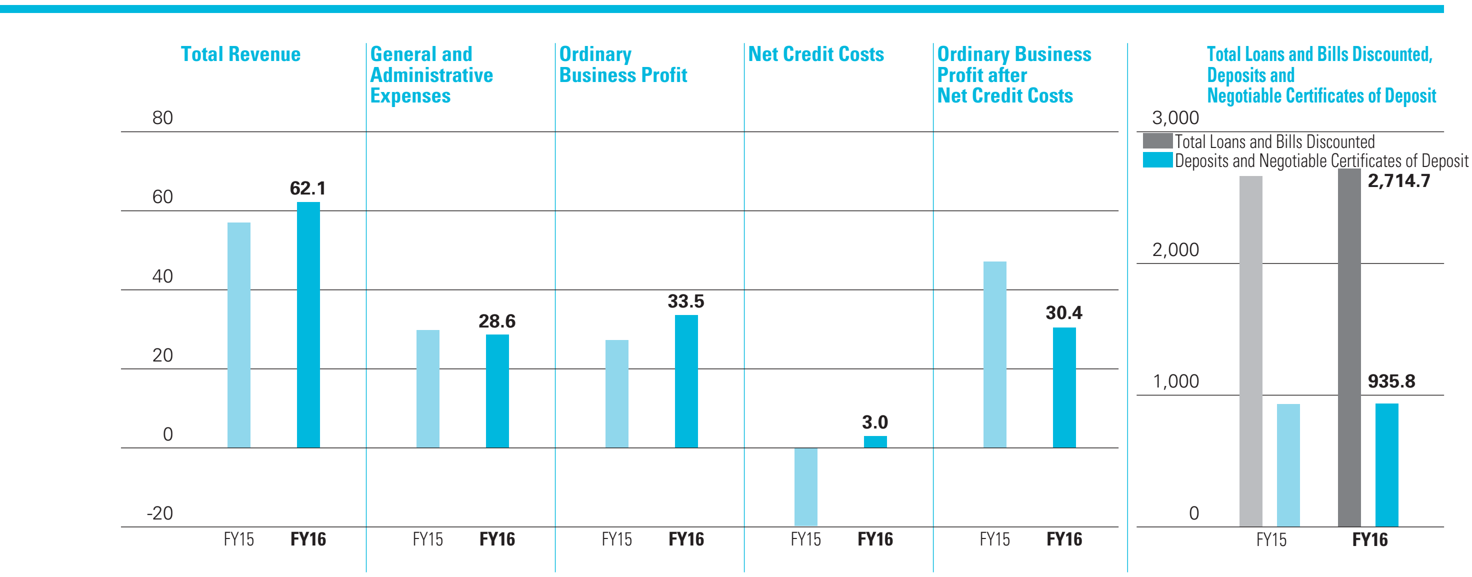
Ordinary Business Profit after Net Credit Costs



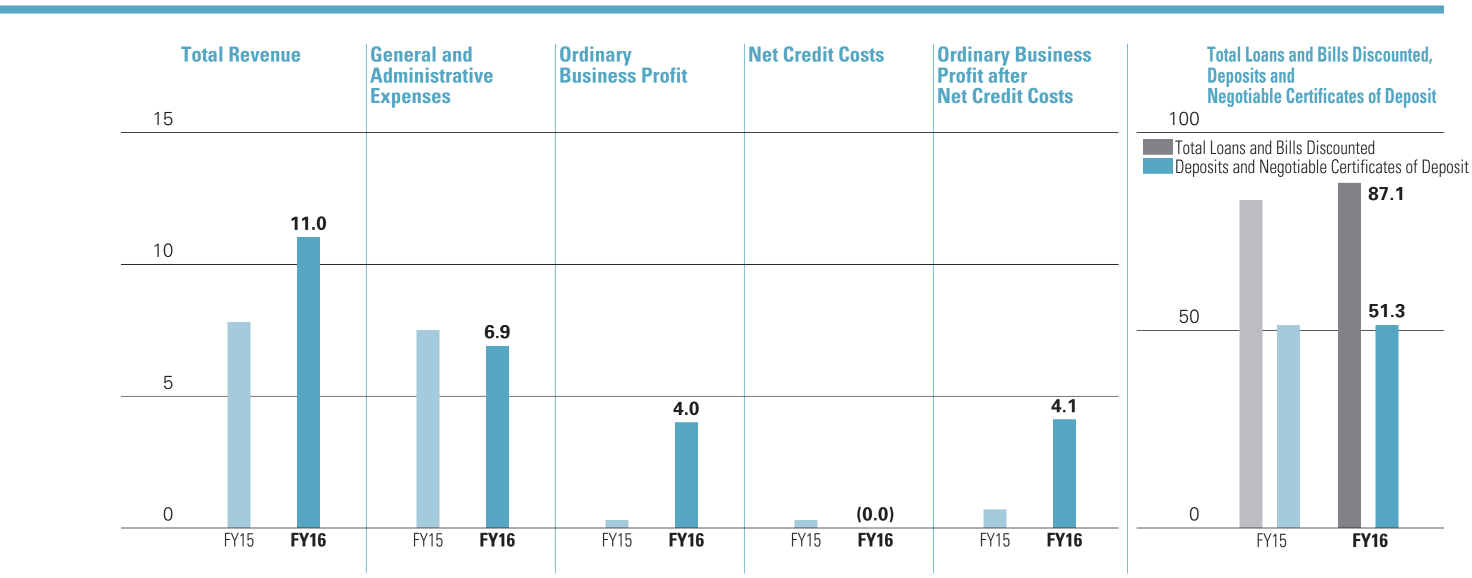
1 The percentage figures do not add up to 100% due to the contribution of Corporate/Other.



Total Revenue
General and Administrative Expenses
Ordinary Business Profit
Net Credit Costs
Ordinary Business Profit after Net Credit Costs
(Billions of yen)
150
100
50
0
146.0
103.9
42.1
28.7
13.4
FY15
FY16
Total Loans and Bills Discounted, Deposits and Negotiable Certificates of Deposit
(Billions of yen)
6,000
4,000
2,000
0
Total Loans and Bills Discounted
Deposits and Negotiable Certificates of Deposit
4,875.6
2,031.5
FY15
FY16



Total Revenue
General and Administrative Expenses
Ordinary Business Profit
Net Credit Costs
Ordinary Business Profit after Net Credit Costs
80
60
40
20
0
-20
62.1
28.6
33.5
3.0
30.4
FY15
FY16
Total Loans and Bills Discounted, Deposits and Negotiable Certificates of Deposit
3,000
2,000
1,000
0
Total Loans and Bills Discounted
Deposits and Negotiable Certificates of Deposit
2,714.7
935.8
FY15
FY16



Total Revenue
General and Administrative Expenses
Ordinary Business Profit
Net Credit Costs
Ordinary Business Profit after Net Credit Costs
15
10
5
0
11.0
6.9
4.0
(0.0)
4.1
FY15
FY16
Total Loans and Bills Discounted, Deposits and Negotiable Certificates of Deposit
100
50
0
Total Loans and Bills Discounted
Deposits and Negotiable Certificates of Deposit
87.1
51.3
FY15
FY16

INDIVIDUAL BUSINESS

Tetsuro Shimizu
Managing Executive Officer,
Head of Individual Business

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

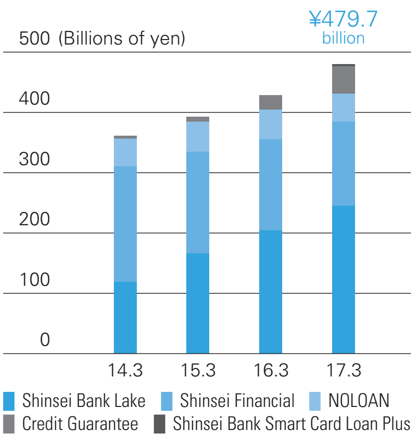
Business Environment Awareness: Risks and Opportunities

The investment appetite of our individual customers has continued to diminish since the Bank of Japan adopted its negative interest rate policy in 2016. In the medium-and-long term, however, a shrinking overall population with a composition evolving toward a growing elderly cohort supported by smaller working age and youth populations will lead to lifestyle changes and amplify the structural push in the shift toward investment from savings. These trends are expected to drive major structural changes in Japan's asset management environment. Moreover, the entry of new businesses with innovative financial technologies such as FinTech mainly into the fields of settlements and credit cards, which are APLUS FINANCIAL Co., Ltd.'s core domains, will likely further intensify competition. In the consumer finance field, we recognize there is likely to be even more scrutiny than before on whether lenders meet the funding needs of their customers in ways that are socially sound. With the Shinsei Bank Group a contributor to efforts to address an array of such social challenges, we once again strongly sense the need to create business opportunities.

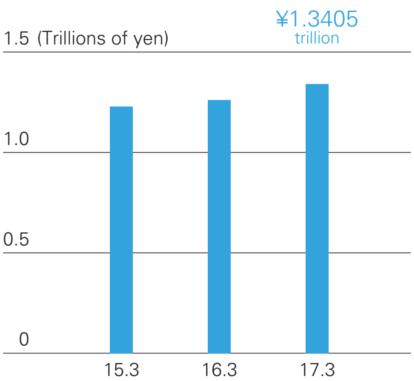
In particular, we believe one major theme for Shinsei Bank is supporting long-term asset formation of our individual customers, as opposed to depending mainly on swings in investor appetite in response to the external economic environment. Many people in the age 30-40 cohort are ready to accumulate financial assets but find it difficult to set aside a large block of time to visit a financial institution during the work day. In keeping with a Third MTMP core initiative, we provide asset management consulting services that minimize time and place constraints for the age 30-40 cohort, offering an environment of branches and remote access for mobile handsets that customers can seamlessly harness. We seek to provide new value to customers, constructing marketing models and increasing the sophistication of our credit screening strategies based on artificial intelligence and big data, while also drawing on the analytical work of SecondXight, Inc.

Operating Assets

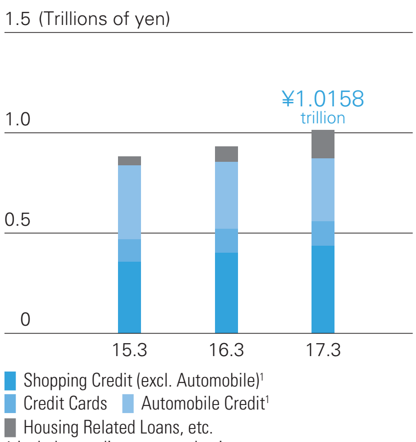
Unsecured Loan Balance



Housing Loans



APLUS FINANCIAL Operating Assets



1 Includes credit guarantee business

Progress Assessment of Third MTMP's First Year

Growth Areas

Unsecured loans: Shinsei Bank Card Loan—Lake (Shinsei Bank Lake) continued to increase its loan balance and the size of its customer base through expansion focused on such measures as a new advertisement campaign, an ATM alliance with JAPAN POST BANK Co., Ltd. and a branch strategy. We continued to run our business in a disciplined manner in keeping with the spirit of the Money Lending Business Act, which aims to prevent borrowers from taking out loans from multiple lenders.

Strategic Initiative Areas

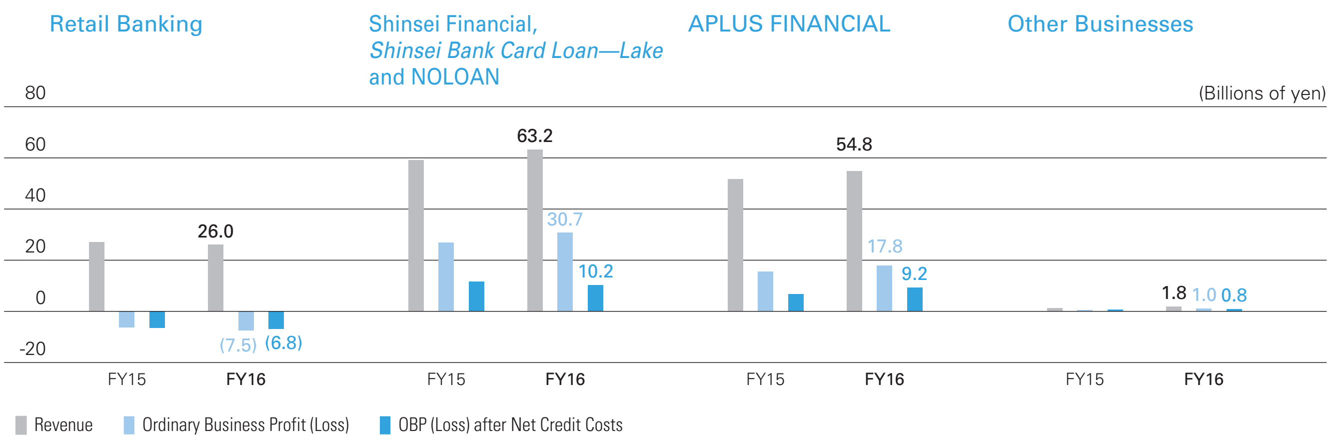
Settlements: APLUS FINANCIAL began offering a settlement agent service in Japan for WeChat Pay, a Chinese mobile settlement service offered as a part of WeChat, China's largest SNS service run by Tencent Holdings Ltd. The number of merchants accepting the service is increasing.

Stable Revenue Areas

Asset management consulting: Investment appetite across markets overall diminished sharply through the first half of fiscal year 2016 and dampened our performance but sales of asset management products recovered, mainly in structured notes, toward the fiscal year-end as the stock market rebounded.

Credit cards and shopping credit: APLUS FINANCIAL's shopping credit business expanded the number of member merchants in its network using the APLUS e-order system, and the revolving credit balance at the credit card business grew. As a result, both businesses delivered solid performances.

Data on Major Operations



Topics

Financial Literacy Program "MoneyConnection®"

"MoneyConnection®" is a financial literacy program aimed at young people Shinsei Financial Co., Ltd. developed jointly in 2006 with Sodateage.net, an approved, specified non-profit corporation, with the two parties initiating a rollout of the program. The program offers young people an opportunity to think about money, working, lifestyles, and their own values and is designed to be a catalyst that encourages participants to seriously think about their own future. Drawing on its relationships with regional financial institutions, Shinsei Bank has sponsored "MoneyConnection®" as one of its philanthropic initiatives focusing on the theme of "nurturing the next generation." Since fiscal year 2012, the program has been offered at 846 high schools across Japan as of June 30, 2017. For further details, please see page 18 of this report.

Learning materials for MoneyConnection®

INSTITUTIONAL BUSINESS

The Institutional Business is composed of the corporate business that provides finance and solutions to the Bank's corporate, public corporation and financial institution customers; structured finance, which provides services such as real estate finance and project finance; principal investments, which is engaged in businesses such as private equity and business succession; and a leasing business.

Business Environment Awareness: Risks and Opportunities

In domestic financial markets under the negative interest rate policy, margins on corporate lending continued to trend at a low level against a backdrop of interest rate competition among financial institutions and an improvement in the financial structure of corporations. In this environment, the Shinsei Bank Group strove to maintain and improve its earnings base by focusing on fields where it has competitive advantages.

Structured finance, which includes real estate finance and project finance, is a business we locate in growth areas. Our expertise and analytical capabilities in structured finance reflect our many years of experience in the field.

In real estate finance, we have been prudent in view of possible overheating recently in some corners of the domestic real estate market, keeping a close eye on the risk-return profile of each project we evaluate and trends in real estate prices. In this context, we forged ahead with forming projects in response to customer needs.

In domestic project finance, reflecting changes in laws relating to renewable energy, we sought to diversify our mix of initiatives to include electric power sources such as wind and biomass in anticipation of a peaking in funding demand from megasolar projects.

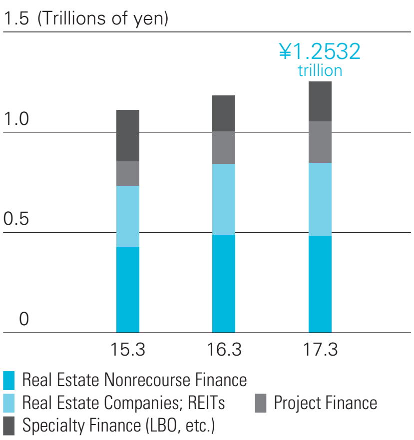
To provide one-stop solutions harnessing the comprehensive capabilities of the Shinsei Bank Group to corporate customers, including middle-market companies and small- and medium-sized enterprises (SMEs), we moved ahead with joint development of new products and services using the know-how of Group companies, starting with Showa Leasing.

In response to growing funding operation needs of regional financial institutions, we continued to provide them ways to manage their balance sheets through sales of loan claims, the formation of syndicate loans and sales of asset management products such as structured products and private placement investment trusts, leveraging the network of regional banks we do business with, a strength of the Shinsei Bank Group.

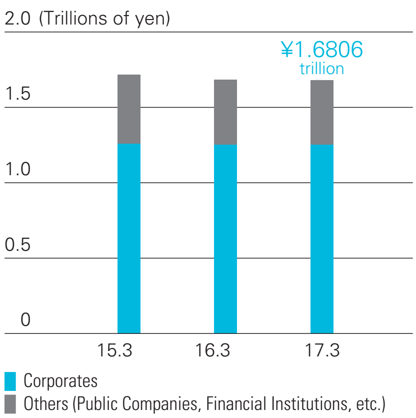
With many baby-boom-generation company owners approaching retirement age, we are harnessing our know-how in principal transactions to provide financial solutions such as buyout finance and debt workouts to customers with needs in business succession or in restructuring or closing down their businesses.

Operating Assets

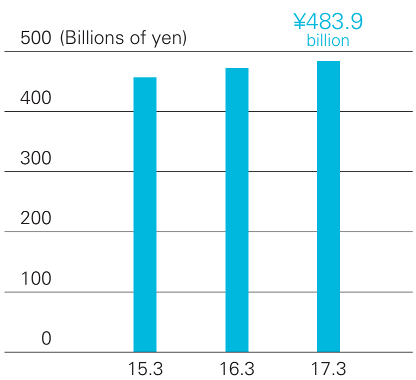
Structured finance balance



Corporate business balance



Showa Leasing operating assets



Progress Assessment of Third MTMP's First Year

Growth Areas

Project finance: With initiatives mainly focused on regional renewable energy projects, domestic project finance is growing into a reliable earnings base, as we bolstered relationships with key players in project finance such as domestic and foreign project sponsors, regional financial institutions and electric power facility operators. In overseas project finance, we are focused on locking in high-quality projects with Japan-affiliated sponsors, especially in Asia, Australia and Europe.

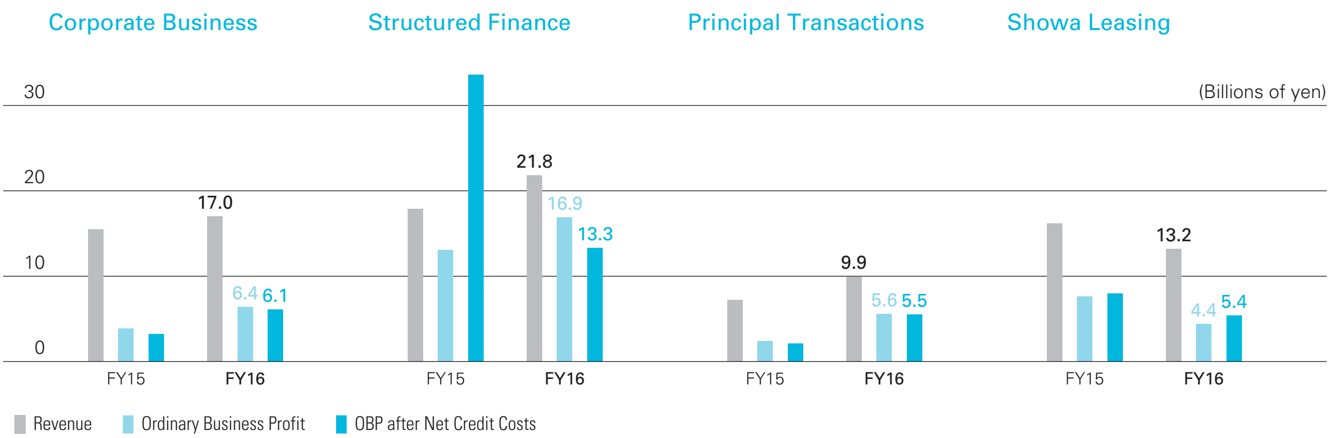
Real estate finance: Based on external environmental factors such as the murkiness of domestic real estate prices and domestic and overseas economic conditions, we strive to apply risk-return-focused metrics rigorously in selecting initiatives, while steadfastly implementing new projects.

Strategic Initiative Areas

Solutions for SMEs: We commenced a vendor leasing business working in collaboration with consolidated subsidiaries APLUS Co., Ltd. and Showa Leasing Co., Ltd. The Shinsei Bank Group is working to bolster its provision of solutions and financial services to SMEs, a strategic initiative area, through the integration of the APLUS member merchant network and Showa Leasing's lease functions.

Business-succession finance: We work to provide financial solutions such as buyout finance and debt workouts to middle-market companies and SMEs with needs in business succession or in restructuring or closing down their businesses.

Data on Major Operations



Topics

Shinsei Bank Group's "Child-care Support Fund" Invests in Childcare Business

Shinsei Bank, Limited and Shinsei Corporate Investment (SCI) Limited formed the "Japan Impact Investment I Limited Partnership" in January 2017 as a way to make impact investments (Glossary P.50) in domestic businesses involved in supporting childcare. Its first investment is a third-party allotment issued by mama square Co., Ltd. to raise capital. The Fund aims to invest in companies engaged in businesses such as childcare that supports the work-life balance of working women, childcare, afterschool care, education, household support, and support for families caring for both children and elders in parallel. Harnessing SCI's venture and buyout investment expertise and experience, the Fund seeks to contribute to addressing social challenges through its investments.


mama square Kakogawa space

For impact investment, visit Shinsei Corporate Investment Limited website.
http://www.shinsei-ci.com/impact-investment/
For specifics, visit our website to read our press release on this matter.
http://www.shinseibank.com/corporate/en/news/pdf/pdf2016/170130_impactinvestment_e.pdf

GLOBAL MARKETS BUSINESS

Global Markets Business is composed of: the markets business, which engages in foreign exchange, derivatives and other capital market operations; asset management, which offers investment trusts; wealth management, which provides financial products and services to high net-worth customers; and securities brokerage through subsidiary Shinsei Securities Co., Ltd.

Business Environment Awareness: Risks and Opportunities

Financial markets in fiscal year 2016 were roiled by the UK's Brexit decision in the context of a prolonged low-interest-rate environment. In particular, amid growing uncertainties in the first half, the investment stance of individual customers tended to be cautious. In this environment, we sought to expand our stable earnings foundation by working to deepen transactions with customers and expand our customer base by providing services in a flexible manner and bolstering our lineup of products that align well with trends and opportunities in response to the diverse needs of our corporate and individual customers.

In corporate market solutions, a category the Third MTMP locates in stable revenue areas, we continued to work to strengthen and advance a marketing approach based on proposing solutions. We strove to deepen transactions with existing customers and develop new ones and enhance our competitive advantage via our fine-tuned response to the needs of individual customers such as needs to hedge foreign currency and interest rate exposures and funding operation needs thanks to our advanced, flexible product formation system. This system, in turn, relies on tight-knit collaboration between our highly experienced sales leaders and managers responsible for devising products.

We view the growing fund operation needs of our regional financial institution clients, which find it harder to manage their balance sheets in a low interest rate environment, as an opportunity, so we have been agile in striving to bolster sales of structured products and private placement investment trusts. We offer differentiated services and products to our customers by harnessing the Group's functions such as proposing various products and solutions regardless whether they are domiciled in Japan or overseas or their corporate group affiliation. The Group provides such services, products and solutions through Shinsei Securities Co., Ltd., which has expertise in areas such as structured finance, and Shinsei Investment Management Co., Ltd., an asset manager that has assembled a unique lineup of investment trust products.

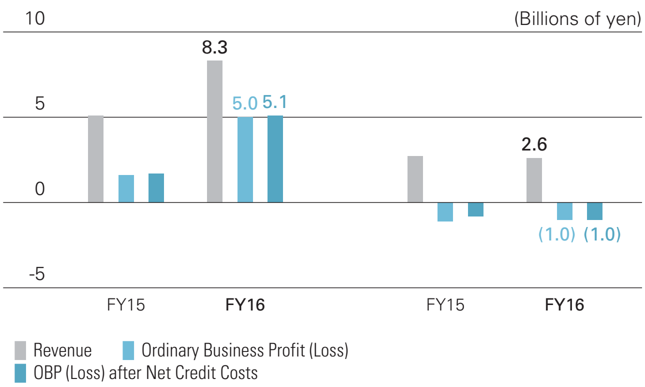
Progress Assessment of Third MTMP's First Year

Stable Revenue Areas

Corporate market solutions: Sales of structured deposits grew steadily in response to the proprietary investment needs of our regional financial institution customers and of our corporate customers for foreign currency derivatives.

Data on Major Operations

Markets Business | Other Businesses



Topics

SIM Awarded First Prize and Second Prize in R&I Fund Award 2017

Shinsei Investment Management (SIM) was awarded first prize in the global equity fund aggregate category for investment trusts/aggregate in R&I Fund Award 2017, sponsored by Rating and Investment Information, Inc. (R&I). In the India equity fund category for investment trusts, SIM received second prize from R&I for the Shinsei UTI India Fund, which it established and operates. The Shinsei UTI India Fund has been recognized by the annual R&I Fund Award program for six successive years.

Investment Trusts/Aggregate

Category	Prize	Asset Manager
Global equity fund aggregate	First prize	Shinsei Investment Management

Investment Trusts

Category	Prize	Fund Name
India equity fund	Second prize	Shinsei UTI India Fund

Status of Regional Revitalization and SME Management Improvement Initiatives

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

Examples of Shinsei Bank Initiatives

• Supporting regional revitalization through business rehabilitation

Regional textile product manufacturer: While staying on top of robust order inflows, the company had in the past made a large capital investment in facilities overseas and then later as a result strained to raise funds, seriously hampering its production activities. As a result, it was forced to file an application for legal liquidation. It needed to secure funding to remain in business, so it was under pressure to act swiftly to select a sponsor in a very short time span. As a financial advisor to the company in its sponsor selection process, Shinsei Bank harnessed its customer base and extensive experience in business rehabilitation and M&A to succeed in swiftly finding a sponsor to back up the company that showed a strong interest in its businesses. In this way, we contributed to reviving and sustaining employment and traditional textile product manufacturing in the region.

• Supporting management improvement

A regional dealer of imported vehicles: This dealer sought to enter the sales financing (auto loans) business to expand its business but to do so it needed to both improve its balance sheet and secure sufficient inventory financing. Accepting an infusion of capital-like funds, Shinsei Bank supported the dealer's efforts to bolster its financial position and helped facilitate its swift entry into auto loans by providing the credit screening and collection agency services of a Group company in installment sales credit. While continuing to support a scheme to securitize receivables from installment sales, the Bank plans to arrange joint financing for the dealer with several regional financial institutions to support it in securing an even more stable and diversified funding base.

• Supporting management improvement

Electronic component production equipment maker: With its earnings eroding after the Lehman Brothers collapse, the company needed to secure new sources of funding. Taking notice of the company's advanced technologies and solid customer base, Shinsei Bank arranged a syndicated loan with several regional financial institutions and has since then continued to support the company. Through this ongoing support combined with monitoring of its order status and access to funding, Shinsei Bank advised the company on ways to increase the transparency of its business activities in the eyes of the financial institutions where it does business, and in doing so enabled the company to improve its earnings and solidified the footing of a cooperative support system it has formed with its main banks. Shinsei Bank also provides the company with instruments to hedge business risks by initiating a trading relationship with it in foreign exchange forward contracts.

• Supporting business revitalization

Medical equipment manufacturer: Despite still formidable technologies, the company was stuck in vicious circle that originated in a sales expansion strategy that backfired and led to transaction margin erosion and persistent losses and ultimately to declining productivity due to aging production facilities. Burdened with enormous debts, the company sought rehabilitation through voluntary liquidation but recognizing how difficult it would be to recover on its own, the company publicly sought a sponsor to oversee its rehabilitation. Accepting a call to be its financial advisor in its sponsor selection efforts, Shinsei Bank recruited one with outstanding funding and management capabilities in a very short time span and then smoothly secured the cooperation of several creditors. In these ways, Shinsei Bank contributed to putting the manufacturer on a path to recovery through voluntary liquidation. At present, the manufacturer is off to a fresh start with its sponsor enabling it to invest in facilities necessary for business expansion.

BUSINESS SEGMENT INFORMATION, OVERVIEW OF IMPORTANT SUB-UNITS

Individual Business:	Focuses on retail financial products and services
Retail Banking	"Retail Banking" provides financial transactions and services to retail customers such as yen/foreign currency, structured deposits, investment trusts, brokerage service (through a partner institution), life and nonlife insurance (through partner institutions) and housing loans.
Shinsei Financial	"Shinsei Financial" provides consumer finance products and services and guarantee services (Shinsei Financial, Shinsei Bank Lake, NOLOAN).
APLUS FINANCIAL	"APLUS FINANCIAL" provides installment sales credit, credit cards, guarantees, financing and settlement services.
Others	The "Others" consists of profit and loss attributable to unallocated consumer finance business and other subsidiaries.

For specifics, see page 42

Institutional Business:	Focuses primarily on corporate, public and financial sector finance and advisory businesses
Corporate Business	"Corporate Business" provides financial products and services, advisory services, health care finance and trust services to businesses and public corporations and financial institutions.
Structured Finance	"Structured Finance" provides real estate related nonrecourse and corporate finance, project finance, M&A related finance, and specialty finance.
Principal Transactions	"Principal Transactions" is engaged in the credit trading businesses, private equity, corporate revitalization support business, the provision of business succession and business switching and closure support services and asset-backed investment.
Showa Leasing	"Showa Leasing" primarily provides leasing related financial products and services.

For specifics, see page 44

Global Markets Business:	Focuses primarily on financial markets business
Markets	"Markets" is engaged in foreign exchange, derivatives, equity related and other capital markets transactions.
Others	"Others" consists of the profit and loss attributable to Shinsei Securities, asset management, wealth management and other products and services of the Global Markets Business.

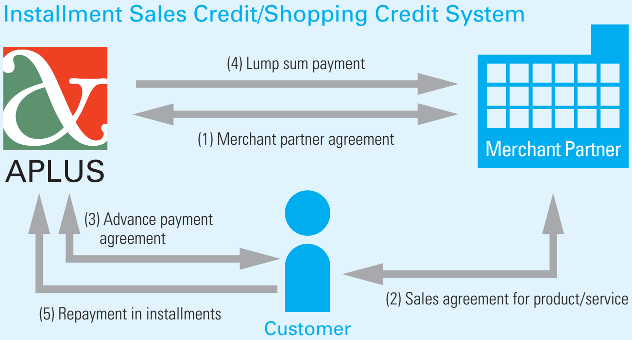
For specifics, see page 46

GLOSSARY

Advisory	Shinsei Bank's advisory business proposes solutions to meet customers' diverse needs in areas such as M&A, corporate restructuring, and fundraising in Japan and overseas.
ALM (Asset Liability Management)	ALM refers to the comprehensive management of the market and liquidity risks that exist in the Bank's balance sheet (i.e. assets and liabilities) as a result of its business operations. ALM aims to optimize interest rate income from the Bank's balance sheet and economic value by monitoring interest rate conditions and asset/liability duration, including off-balance items such as derivatives on the Bank's account, and adjusting for risks in assets/liabilities and derivatives transactions in consideration of the change in value of assets, liabilities, and periodic profits or losses due to market fluctuations.
Asset Management	In a broad sense, Asset Management refers to Shinsei Bank's overall asset management business, but in a narrower sense it refers to the investment trust business and investment advisory business. Shinsei Bank offers a variety of unique financial products and services for both institutional and individual (including high-net worth) customers, primarily through the Global Markets Business and the Individual Business (retail banking Business).
Business Succession Support	The provision of investments and loans to meet capital requirements for the transfer of shares, etc. to customers considering family members or employees as business successors in order to facilitate the smooth hand over of business ownership.
Common Equity Tier 1 Ratio	The financial indicator calculated in accordance with the international standard of the third Basel accord, indicating the adequacy ratio of capital of an even higher level of quality than the capital adequacy ratio commonly used to gauge the financial stability of banks, etc. The ratio is calculated by dividing the balance of common equity tier 1 capital, which is comprised of capital with high loss absorption capability such as common equity and retained earnings, and dividing the total by the balance of risk assets, the indicator of the magnitude of risk of assets, etc. held by banks.
Credit Guarantee Business	Credit Guarantees represent a guarantee to repay a loan made by a partner financial institution on behalf of the borrower, in the case that the borrower becomes unable to make repayments, in return for a fee. In the Shinsei Bank Group, Shinsei Financial is focused on this business, offering comprehensive support to partner financial institutions including advice on advertising strategies and product design as part of its service.
Credit Trading	Credit Trading offers balance sheet optimization solutions, including the purchase of loan receivables from current creditors or an investment in (purchase of) monetary claims held by the customer. Shinsei Bank also invests in monetary claims such as loans and leases sold in the secondary market for non-performing loans, aiming to make profits by securing a greater return than the initial investment through servicing or resale of the receivables.
Derivative	Derivative is a collective term referring to transactions that are derived from or linked to other underlying transactions such as interest rate, bond, foreign exchange, and equity transactions. They are also called "financial derivatives" since most of the transactions originate from financial products.
Exposure	Exposure refers to an amount of assets or an amount of money that is exposed to foreign exchange, price fluctuations or other risks as a result of loans and investments.
(Grey Zone) Interest Repayment	Prior to the interest rate reduction implemented as part of the revisions to the Money Lending Business Law, the interest rates on some consumer finance products offered by the Shinsei Bank Group's subsidiaries exceeded the upper limit stipulated by the Investment Law. Following a ruling by the Supreme Court in January 2006, customers who paid more than the upper limit stipulated by the Investment Law have been allowed to request a refund of the extra interest paid. Accordingly, consumer finance companies have recorded reserves in order to cover losses on (grey zone) interest repayments.

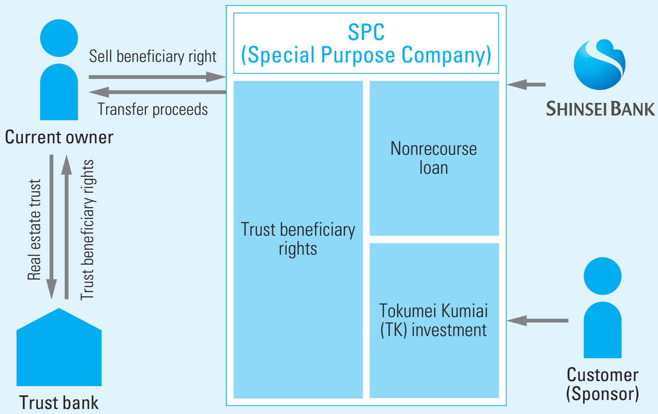
Healthcare Finance	Healthcare Finance refers to financing— primarily nonrecourse loans— as well as financial advisory on management strategies and M&A for senior care facilities and nursing homes.
Impact Investment	Investment aimed at generating both an economic return and social return. This approach seeks out companies that address social issues while pursuing an economic return and invests accordingly. A distinguishing feature of impact investing is continuous measurement of the social impacts companies generate.
Installment Sales Credit (Shopping Credit)	Installment Sales Credit (Shopping Credit) is a service that allows customers to pay for goods or services in installments without using a credit card. Shinsei Bank group offers this service primarily through APLUS FINANCIAL.

Installment Sales Credit/Shopping Credit System



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

LBO Finance (Leveraged Buyout Finance)	LBO finance is a type of M&A finance based on the assets or future cash flows of a company to be acquired. It is used when a company or an investment fund acquires another company. At Shinsei Bank, LBO Finance is included in Specialty Finance.
MBO Finance	MBO stands for Management Buyout. It is a type of LBO finance offered when a company's management buys its own company co-working with an investment fund and others. At Shinsei Bank, MBO Finance is included in Specialty Finance.
Net Credit Costs	Net credit costs are the sum of reserves for loan losses set aside (credit costs) according to the credit standing of borrowers, reversal (gains) of reserves for loan losses and recoveries of written-off claims resulting from their disposal.
Nonrecourse Loan	Nonrecourse loans are finances for which repayment is made solely from the cash flows generated from specific businesses or assets (typically, but not always real estate), with no recourse to the sponsor.



Ordinary Business Profit (Loss)	Ordinary business profit (loss)— the indicator of profit (loss) from core business after expenses— is calculated by subtracting "expenses" from "total revenue." "Net credit costs" are excluded from this calculation.
Portfolio	A portfolio refers to a group of various components. An asset portfolio, for example, refers to a collection of various assets such as real estate, cash deposits and equities.
Principal Transactions	Principal Transactions generally refer to a bank's proprietary investments. Shinsei Bank proactively makes proprietary investments in the Credit Trading and Private Equity businesses in order to meet customers' needs for corporate restructuring, business succession and growth funds.

Private Equity
In general, Private Equity refers to privately-placed shares and shares that are not traded in stock exchanges or over-the-counter markets. Private equity investments can be classified into venture capital, which are investments in growing companies, and investments to acquire control of mature companies in order to implement restructuring. Shinsei Bank is proactively engaged in venture capital investments, investing in up to 5% of total shares with representative rights of customers planning a public share offering as well as making buyout investments related to business divestments from mature companies.

Project Finance
Project Finance refers to loans to finance specific projects for which the principal source of repayment is the cash flow generated from the project itself. Project Finance is often used for medium-to-long term projects in energy, natural resources, and infrastructure.

Revised Money Lending Business Law
The key points of the Revised Money Lending Business Law which was enacted and issued in December 2006 are: (1) optimizing control of the money lending business (tightening entry requirements etc.), (2) reducing excessive lending (implementation of the designated credit bureau system and income-linked lending limitation), and (3) controlling the interest rate system (reducing the upper limit of the interest rate under the Investment Law to 20% p.a.). The law was enforced in a phased manner and was fully enforced in June 2010.

Risk Weighed Assets
Risk weighed assets are an amount equivalent to the volume of "credit risk" and "market risk" of the Bank's assets/transactions and "operational risk" involving operational errors.

RORA
Return on Risk-Weighted Assets—the indicator which shows a profitability based on Risk-Weighted Assets. RORA is calculated as the ratio of its profit attributable to owners of the parent to the total Risk-Weighted Assets at the end of the term.

Ship Finance
Finance for the shipping industry. Shinsei Bank primarily provides shipping companies with funds for ship acquisition.

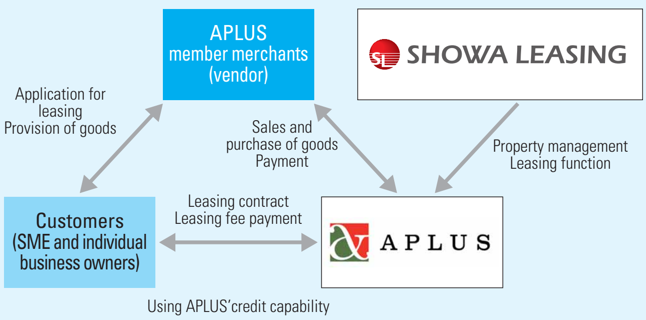
Specialty Finance
Specialty Finance at Shinsei Bank refers to M&A finance, LBO finance and other types of finance that focus on the cash flows and value generated by businesses and assets. It is a type of structured finance.

Structured Finance
Structured Finance refers to finance requiring special structures. In general, it takes the form of project finance or non-recourse finance which focuses on the cash flows or value generated by a specific project or asset. Shinsei Bank is primarily active in real estate finance, project finance, M&A finance and corporate restructuring finance.

Syndicated Loan
Syndicated loans are loans provided jointly by a syndication of multiple financial institutions (lender group) based on a single loan agreement.

Treasury
Treasury is normally the function in a company which is responsible for ALM (asset and liability management). At Shinsei Bank, Treasury basically refers to the function responsible for cash flow management including collateral management, transactions through transfer pricing (FTP, the inter-office fund transfer price), issuance or buyback of (subordinated) corporate bonds, liquidity planning, management of overseas subsidiaries that issue capital securities as well as ALM for the entire Group.

Vendor Lease
Vendor Lease refers to providing leased properties to SME and individual business owners through APLUS member merchants (vendors).



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

ESG as Foundation Increasing Corporate Value

Governance

Shinsei Bank has established a corporate governance framework under the "Company with an Audit & Supervisory Board" model. Oversight authority and responsibility for business execution is concentrated in the Board of Directors, and the Audit & Supervisory Board and its members, which are independent of the Board of Directors, are tasked with auditing the Board. This structure facilitates proper management decision-making and business execution while also ensuring a rigorous system of organizational checks and balances.

Social

The Shinsei Bank Group promotes education and recruitment of highly capable human resources that transcends Group boundaries with "people" as an engine for growth.

- Our human resources system aligns with our management principles
- Further strengthening our organization and human resources
- Promoting Diversity & Inclusion

Environment

The Shinsei Bank Group promotes employee-driven social contribution activities around the themes of "environment," "educating future generations," and "post-disaster recovery support" in an effort to create a sustainable society.

- Environment: Protect our earth and the environment we live in
- Educating future generations: Support children, youth, physically and intellectually challenged people, and others who will shape the future
- Post-disaster recovery support: Support the areas damaged by the Great East Japan Earthquake

CORPORATE GOVERNANCE

Bolstering Governance for Sustainable Growth

Shinsei Bank has established a corporate governance framework in accordance with its status as a "Company with an Audit & Supervisory Board" (kansayakukai setchi gaisha). Moreover, the Bank is in full agreement with the concept of the Corporate Governance Code, which was introduced in June 2015 and applies to all companies listed on Japan's stock exchanges. The Bank strives to implement measures necessary to be in compliance with the code and realize effective corporate governance. The Bank is working to strengthen its corporate governance with the aim of achieving sustainable growth and increasing its corporate value over the medium and long terms.

Four Features of Shinsei Bank's Corporate Governance

1 Ratio of Outside Directors on the Board of Directors

71%

(Five directors)

- Five of the seven directors at Shinsei Bank are outside directors and comprise a majority of the Board of Directors.
- The Bank has maintained a Board structure where outside directors comprise a majority since Shinsei Bank started.
- The Bank has notified the Tokyo Stock Exchange that six of the ten seats on its governance bodies, including outside members of the Audit & Supervisory Board, satisfy the independence criteria of securities exchanges for an "independent director."

2 Ratio of Outside Directors with Corporate Executive Experience

80%

(Four directors)

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

3 Attendance Rate for the Board of Directors

100%

(All Six Meetings)

- Our directors, including outside directors, attended each meeting of the Board of Directors and engaged in active debate about the bank's management and operational execution.
- This attendance rate is the average for our directors for meetings of the Board of Directors since the June 2016 general meeting of shareholders.

4 No. of IR Meetings where the CEO Met with Shareholders, Investors and Analysts

105

(Total No. of IR Meetings 358)

- The CEO has been clearly assigned ultimate responsibility for investor relations (IR) activities and performs the core role in our strategic IR execution.
- Our CEO engaged in constructive dialogue with shareholders, investors, and analysts stationed in Japan, North America, Europe, and Asia in fiscal year 2016.

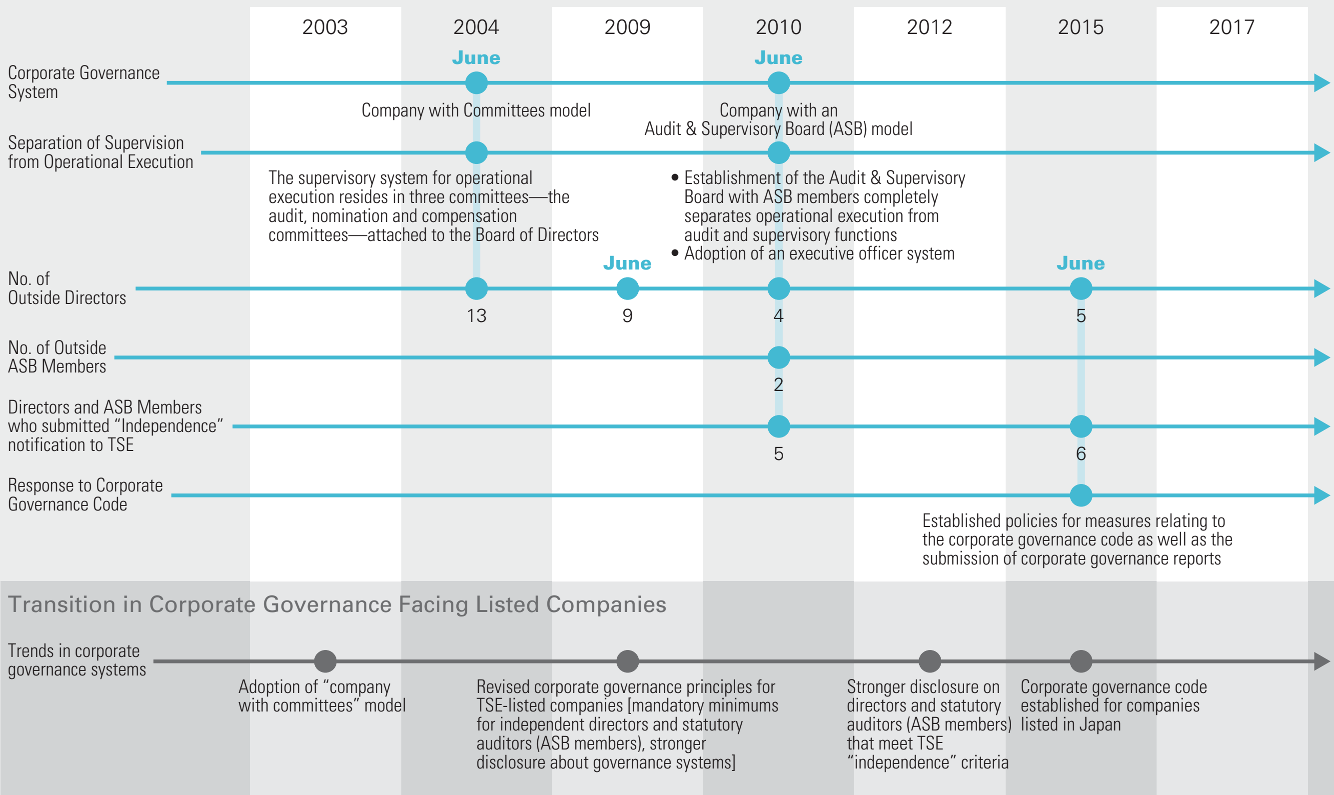
Our History of Corporate Governance Since 2003

Shinsei Bank, Limited changed its corporate governance system from the "Company with Committees" model to a "Company with an Audit & Supervisory Board" model on June 23, 2010. This switch reflected recognition of the growing pressure for the Board of Directors to be actively involved in upholding our internal control systems and risk management, and moreover, for stronger management decision-making functions based on actual experience in operational execution in determining management policies. It also reflected the growing need to strive for stronger and more effective audit functions in our corporate governance by enabling full-time Audit & Supervisory Board (ASB) member responsible for audits to audit everyday operational execution and exercise checks on director activities and operational execution from a viewpoint independent of directors.

The changeover enables: 1) the consolidation of business execution authorities and responsibilities in the Board of Directors, the highest-ranking management decision-making body, and 2) the assignment of responsibility for audits and monitoring of the Board of Directors to the Audit & Supervisory Board and its members, which are independent of business execution and the Board of Directors. This combination has enabled us to realize appropriate management decision-making and operational execution while also establishing a governance system that ensures sufficient checks are in place organizationally.

Moreover, we also adopted the Executive Officer system at the same time we switched to the "Company with an Audit & Supervisory Board" model and have striven to achieve an efficient and suitable management framework for swift management decision-making.

Our History of Corporate Governance Since 2003



Corporate Governance

Shinsei Bank has established a corporate governance framework as a "Company with an Audit & Supervisory Board" (*kansayakukai-setchi-gaisha*). Through this corporate governance framework the Bank has concentrated the authority and responsibility for business execution in the Board of Directors, the highest managerial decision-making body within the Bank, and through the tasking of auditing functions to the Audit & Supervisory Board and its members, which are independent from the Board of Directors as well as business execution, the Bank seeks to ensure a corporate governance framework which facilitates appropriate managerial decision-making and business execution while also ensuring a rigorous system of organizational checks and balances.

Additionally, the Bank is in full agreement with the concept of the "Corporate Governance Code," which applies to all companies listed on Japan's stock exchanges, and through proper implementation of the Code in order to realize effective corporate governance, the Bank seeks to continue strengthening its corporate governance in order to achieve sustainable growth and enhance its corporate value over the medium and long term.

Corporate Governance of Shinsei Bank

Shinsei Bank's Board of Directors—the Bank's decision-making body for its business management—consists of seven directors—two full time directors who are directly responsible for the execution of the Bank's businesses and five outside directors who primarily supervise the Bank's business execution. This combination of internal and external directors ensures the transparency and objectivity of the Bank's management and fosters appropriate decision-making regarding the Bank's operations. Additionally, the Bank has adopted an Executive Officer system organized around the two executive directors in order to facilitate flexibility in the execution of the Bank's day-to-day business operations and has placed chief officers and senior officers in the "Group Headquarters." Specifically, "Divisions" are designated as the most basic business unit in the Bank, and under the direction of executive directors including the president, executive officers delegated by the Board, such as chief officers and senior officers, are each responsible for a division or are in charge of specific business execution functions in their respective domains of responsibility. Through this system, the Bank is working to realize an efficient management structure. Furthermore, through the auditing of the Bank's Board of Directors and business execution by the Audit & Supervisory Board and its members, which are independent from the Board of Directors, the Bank seeks to create a strict corporate governance framework which will encourage the adoption of optimal and balanced management policies, through which the Bank seeks to enhance its corporate value.

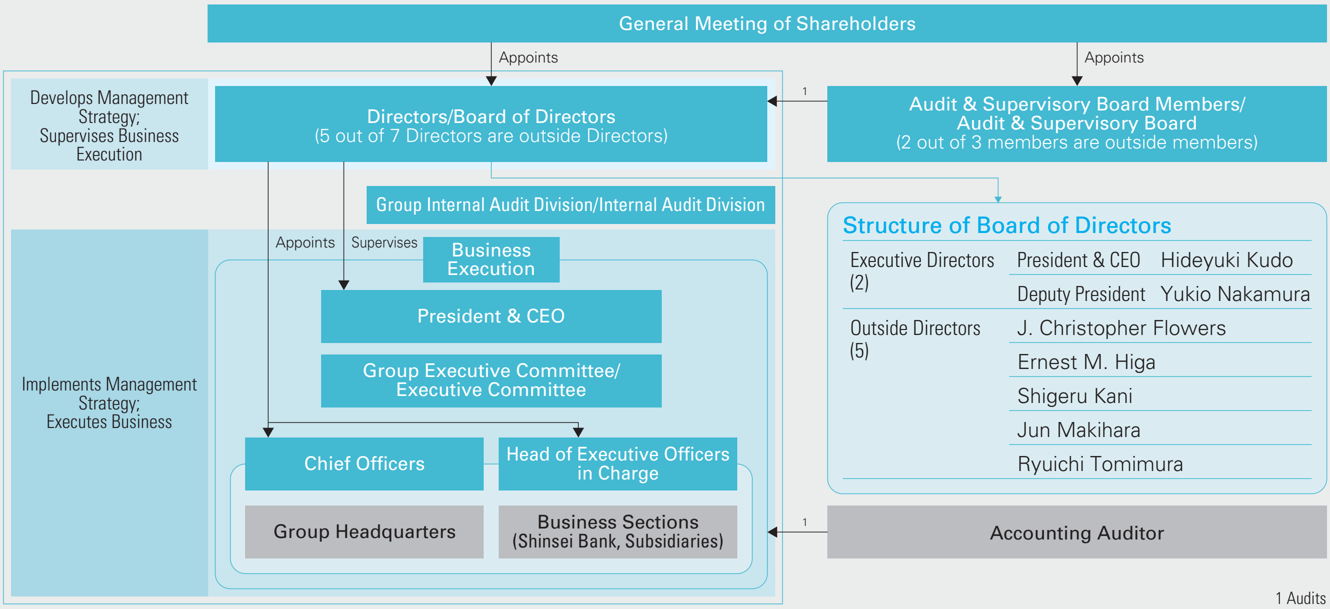
Characteristics of Shinsei Bank's Corporate Governance/ Ensuring Transparency and Objectivity of Management through the Appointment of Outside Directors

Since its inception as Shinsei Bank in 2000, the management of the Bank has consistently engaged in management which emphasizes the supervisory functions of outside directors in order to achieve management transparency and objectivity as it seeks to achieve sustainable growth and enhance the Bank's corporate value over the medium and long term. In accordance with its corporate governance framework as a "Company with an Audit & Supervisory Board," the Bank has a Board of Directors structure in which outside directors outnumber internal directors, with two internal directors responsible for daily business execution and five outside directors. The current outside directors are a well-balanced group of executives that bring to the Bank their extensive experience and expertise in a range of fields, including domestic and overseas financial businesses, consumer-related businesses and the fields of risk management and information systems. Drawing upon their experience and expertise, the Bank's outside directors provide independent and objective perspectives regarding the Bank's management and operations and fulfil vital roles as both supervisors and advisors to the executive directors overseeing the business execution of the Bank.

The Board of Directors deliberates on agenda items and oversees business execution through six regularly scheduled meetings a year, extraordinary meetings convened as necessary, and strategy sessions where important issues from a business strategy and management perspective are debated. At these meetings, all Board members express their opinions freely and engage in robust discussions. The outside directors articulate their views regarding the management of the Bank, drawing upon their diverse backgrounds to offer a broader range of perspectives on topics being discussed and perform supervisory roles regarding management issues such as whether optimum strategies are being adopted, whether the risk-return balance is appropriate and whether a particular course of action will contribute to the growth of the Bank's businesses. By determining policy through such discussions, the Bank seeks to achieve sustainable growth and enhance the Bank's corporate value over the medium and long term, protection of the interests of all stakeholders including our shareholders and customers as well as maintain appropriate business promotion frameworks. Furthermore, efforts to improve the effectiveness of the Board of Directors by enabling Board members to focus on discussing key management issues and important matters which affect the medium- and long-term sustainable growth of Shinsei Bank.

The outside directors of Shinsei Bank are not involved in day-to-day business execution and in order to ensure the sharing of their independent viewpoints as well as to share detailed information regarding business execution with each of the outside directors the Bank holds regular meetings attended only by

Corporate Governance Structure Chart (as of June 22, 2017)



these parties. Through these meetings each outside director is able to more effectively fulfill their roles as supervisors and advisors to the executive directors responsible for the Shinsei Bank Group's day-to-day operations.

Regarding transactions with parties such as directors and major shareholders, the Bank conducts checks to avoid conflicts of interest and to maintain the fairness of transactions and, when necessary, it uses established frameworks for deliberating on such transactions in Board of Directors meetings and conducting any necessary follow-ups.

Executive Officers, Chief Officers, Senior Officers, Executive Committee and Group Executive Committee

Shinsei Bank has adopted the Executive Officer system to ensure the flexible execution of day-to-day business operations, and chief officers and senior officers have been assigned to the Group Headquarters. As of June 22, 2017, there were 32 executive officers tasked with business execution, including the two executive directors, along with 18 chief officers and senior officers at Group Headquarters. All were appointed by the Board of Directors and carry out operational execution. Under the direction of executive directors including the president, executive officers, chief officers and senior officers, who are delegated by the Board, are building systems to efficiently execute operations in their respective domains of responsibility centering on executive officers who are the head of a domain and chief officers.

Additionally, the Bank has established the Executive Committee, comprised of executive directors and executive officers who are the head of a domain, as the decision-making body through which the president makes determinations regarding the Bank's business execution, enabling swift, efficient operational management. As

Reasons for Nomination of Outside Directors

Name	Reason for Nomination
Outside Director J. Christopher Flowers	Reflect in the Bank's management his experience and expertise in the financial service industry as a whole
Outside Director Ernest M. Higa[1]	Reflect in the Bank's management his experience and deep insight of business for consumers
Outside Director Shigeru Kani[1]	Reflect in the Bank's management his expertise in the risk management area and his extensive knowledge concerning banking operations
Outside Director Jun Makihara[1]	Reflect in the Bank's management his extensive knowledge of finance and his domestic and international experience
Outside Director Ryuichi Tomimura[1]	Reflect in the Bank's management his extensive experience and wide range of knowledge including information systems as a management executive and a consultant.

1 Shinsei Bank has submitted to the Tokyo Stock Exchange an independent director registration form identifying Ernest M. Higa, Shigeru Kani, Jun Makihara and Ryuichi Tomimura as independent directors.

Status of Board of Directors Meetings

Ratio of outside Directors
71%

- Five out of the seven Directors of Shinsei Bank are outside Directors and make up the majority of the Board of Directors.
- The structure where outside Directors make up the majority of the Board members has continued since the start of Shinsei Bank.
- Six officers including outside Audit & Supervisory Board Members are reported as independent officers to the Tokyo Stock Exchange (as of June 2017).

Attendance rate
100%

- The Directors, including outside Directors, attended almost all the Board meetings and had robust discussions concerning the management and business execution of Shinsei Bank.
- The figure in the box to the left shows the attendance rate of the Board of Directors meetings held after the Annual General Meeting in the fiscal year 2016 (six meetings in total).

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

Name	Main Purpose
Group Executive Committee	The president's decision-making body for day-to-day business execution at the Group level
Executive Committee	The president's decision-making body for day-to-day business execution for Shinsei Bank, Limited
Group ALM Committee	Negotiate, coordinate and make decisions concerning medium- and long-term Asset and Liability Management
Group Compliance Committee	Communicate, coordinate and make decisions on the Group's compliance posture and on matters relating to compliance
Group Risk Policy Committee	Discuss the risk operation policy and management framework for the Group's portfolios, and the Group's approach to major portfolios, sectors, products and so forth
Group IT Committee	Discuss, coordinate and make decisions on matters concerning the Group's information technology systems
Group Business Continuity Management Committee	Discuss, coordinate and make decisions across divisions to advance reforms to the Group's business continuity structure
Group Basel Committee	Discuss, coordinate and make resolutions on matters concerning regulatory capital, with a focus on Basel regulations
Group Management Development Committee	Discuss, coordinate and make decisions about the Group's HR system and related measures, etc.
Group New Business/ Product Committee	Conduct due diligence on each new business and service proposal across the Group and make decisions, and conduct due diligence on strategic investment proposals
Doubtful Loans Committee	Promptly inform top management about significant bad debt exposure, and make decisions on write-offs and other matters concerning sale of debts, debt forgiveness, and so forth
SME Loan Committee	Through discussions on the business policy and challenges for the entire institutional banking business, take initiative in bank-wide efforts to achieve SME loan goals set in the Revitalization Plan

for Group governance, in concert with the move to a Group Headquarters system in April 2017, we established the Group Executive Committee as a venue where we could make decisions on important matters concerning overall Group management and where chief officers, executive directors overseeing execution at major Group companies, and others could attend. We have thus put into place a system that enables optimal and efficient decision-making for the Group as a whole.

The Executive Committee and the Group Executive Committee are convened on a weekly basis in order to deliberate on matters concerning the Bank's and the Group's business operations, and through these deliberations the alignment of the sections responsible for each business with the Bank's and the Group's overall management strategy and strategic direction is ensured.

Furthermore, the Bank has established numerous cross-functional committees under the Executive Committee and the Group Executive Committee, centering on executive officers who are the head of a domain and chief officers, to enable the Bank and Group to appropriately and flexibly respond to issues arising from the increasing specialization and sophistication of banking businesses.

Group Headquarters

To powerfully promote Group integration in keeping with our Medium- to Long-term Vision, we established in April 2017 the Group Headquarters, effectively combining head-office functions such as human resources, finance, general services that had been located at each Group company at the head office. In concert with this, we assigned a chief officer to be in charge of each head-office function and a senior officer to serve as a deputy to each chief officer in an effort to concentrate relevant authorities. Under the recently launched Group Headquarters, we are working to realize an optimal Group-wide structure and provide higher added value that translates into improved customer services, and the consolidation has from the outset enabled us to improve productivity and efficiency by eliminating functional overlap.

Audit & Supervisory Board Members/ Audit & Supervisory Board

Shinsei Bank's Audit & Supervisory Board is composed of one full-time member who has extensive business experience at the Bank and is knowledgeable in finance and accounting and two outside members, one of whom is an attorney and the other who is a certified public accountant. By applying the expertise from their respective fields of specialization and their knowledge of corporate governance, the Audit & Supervisory Board, which is fully independent from

Reasons for Nomination of Audit & Supervisory Board Members

Name	Reason for Nomination
Full-time Audit & Supervisory Board Member Shinya Nagata	Reflect in the Bank's audit operations his long years of business experience in the areas of finance and accounting at Shinsei Bank
Outside Audit & Supervisory Board Member Michio Shibuya[1]	Reflect in the Bank's audit operations his expertise and extensive experience as a certified public accountant, and knowledge regarding corporate governance based on experience as an Audit & Supervisory Board Member at a listed company.
Outside Audit & Supervisory Board Member Kozue Shiga[1]	Reflect in the Bank's audit operations her expertise and extensive experience as a lawyer.

1 Shinsei Bank has submitted to the Tokyo Stock Exchange an independent director registration form identifying Michio Shibuya and Kozue Shiga as independent directors.

Activities of Audit & Supervisory Board Members since FY2016 AGM[2]

	Board of Directors meetings	Audit & Supervisory Board meetings
Number of meetings held[3]	6 times	12 times
Attendance rate	94%	100%

2 AGM refers to the annual general meeting of shareholders
3 The total number of meetings held after the Annual General Meeting in fiscal year 2016

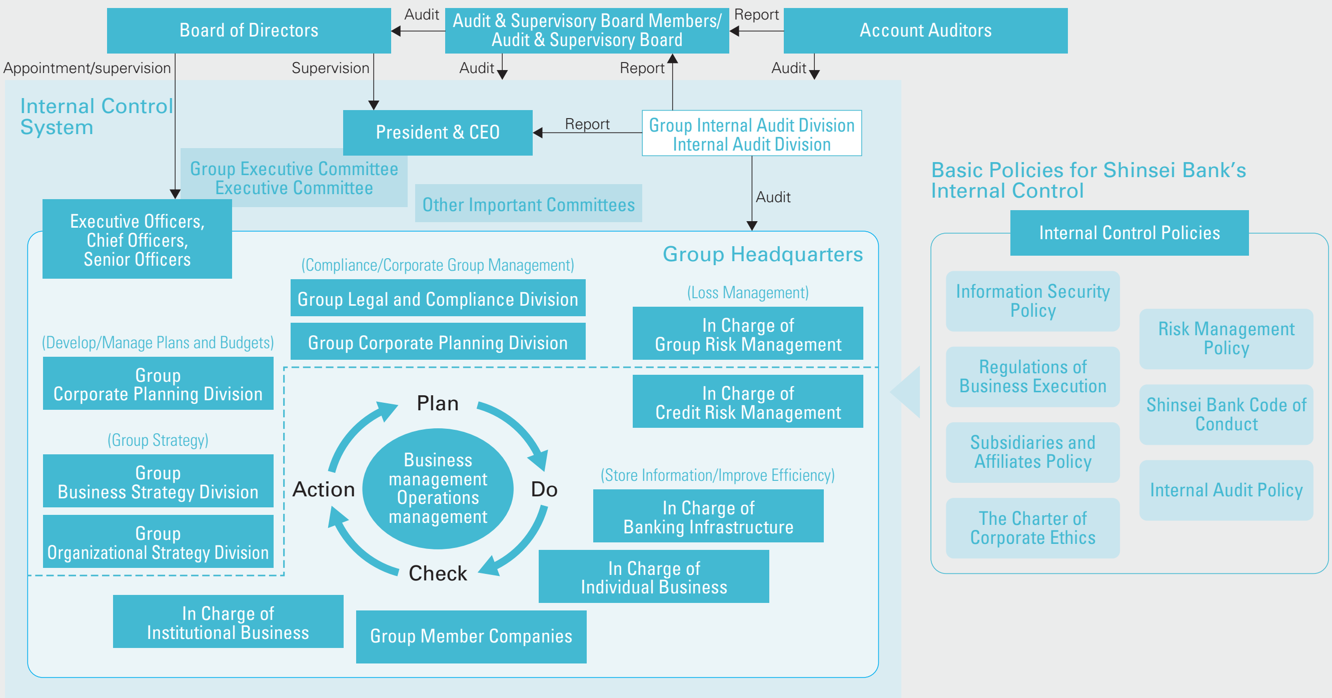
the Board of Directors, engages in appropriate audits of the Board of Directors' management of the Bank's businesses. In addition, both outside Audit & Supervisory Board members are experienced as external directors of other companies and by drawing upon their experience are able to provide views with greater objectivity from a position of greater independence, resulting in enhanced effectiveness of the Audit & Supervisory Board's auditing activities.

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

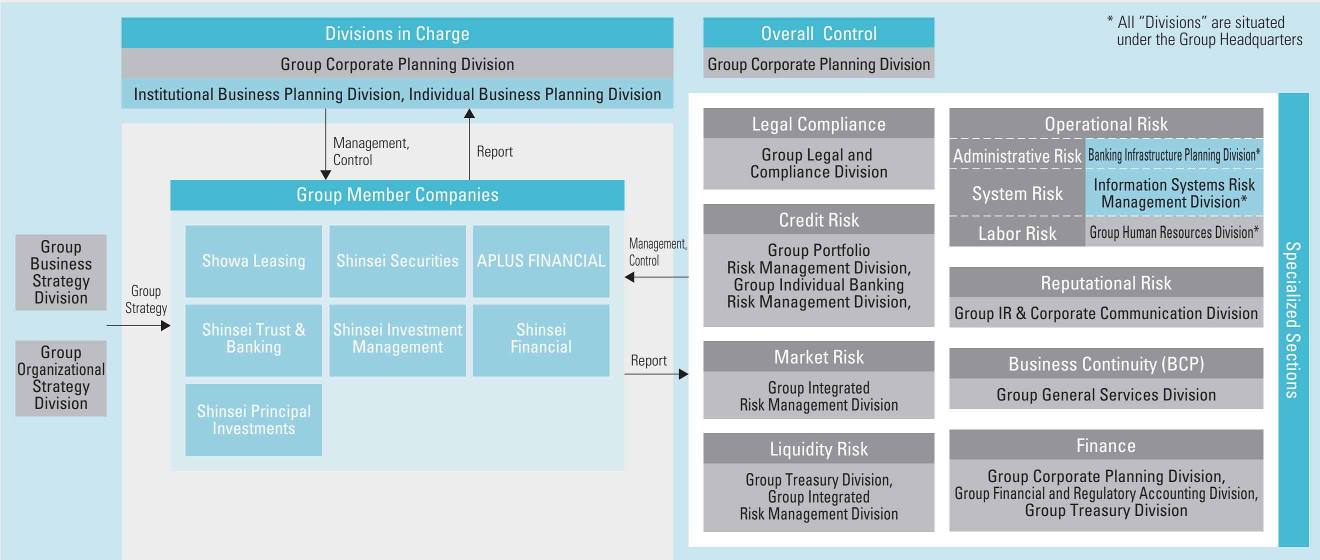
Internal Control

In order for corporate governance to function effectively, in addition to creating business execution oversight and decision-making frameworks around the Board of Directors, putting into place frameworks which facilitate the proper functioning of functions such as internal audits and compliance is also necessary. Additionally, the creation of internal control systems as required by the Corporation Act or internal controls which ensure the accuracy of financial reports as required by the Financial Instruments and Exchange Act is also a crucial element in a properly functioning corporate governance structure. While management is responsible for ensuring the implementation of such internal controls, the proper function of overall internal controls can be ensured by installing detailed internal control frameworks within the divisions executing business operations. Shinsei Bank's basic policy governing its internal control systems has been put in place in order to ensure the propriety and efficiency of day to day operations and is defined in the "Internal Control Rules" determined by the Board of Directors, and furthermore, the adequacy of its internal control systems is reviewed annually by the Board of Directors. The "Internal Control Rules," in addition to creating a framework for safeguarding the effectiveness of audits by the Audit & Supervisory Board Members, defines the Subsidiaries and Affiliate Policy, the Information Security Policy, the Risk Management Policy, the Regulations of Business Execution, the Shinsei Bank Code of Conduct and the Internal Audit Policy as the underlying provisions aimed at preserving the propriety, transparency and efficiency of the operations of the entire Shinsei Bank Group including subsidiaries. Furthermore, the Bank has instituted frameworks to ensure the propriety of its operations, and as required by the Charter of Corporate Ethics in regard to the prevention of relationships with antisocial forces, the Bank continues to prevent and terminate any such ties. We consolidated authorities relating to Group-wide business management functions, including for subsidiaries and affiliates, at the Group Headquarters in April 2017 and are working to bolster systems that support the internal control frameworks of the entire Group.

Internal Control Framework



Group Internal Control Support Framework



* The specialized sections of each risk area identify and measure the potential risks in cooperation with controlling division (Group Integrated Risk Management Division).

Legal and Compliance Activities

The Legal and Compliance Division plays a pivotal role in supporting the Bank's legal and compliance function, a key function of the Bank's corporate governance.

Compliance Framework

Shinsei Bank strongly believes that thorough compliance must be one of management's most important missions, and Shinsei Bank has established a robust compliance framework to ensure sound and proper management that earns the trust of society.

The Bank's Compliance Committee, the Legal and Compliance Division, and compliance supervisors (general managers) and compliance managers assigned to divisions, branches, and departments constitute the main elements of our compliance organization. The Compliance Committee, with the head of Corporate Service as its chair, examines and discusses important compliance matters. On the other hand, the Legal and Compliance Division plans and promotes various measures concerning compliance and centrally manages compliance risk.

Additionally, compliance supervisors take leadership in promoting compliance measures in their divisions, branches or departments and are responsible for making compliance-related decisions at their job sites. Compliance managers act as the point of contact for compliance-related matters and periodically report compliance-related issues to the Legal and Compliance Division, as well as focus on strengthening compliance at job sites.

The Legal and Compliance Division provides support to each division, branch, and department in their compliance decisions. Through compliance managers, the Division conducts Bank-wide monitoring of how various measures are being implemented and also provides compliance guidance. In order to be able to respond in a unified manner to issues such as financial crimes (e.g. bank transfer scams), anti-money laundering regulations, antisocial forces, the Financial Crime Information Department has been established and, in order to control legal matters, the Legal Department has been established. Both are part of the Legal and Compliance Division.

Attendant with the April 2017 establishment of the Group Headquarters, the Group Compliance Committee and the Group Legal and Compliance Division were newly established to rebuild a more efficient and effective legal and compliance management posture at the Group level. An examination into integrating the Group's legal and compliance functions is proceeding.

Compliance Activities

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

In addition to group training, we are also working to create an environment that elevates the effectiveness of training by introducing active e-learning courses and regularly transmitting a "Short Lesson for Compliance" by email, which summarizes compliance issues.

Legal Supervision

Banks are required to comply with a wide variety of laws and regulations in their day-to-day business operations. Violations of any of these laws can have severe repercussions not only to our credibility and reputation as a financial institution, but to that of the overall banking system itself. In the case of individual transactions, there exists a risk that we may face unexpected claims for damages if our contracts are unreasonable or we act in poor faith during the process of negotiation leading up to contract execution.

Prevention and proper management of these legal risks are a crucial function within the day to day operations of today's banks.

In order to mitigate these risks, Shinsei Bank has established the Legal Department within its Legal and Compliance Division which presides over such legal affairs, including compliance with corporate and transactional laws, legal documentation and litigation supervision and through this specialized support, we aim to prevent and manage any legal risk and support from a legal standpoint our compliance posture.

Internal Audit

With the increased diversification and complexity of risks relating to banking, the management of risk is becoming increasingly important. It is the role of internal audit to independently assess the effectiveness of risk management measures and internal controls. This, in turn, helps maintain and enhance our corporate governance.

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

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

In order to improve the effectiveness and efficiency of internal audit activities, it is important to gather relevant information about the business departments. To do so, the IAD has been enhancing off-site monitoring activities by attending key management meetings, reviewing internal control documents and holding regular meetings with senior management.

Comprised of the Business Audit Team, the IT Audit Team and the Quality Control and Planning Team, the IAD takes the initiative in developing our internal auditors' expertise, and in particular, strongly encourages them to obtain professional certifications such as the Certified Internal Auditor and Certified Information Systems Auditor qualifications.

While the IAD pursues the development and introduction of new audit techniques, it also recognizes the importance of maintaining the fundamental skills necessary to its duties in governance. By receiving regular quality assessments by a third party organization on the IAD's internal audit activities, we are able to objectively identify opportunities for improvement.

The IAD also involves Group subsidiaries' internal audit divisions in these efforts in order to continuously improve its performance.

In April 2017, all IAD staff members, together with subsidiaries' IAD staff members, belonged concurrently to the Group Internal Audit Division (GIAD) in order to integrate and enhance internal audit framework across the IADs within the Group.

CORPORATE GOVERNANCE

Introduction of Our Directors and Executives

Representative Directors

Hideyuki Kudo
Representative Director, President

Attendance rate
100%

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

Yukio Nakamura
Representative Director, Deputy President

Attendance rate
100%

Apr. 2015 Representative Director, Deputy President, Shinsei Bank, Limited (Current)
Apr. 2013 Representative Director, Deputy President, Chief of Staff, Head of Corporate Staff Group, Shinsei Bank, Limited
Jun. 2010 Representative Director, Senior Managing Executive Officer, Chief Risk Officer, Head of Risk Management Group, Shinsei Bank, Limited
Oct. 2009 Managing Executive Officer, Executive Head of Institutional Business Sub-Group, Shinsei Bank, Limited
Jun. 2008 Statutory Executive Officer, Executive Head of Institutional Business Sub-Group, Shinsei Bank, Limited
Apr. 2007 General Manager, Risk Management Planning and Policy Division, Portfolio and Risk Management Division, Operational Risk Management Division, Shinsei Bank, Limited
Oct. 2000 General Manager, Risk Management Planning and Policy Division, Portfolio and Risk Management Division, Shinsei Bank, Limited
Apr. 1978 Joined The Long-Term Credit Bank of Japan, Ltd. (Predecessor of Shinsei Bank, Limited)

Message from Outside Directors

Evaluate Year-One Execution of Third MTMP as Outside Directors, Express Fiscal Year 2017 Outlook

J. Christopher Flowers

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

Reasons for Nomination

Reflect in the Bank's management his experience and expertise in the financial service industry as a whole

Attendance rate

100%

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

Shinsei's net income in fiscal year 2016 was somewhat lower than originally projected in the Third MTMP. This was partly due to negative interest rate policy by the Bank of Japan. However, we would like to do better. This will include:

- Focus on business areas with good growth prospects and where Shinsei is strong.
- Continued cost efficiency. I am heartened by Shinsei's initial steps in this regard, and the company's plan for additional improvements.
- Continued return of capital to shareholders. Again I am heartened by Shinsei's initial steps, and we would like to do more.

I believe that the Board of Directors understands Shinsei's objectives and is functioning cohesively. I believe that I make a contribution to the board through my longstanding institutional knowledge of Shinsei, having served as a director for over 17 years, and my experience with global financial institutions over many years.

Ernest M. Higa

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

Reasons for Nomination

Reflect in the Bank's management his experience and deep insight of business for consumers

Attendance rate

100%

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

Given the continuing deflationary macro-economic environment, the competitive banking situation and the Bank of Japan's policy on negative interest rates; the Board of Directors in conjunction with Shinsei Bank's Management Team, has had to further focus our Third MTMP in order to enhance our strengths such as unsecured loans, and structured finance while accelerating the consolidation and integration of our group companies in order to gain efficiencies in back office functions, synergies and efficiencies. In order to facilitate this process, we have hired outside management consultants to work with us in order to implement industry "best practices" that are results oriented. Meanwhile, we continue to look for growth opportunities through both organic and inorganic growth, as well as, strategic alliances that leverage our various competitive advantages, in addition to adapting to the rapidly changing financial landscape due to the various FinTech initiatives that are being developed. We see these changes as opportunities rather than challenges and are endeavoring to incorporate the appropriate technological advances to enhance our business model in a flexible and forward looking manner. Given Shinsei Bank's relatively strong capitalization; I believe that this will allow us to have the financial resilience necessary to react to the somewhat volatile and unpredictable geo-political global situation which invariably affects the financial industry here in Japan. In conclusion the Board and Shinsei Bank's Management Team expect that the various initiatives we are pursuing both on efficiency and growth opportunities will be reflected in shareholder value going forward as we implement our Third MTMP.

Message from Outside Directors

Evaluate Year-One Execution of Third MTMP as Outside Directors, Express Fiscal Year 2017 Outlook

Shigeru Kani

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

Reasons for Nomination
Reflect in the Bank's management his expertise in the risk management area and his extensive knowledge concerning banking operations

Attendance rate
100%

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

The main focus of the Third MTMP is to enhance sustainable and stable core profitability by leveraging the Shinsei Bank Group's overall capabilities and creativity. I think the MTMP's first year developed the base for the Group to further solidify the ties binding us together so we can maximize synergies across both our businesses and business management.

Specifically, we are allocating a higher weighting of resources to fields where the Group has advantages and is uniquely situated by applying "selection and concentration" tests to our businesses. At the same time, in terms of business management, we are orienting the Group's considerable mobility and adaptability in ways that enable us to take various steps to improve cost efficiency in particular.

As outside directors, we ask questions and offer suggestions from multiple viewpoints to executive officers through venues such as meetings of the Board of Directors as we closely monitor execution of the MTMP. If there is scope to further ensure reliable execution of the MTMP, we encourage executive officers to pursue such opportunities resolutely.

In the MTMP's second year, putting that into practice will require delving deeper. Amid a still challenging financial environment, the Group is doing everything it can to ensure all its employees are unified and pushing in the same direction as they work to increase corporate value by securing stable earnings. I appreciate the support the Shinsei Bank Group has received from all our stakeholders and ask for their continued support.

Jun Makihara

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

Reasons for Nomination
Reflect in the Bank's management his extensive knowledge of finance and his domestic and international experience

Attendance rate
100%

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

Shinsei Bank finished the year with earnings of ¥50.7 billion, well below projected earnings of ¥55 billion for the first year of our Third Medium Term Management Plan. I am certain this was a disappointment for you, our shareholders, as it was for the Board and the company. Our revised forecast for fiscal year 2017 is also below original Plan projection of ¥61 billion. There are, of course, a number of reasons for this shortfall, the largest of which was the impact of the Bank of Japan's negative interest rate policy. Difficult markets also reduced revenues from the sale of asset management and derivative products and trading revenues.

Our employees worked very hard this year in a difficult market environment for all financial institutions. But of course our job is to react to market conditions and overcome them; to do better than a passive participant in the market.

We on the Board are equally responsible. It is our job to work with management to achieve better results: higher revenues and lower costs, without undue risk. We could have done better in 2016, particularly on cost control. We are actively engaged in a firmwide cost-containment project which will bear fruit in the coming years. I hope to report better news to you next year.

Message from Outside Directors

Evaluate Year-One Execution of Third MTMP as Outside Directors, Express Fiscal Year 2017 Outlook

Ryuichi Tomimura
Director,
Executive Vice President, Representative Director, SIGMAXYZ Inc.

Reasons for Nomination
Reflect in the Bank's management his extensive experience and wide range of knowledge including information systems as a management executive and a consultant

Attendance rate
100%

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

In the Third MTMP's first year, I think we were able to achieve good results as we advanced a range of initiatives with resolve in a challenging external environment. However, we face an era of volatile shifts in the environment where it seems events we did not foresee when we drew up the plan could well happen at any time. To elevate our ability to respond to change, we need to reinforce the entire Group's network to become an organization that is more flexible and imaginative while actively harnessing new digital technologies.

To ensure customers choose the Shinsei Bank Group from among their many options, we need to change our focus to providing the best financial services from the customer's viewpoint as opposed to merely marketing products to customers. To sharply improve our productivity, a pillar of the MTMP, we must go beyond curtailing costs. It is important to increase the value of the services the Group provides by enabling each employee to concentrate on higher value-added work and do their job with confidence and a sense their contribution matters.

In 2017, I would like to again draw on my years of experience in working with a multitude of companies to address their management problems so I can contribute as an outside director to enabling our growth along with all our stakeholders.

Audit & Supervisory Board Members

Shinya Nagata
Audit & Supervisory Board Member

Attendance rate
100%

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

Message from Outside Audit & Supervisory Board Members

Evaluate Board of Directors in Year-One Third MTMP as ASB Members, Express Fiscal Year 2017 Outlook

Michio Shibuya

Audit & Supervisory Board Member
Certified Public Accountant

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

Attendance rate
100%

Nov. 2016 Audit & Supervisory Board Member, GIFT Inc. (Current)
Jun. 2015 Audit & Supervisory Board Member, Shinsei Bank, Limited (Current)
May 2011 Audit & Supervisory Board Member, Ryohin Keikaku Co., Ltd.
Jun. 2010 Audit & Supervisory Board Member (full time), Business Brain Showa-Ota Inc.
Aug. 2008 Board of Councilors and Global Advisory Council, Ernst & Young ShinNihon LLC
May 2000 Executive Director, Ernst & Young ShinNihon (Predecessor of Ernst & Young ShinNihon LLC)
May 1991 Senior Partner, Showa Ota & Co. (Predecessor of Ernst & Young ShinNihon LLC)
Jul. 1977 Peat Marwick Mitchell (Predecessor of KPMG) LA office
Apr. 1974 Joined Showa Audit Corporation (Predecessor of Ernst & Young ShinNihon LLC)
Apr. 1971 Joined Arthur Andersen LLP

In reviewing the Third MTMP's first year, I would like to express my opinion as an Audit & Supervisory Board (ASB) member about meetings of the Board of Directors I attended. There are seven directors on the Shinsei Bank Group's Board of Directors. Excluding two executive directors, the president and deputy president, the Board comprises five outside directors. As fiscal year 2016 was the first year of the MTMP, all members of the Board sought to progress toward the plan's goals and thus engaged in serious debate at every Board meeting with outside directors voicing their unfiltered views. From my stand point of view as an ASB member, I give the Board high marks as a body where governance principles were adequately applied. As an ASB member, I also checked the operational execution of executive officers from the viewpoint of regulatory compliance and appropriateness, and offered my views and advice to management in cooperation with outside directors to add to corporate value as much as possible.

As for advancing Group integration, this project made a strong start with the establishment of the virtual Group Headquarters in April 2017. This has enabled the Group to improve productivity and efficiency and provide better services to our customers and will, we hope, allow us to satisfy customer needs. I will continue in my role to actively offer my opinions and advice to management.

Kozue Shiga

Audit & Supervisory Board Member
Lawyer

Reasons for Nomination
Reflect in the Bank's audit operations her expertise and extensive experience as a lawyer

Attendance rate
83%

Jun. 2016 Audit & Supervisory Board Member, Kawasaki Kisen Kaisha, Ltd. (Current)
Jun. 2015 Director, Ricoh Leasing Company, Ltd. (Current)
Jun. 2010 Audit & Supervisory Board Member, Shinsei Bank, Limited (Current)
Sep. 2009 Director, Toyoko Inn Co., Ltd. (Current)
Oct. 2005 Partner, Shiraishi & Partners (Current)
Jun. 2002 Partner, Son Sogo Law Office
Aug. 1999 Established Shiga Law Office
Apr. 1998 Registered Daiichi Tokyo Bar Association
Apr. 1993 Prosecutor, Yokohama District Public Prosecutors' Office
Nov. 1967 Joined Japan Airlines Corporation

Many severe opinions were exchanged at Board meetings to discuss various kinds of challenges including group integration in a more proactive and enthusiastic manner during the first year of the Third MTMP.

The results of this engagement did not generate visible results in terms of numerical metrics but I believe the Group is making its best effort to resolutely progress toward the plan's goals.

I think Audit & Supervisory Board members fulfilled their role, actively voicing their views and making their presence at meetings of the Board of Directors felt rather than feeling they must limit themselves to ensuring appropriateness.

With the Third MTMP entering second year in fiscal year 2017, we must achieve enough that our progress can be seen in numerical metrics. In view of this, I will continue to strive to perform the duties expected of my role with sincerity.

Operation of the Board of Directors

Annual Schedule for the Board of Directors

Month	Event
Apr.	
May	Regularly scheduled Board meeting (on financial results)
Jun.	Regularly scheduled Board meeting (held after shareholder AGM* ends)
Jul.	
Aug.	
Sep.	Regularly scheduled Board meeting
Oct.	
Nov.	Regularly scheduled Board meeting (on interim financial results)
Dec.	
Jan.	Regularly scheduled Board meeting
Feb.	
Mar.	Regularly scheduled Board meeting

*AGM: annual general meeting of shareholders

Timetable for Day of Regularly Scheduled Board Meetings

8:00	Meeting composed mainly of outside directors
9:00	Meeting of Board of Directors commences
	Report from president
	Report from Audit & Supervisory Board
	Report from Internal Audit Division
	Finance-related report
	Individual agenda items to be resolved
	Lunch
	Report and deliberate on specific agenda items
	Risk-related report
14:00	Conclude meeting

Strategy Session

9:00	Confirm direction of medium-term management plan
	Strategic initiatives at each business (1)
12:00	Lunch
13:00	Strategic initiatives at each business (2)
16:00	Summary
18:00	Conclude meeting

Board of Director Effectiveness Evaluations

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

In the FY2015, the Bank contrived ways to allocate time to important agenda items and for executive officers to give explanations during Board meetings, and proposed to set up sessions to discuss the medium- to long-term issues of the Bank Group. In FY2016, the Bank, taking the above into consideration, made improvements based on the FY2015 results of such evaluation/analysis and focused on the implementation of the PDCA cycle and the evaluation of not only the Board meetings themselves but also the Board's activities in a broad sense. At the same time, the Bank conducted a "Board of Directors Self-evaluation Questionnaire" for the participants of the Board meetings to seek feedback on: (1) Board composition and members; (2) Agenda items and operation of the Board meetings; (3) Strategy Session (setting up of sessions for Board meeting members to discuss medium- to long-term strategic issues); (4) Provision of information to the Board; (5) Communication between the Board and major stakeholders; and (6) Communication among outside Board members, and reported the results of the Questionnaire to the Board.

The results of the question about the operation of the Board meetings in the Questionnaire show that many Board members recognized efforts toward improvements was made, regarding the selection of agenda items and the composition/contents of reference materials, making it possible to place an emphasis on discussions on business models and so forth for our medium- to long-term business visions and sustainable growth.

The results of the Questionnaire also confirm that new initiatives, including setting up of strategy sessions to identify medium- to long-term strategic issues as topics and discuss them intensively, are functioning effectively. The Bank has agreed to the continuation of the sessions in the following FY2017 and beyond.

The Bank will endeavor to maintain or improve such areas that were evaluated as appropriate or improved, and implement reviews and improvements of issues in order to further boost the effectiveness and functionality of the Board. In FY2017, the Board will strive to examine and improve issues raised in the survey such as aiming to spend more time than before on reporting about business conditions at Group companies. The Board will also strive to further improve its effectiveness and functioning.

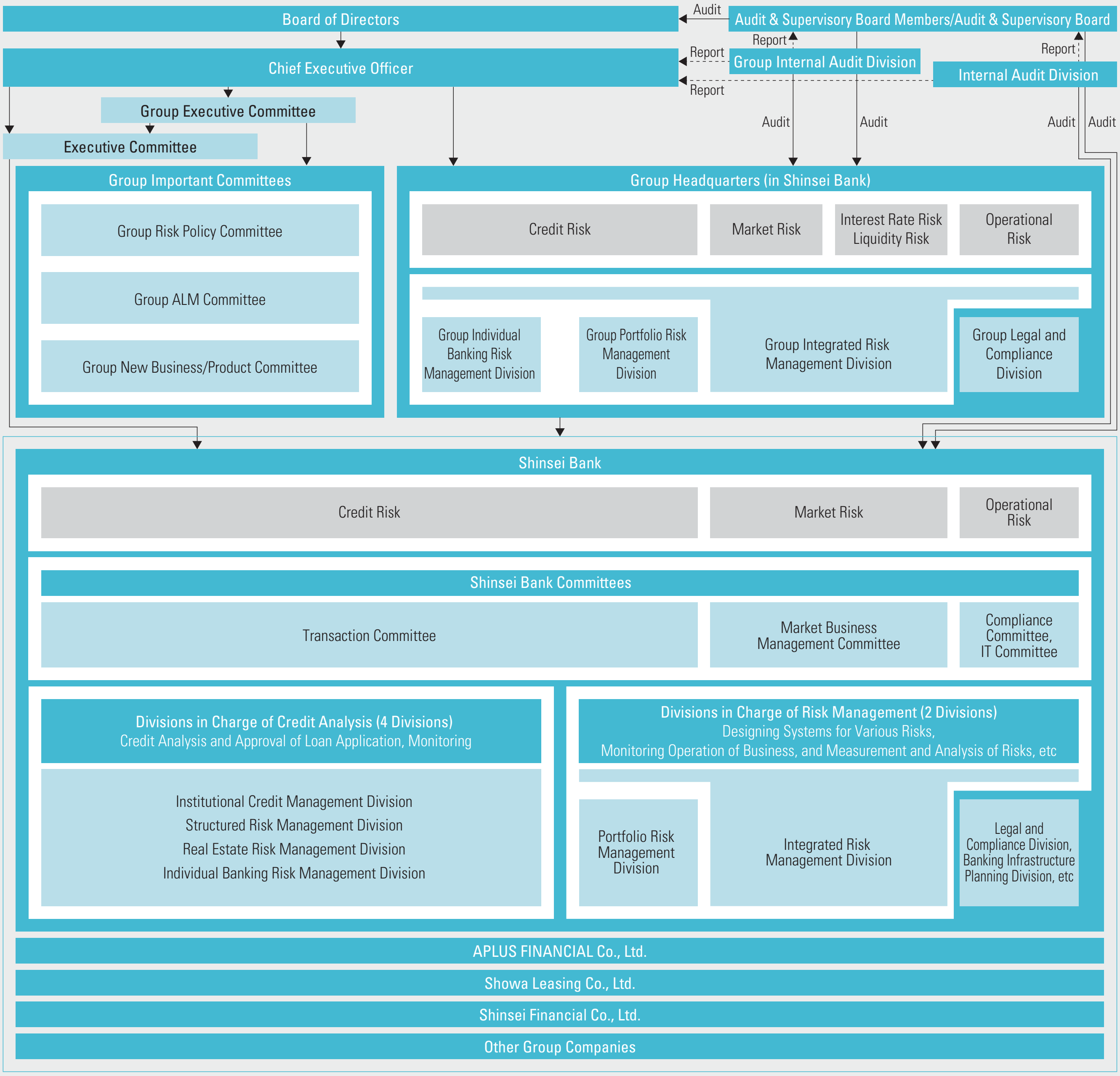
Risk Management

Overview of the Group's Risk Management Systems

Basic Concepts regarding Risk Management Systems

Financial institutions are exposed to various risks, including credit risk, market risk, interest rate risk, liquidity risk, and operational risk. To maintain highly profitable and stable operations, a financial institution must make the control of these risks a management priority. For that purpose, the Bank must be able to ascertain that risks are taken in line with Bank-wide policies as well as individual operational policies, remain within appropriate limits, and are adequately controlled by the units that take on the risks.

Risk Management System Chart (as of June 22, 2017)



The Goal for Shinsei Bank Group | Strategies to Increase Value for Stakeholders | Sources of Corporate Value | ESG as Foundation Increasing Corporate Value | Data Section

To strengthen the required monitoring functions and further develop its risk management framework, the Bank established two risk management groups: 1) credit analysis divisions responsible for credit analysis, loan application approvals and monitoring and 2) divisions responsible for overall risk management that are independent of sales promotion and credit analysis divisions and are in charge of planning and designing systems for various forms of risk, monitoring operations, measuring and analyzing credit, market, and other risks, and integrating functions for examining and verifying fair value.

Attendant with the April 2017 launch of the Group Headquarters, the Group Integrated Risk Management Division, the Group Portfolio Risk Management Division, and the Group Individual Banking Risk Management Division were newly established to promote improvements in productivity and efficiency on a Group-wide basis, enable more coordinated risk management frameworks, and elevate credit provision capabilities across the whole Group in ways that bolster Group governance.

Aiming for Integrated Risk Management

To ensure its risk management is more effective, the Bank has established various specific committees such as the "Group Risk Policy Committee," "Transaction Committee," "Group Asset and Liability Management (ALM) Committee" and "Market Business Management Committee." All these committees are able to function effectively as bodies responsible for making important risk judgments by constantly improving their composition and functions in response to changes in the operating environment. The Group Risk Policy Committee, whose members include senior management such as the CEO, Chief Officer of the Group head of corporate planning and finance, and the Group head of risk management, performs the crucial role of setting and coordinating the appropriate and optimal level of risk taking by concurrently reviewing the Bank's risk management policies and business strategy.

Shinsei Bank has established the "Risk Management Policy" as its fundamental policy on risk management and basic recognition of risk categories based upon its understanding of the totality of risks faced by the entire Shinsei Bank Group and the need to activity manage them. Due to a fiercely competitive business environment and evolving regulatory and market environments, the Bank faces an increasingly complex assortment of risks. The Risk Management Policy therefore sets forth fundamental risk management principles, including its risk culture, and it facilitates enhanced scrutiny regarding what risks can be taken.

Definitions of Risk Categories

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

Institutional Business Credit Risk Management

Credit risk is defined as the risk of losses due to deterioration in the financial condition of a creditor resulting in a reduction in or total loss of asset value (including off balance assets).

The Bank's credit risk management has prescribed specific policies regarding customer attributes, products, markets, sectors, and credit provision forms in order to determine whether risks are acceptable or unacceptable. Along with credit procedures and systems for each series of protocols, the Bank has clearly set out its basic policy for credit provision operations and specific guidelines for credit risk management. Credit risk management processes for institutional customer businesses are broadly grouped into credit risk management for individual transactions and portfolio-based credit risk management, as described below.

Credit Risk Management for Individual Transactions

(1) Organization & Structure

In principle, credit assessments are determined by a joint consultation by sales promotion divisions and risk management divisions, which are independent from sales promotion divisions. In order to ensure a transparent and rigorous evaluation process, risk management divisions have veto rights, establishing an effective system of checks and balances on sales promotion divisions. The Transaction Committee, etc., discuss and approve each transaction but for credit provision to obligors that are part of a corporate group where transaction exposures need to be managed, the level of authority required for approval is prescribed by the Bank's total exposure to obligor's group and its credit rating, and this framework results in strict credit management.

As for loan receivables requiring attention, certain standards have been established based on factors such as credit rating, credit balance, and credit-related allowances, and they are managed in a preventative manner with the Doubtful Debt Committee, etc. monitoring the obligor's business performance. By deciding on how to treat such obligors in the future, Shinsei Bank is working to minimize credit-related costs and ensure asset soundness.

(2) Obligor Rating Systems

As for the internal obligor rating system that the Bank uses for corporate exposure, the following is an outline of the obligor rating system we have adopted.

CHARACTERISTICS OF
SHINSEI BANK'S OBLIGOR RATING SYSTEMS

- Increasing model accuracy and reflecting appropriate qualitative factors
- Benchmarking against external ratings
- Ensuring consistency of rating systems among industry classifications

Specifically, using credit estimation models including a model benchmarking the credit ratings of external credit rating agencies, we calculate model ratings and apply adjustments to these based on qualitative factors, and use this method to determine credit rankings. In addition to obligor ratings, the Bank also operates a facility rating system based on expected losses that factors in credit protections such as collateral and/or guarantees from the viewpoint of grasping the credit status of individual transactions.

As for large lease receivables at Showa Leasing, the same credit ranking system and facility rating system the Bank uses is applied to these receivables.

Portfolio-Based Credit Risk Management

(1) Monitoring Analysis System

The credit risk of individual transactions are administered based on proper analysis but it is also necessary to control credit risk at the level of a portfolio, which is an aggregation of transactions, in ways that diversify risk and avoid overreliance on specific industries.

At Shinsei Bank, we perform analysis that derives from unique entry points based on the risk profiles of each product and monitor risk diversification status by segments such as industry, ratings, products, and regions, and use our analysis and monitoring records to issue a monthly report, or to report on an ad hoc basis to the appropriate management layer or Chief Officer of Risk Management.

(2) Quantifying Credit Risk

Quantifying credit risk means measuring and assessing the likelihood of losses that may be incurred from changes in an obligor's creditworthiness. Expected loss amounts derive from the probability of default and collection ratios, which are based upon past experiences and future outlook, and are generally called "expected losses." Anticipated losses that may be incurred in worst-case scenarios that goes beyond projections based on past experiences are generally called "unexpected losses," and required risk capital in such cases can be backwardly derived by quantifying unexpected losses.

The Shinsei Bank Group operates a system that automatically quantifies credit risk from data such as creditworthiness and transaction types, and harnessing this system, it has built a framework to measure required risk capital precisely in a timely and comprehensive manner. Drawing on these, the Bank strives to make these data useful for sound portfolio management and resource allocation through analysis on profitability versus risk and changes in risk capital required. Moreover, by factoring measured expected losses and unexpected losses into loan spreads, we can harness this data to ensure an appropriate risk-return in each transaction.

(3) Credit Concentration Guideline

The credit concentration guideline is an upper limit guideline that was established as part of the framework to prevent the concentration of credit in specific segments, customers or groups. Our credit concentration management framework consists of industry concentration guidelines and obligor group concentration guidelines, and in the event that credit concentration exceeds the guideline, we conduct reviews and adopt countermeasures. These procedures are designed to prevent Shinsei Bank from being exposed to a crisis in the event our credit portfolio is affected by systemic shock or other extraordinary events. As the importance of risk diversification grows in tandem with the globalization of financial markets, we continue to work to establish even more effective credit concentration management frameworks.

Credit Risks on Market-Related Transactions

Counterparty credit risk attendant with market transactions such as derivative transactions are managed based on estimations of the fair value and future value fluctuations of relevant transactions. Estimations of future value fluctuations take into account collateral effects and netting based on guidelines such as the ISDA Credit Support Annex (CSA) and cover diverse products including exotic derivatives. The Bank manages risks that accompany market transactions based on projections of future value fluctuations because risk exposures can change even after a transaction is concluded depending on market rate fluctuations.

Self-Assessment

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

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

Measures to Meet Basel Accord Requirements

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

Individual Business Product Risk Management

Risk management for our consumer finance businesses encompasses all operations from loan application assessment (entry-point credit) to managing risks after a contract is signed (credit monitoring) and, if needed, loan collection operations. The Group Individual Banking Risk Management Division is in charge of risk management for products for individual customers, including our consumer finance businesses. The division holds a monthly risk performance review meeting with other risk-related divisions at the Bank as well as risk officers from subsidiaries in order to share information and promote a shared awareness of risks. The division also provides operational support and advice to relevant units of the Bank and its subsidiaries relating to overall risk management concerning credit administration policies and credit strategies.

Risk-related divisions at Group subsidiaries carry out appropriate risk control through a process that incorporates scoring models into credit administration processes, while using credit-related databases of customer attributes stemming from the nature of their businesses, credit information, and transaction history. The scoring models i.e., initial credit score, score at credit monitoring stages, collection strategy scores, etc. were developed using statistical methodologies, and to maintain the accuracy of the scoring models in line with the level achieved when it was first developed, model performance is constantly monitored and the model is subject to fine tuning as needed. The Group Individual Banking Risk Management Division is working to elevate its scoring model development and enhance the entire Group's credit provision capabilities in ways that help maximize earnings of the entire Group in the medium and long term. Credit costs are crucial to the management of profitability in the consumer finance business. We therefore conduct monitoring while tracking multiple leading indicators and verification metrics at the portfolio level to enable us to quickly grasp any deterioration in the portfolio's overall asset quality and take timely action to improve its profitability.

Market Risk Management

Market risk is the risk of incurring losses due to fluctuations of interest rates, foreign exchange rates, and stock prices, etc.

Market Risk Management Policy

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

Trading Book

Market risk in the trading book is managed through techniques such as VaR. VaR is the maximum loss amount expected due to future price fluctuations within a given probability range, assuming a specific position is held over a specific time horizon. In addition, we measure multi-faceted risks using sensitivity analysis for various factors.

In calculating the amounts equivalent to market risk, the Bank's VaR model is based on a historical simulation method and uses a 99% confidence level, a 10-day holding period and an observation period of 250 days (see the following table). The effectiveness of the VaR model is verified through back testing, which examines how frequently actual daily loss exceeds daily VaR for a one-day holding period. The back testing results for fiscal year 2016 shows that there were no days in which actual losses exceeded VaR on a consolidated basis. Additionally, we conduct stress tests on a weekly basis and report the findings to senior management at meetings of the Market Business Management Committee, etc.

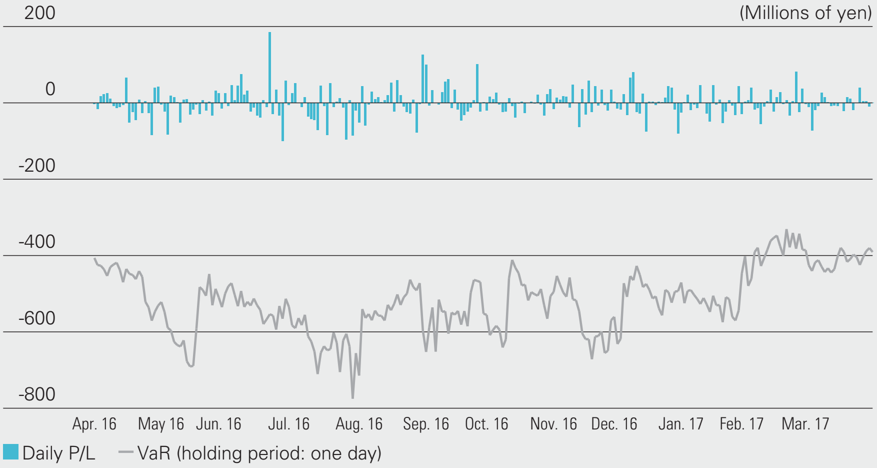
VaR Data for Fiscal Year End, Maximum, Minimum and Average During the Fiscal Year 2015 and 2016

		Millions of yen			
		FY2015		**FY2016**	
		Consolidated	Non-consolidated	**Consolidated**	**Non-consolidated**
FY End VaR		1,214	788	**1,231**	**1,155**
FY VaR	Maximum	2,346	1,761	**2,444**	**1,998**
	Average	1,626	1,128	**1,627**	**1,367**
	Minimum	1,017	623	**1,042**	**919**

Stressed VaR Data for Fiscal Year End, Maximum, Minimum and Average During the Fiscal Year 2016

		Millions of yen	
		FY2016	
		Consolidated	**Non-consolidated**
FY End VaR		**3,171**	**2,992**
FY VaR	Maximum	**4,248**	**3,604**
	Average	**2,923**	**2,485**
	Minimum	**2,050**	**1,843**

VaR and Daily Profit and Loss (Back-Testing) (FY2016, Consolidated basis)



Back-Testing on the VaR Model Applied to the Trading ACCOUNT

Back-testing involves comparing fixed position virtual losses to estimated VaR to confirm the reliability of the VaR method.

ASSUMPTIONS OF SHINSEI's VaR MODEL

Method: Historical simulation method

Confidence level:	99%
Holding period:	10 days
Observation days:	250 days
Coverage:	Trading account

Interest Rate Risk in Banking Book

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

a. Housing loans

We calculate the interest rate risk of fixed-rate retail housing loans by statistically analyzing historical 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 two-week yen denominated time deposits which are left with banks for a long period without withdrawal. We model depositors' behaviors by statistically analyzing deposit balance data and estimating maturities by customer segments.

In calculating outlier criteria, we derive the decline in the economic value of the banking book by applying an interest rate shock test with 2% parallel shifts (+2% and -2%) and use the decline derived as a measure of interest rate risk exposure. The Bank's interest rate risk exposure as of March 31, 2017 is below the outlier criteria of a decrease in the economic value of the banking book greater than 20% of its core capital calculated based on a 2% interest rate shock range.

Change in Economic Value for Applied Interest Rate Shock of 2% in the Banking Book at the End of March 2017

	Billions of yen	
	Consolidated	Nonconsolidated
JPY	¥ (94.0)	¥ (53.2)
USD	(4.3)	(4.3)
Other	(6.2)	(6.2)
Total	¥ (104.6)	¥ (63.8)
Outlier Ratio	12.9%	7.7%

Risk relating to Marketable Credit Instruments

Investments in structured bonds, funds, securitized instruments, etc., are generally held until maturity, although some instruments can be traded on the market. Such instruments have a complex risk profile that includes market risk and liquidity risk in addition to credit risk related to their underlying assets and counterparties. The Bank has established a system to ensure appropriate management of these risks, regularly reviews its investment policies based on the investment environment, and establishes appropriate limits on investment amounts. Credit analysis sections analyze instrument structures and the credit risk of the underlying assets and seek the Transaction Committee's approval for each transaction. The Integrated Risk Management Division monitors price fluctuation risk, and the Market Business Management Committee and Risk Policy Committee strive to promote appropriate management of risks through regular reviews of risk exposure.

Liquidity Risk Management

"Funding liquidity risk" is the risk of facing difficulty in securing necessary funds or a risk of incurring losses due to a need to raise funds at an interest rate that is significantly higher than normal due to a mismatch between asset and liability maturities or an unexpected outflow of funds.

As for funding liquidity risk, pursuant to the "Liquidity Risk Management Policy," the Treasury Division, a fund-raising management unit, and the Integrated Risk Management Division, a funding liquidity risk management unit, have been put in place, and the Group ALM Committee receives reports on the following designated liquidity risk management indicators: "funding gap limit," "minimum liquidity reserves," "liquidity stress tests," and "liquidity coverage ratio."

The levels of funding liquidity risk consist of "Normal," "Need for Concern," "Crisis," and "Risk Administration Mode," with the Group ALM Committee determining the current mode. The response framework for each specific mode is set forth in the "Funding Liquidity Contingency Plan," and regular training is provided.

Operational Risk Management

Operational Risk Management Frameworks

Operational risk refers to the risk of incurring losses resulting from "inadequate or failed internal processes, personnel, and systems, or external events." Operational risk requires organization-wide management, because it is inherent in all business activity and is thus extensive.

To ensure comprehensive management of operational risks, the Bank has established an operational risk management policy that defines risks and sets forth its basic policy and organizational structures for risk management as well as procedures for identifying, evaluating, monitoring, reporting and controlling/mitigating risk.

The Integrated Risk Management Division, a unit responsible for Group-wide operational risk management, evaluates, analyzes and reports on operational risk to management. Moreover, for each domain of operational risk such as administrative risk and systems risk, specialized risk management divisions that are independent from business divisions implement measures to manage operational risks according to the attributes of each category. The Integrated Risk Management Division and these specialized management divisions hold periodic meetings to share information on each category of operational risk conditions across the organization, including consolidated subsidiaries, and discuss how to manage issues that cut across multiple risk domains.

Regarding quantification of operational risk, it should be noted that we have adopted the standardized approach for regulatory capital under the Basel Accord. Meanwhile, on the level of internal controls, based on latent risk scenarios that reflect previous losses that arose internally and recognition of risks in each business line, we measure operational risks in keeping with internal models, and we apply these findings to our risk capital system.

Risk Management Frameworks for Administrative and Systems Risks

Administrative and systems risks refer to the risk of "incurring losses from inaccuracies in clerical tasks due to the carelessness of executives or employees, or errors or misconduct in their performance of work duties."

As for administrative risks, we recognize appropriate management of them is extremely important to our ability to offer services that our customers trust. We strive to improve the level of our administrative work performance by clarifying the content of procedures through efforts to revise terminology, hold training seminars, provide guidance on administrative work, and improve administrative work flows. Specifically, our efforts to improve risk management include establishing a system of branch self-audits where autonomous checks are performed at the work-task level and creating a database documenting past errors that enables analysis of the casual factors behind errors that will help prevent reoccurrence in the future.

Systems risk includes the risk of companies or individuals incurring losses from the disappearance of valuable data of customers as a result of information systems shutting off and software or hardware failures. Through reviews of system risks we have implemented since fiscal year 2013, including in fiscal year 2016, we are working to improve quality in systems development and prevent system failures and ensure rapid recoveries when problems occur by improving our system operating capabilities. In core operational systems, we completed the upgrade of domestic systems for handling foreign currencies and transfers between bank accounts in the previous fiscal year. Our next step is advancing initiatives to upgrade to next-generation core systems that track accounting related to key operations. Since fiscal year 2015, we have endeavored to improve the level of system risk management and information security for the entire Group, including subsidiaries. Moreover, we have taken appropriate steps based on the latest trends in technology to respond to cyber-security problems that have recently come to be seen as a social threat, so we are working to ensure the safety of customer information and assets.

Management Strategy and Risk Capital

The Bank defines "risk capital" as an integrated control approach to risk that groups risk into categories, namely (1) credit risk, (2) market risk, (3) interest rate risk, and (4) operational risk, and measures exposures relating to each risk category. Risk capital (budgeting) is an approach to defining the type and total amount of risk (risk appetite) the Bank thought it should be willing to adopt so it could attain its management plan goals within the limits of the Group's management strength. The Bank devises a fiscal year budget for the total amount of risk capital to deploy Group-wide and allocates risk capital to each business line. By tracking business performance adjusted for allocated risk capital on a monthly basis, risk capital is effectively put to work as a tool to comprehensively manage progress toward management plan goals from a risk-taking perspective. Moreover, risk capital budgeting is useful for judging business performance when monitoring of this performance adjusted for allocated risk capital is combined with risk-return monitoring as a indicator of whether allocated risk capital has been effectively deployed.

Risk capital allocation plays an important role in realizing the Group's management strategy. We think there is scope to construct even more advanced processes, so our efforts to improve our methods are ongoing.

Shinsei Bank Group's Portfolio

The Group's asset portfolio again saw little negative impact from deterioration in the creditworthiness of corporate customers, including large borrowers. We also continued to improve the quality of our real estate loan portfolio, centering on nonrecourse loans, by reducing our exposure to high-risk assets through asset replacement. As a result, the Bank's nonperforming loan (NPL) ratio against its total portfolio declined to 0.22% as of the end of fiscal year 2016. The consumer finance business had seen its loan balance contract owing to external factors such as changes in the environment due to amended laws and a fiercer competitive environment but its loan balance is rebounding due to the success of the Group's revised credit strategy and strategic initiatives aimed at building up high-quality assets. Also, we recognize that losses on repayments of past interest overpayments have peaked out and declined to a level easily covered by periodic net income at nonbank subsidiaries.

Regarding the overall portfolio, risk exposures have been lowered by reductions to credit-related costs and improvements to asset quality, in addition to expansion in capital buffers and greater management stability on the steady accumulation of shareholders' equity through revenue growth.

Risk Factors and Future Policy

Fiscal year 2016 was the first year of the Third Medium-Term Management Plan, where we grouped our businesses into "Growth Areas," "Stable Revenue Areas," "Strategic Initiative Areas," and "Curtailment Areas," and put forward consumer finance and structured finance in particular as growth fields. While the external environment has continued to improve, we must continue to monitor the downside risks to the global economy from factors such as the future adjustments to U.S. monetary policy, the impact of the U.K.'s exit from the E.U., and geopolitical risks, and the impact of such factors on financial markets. Risk management operations will continue efforts to accurately understand both domestic and overseas environments and develop a recognition that is shared by senior management on risk preferences and comprehension of the risk profile of the Group's portfolio from multiple angles using more advanced stress tests and other means. Also, an appropriate system with checks and balances is applied to initiatives in growth areas led by business promotion sections and implementation of business strategies. Through advanced measurement of risk-return and a stronger monitoring function, we are working to bolster and improve our risk management posture through flexibility in reviewing and revising risk strategies as the need arises.

SOCIAL

Toward Fully Harnessing Group Talent and Capabilities

"People" as an Engine for Growth

With "people" as an engine for growth, the Shinsei Bank Group pursues new financial services and a vision for a new financial group that goes beyond conventional thinking with the aim of growing as a financial innovator that supports our customers from multiple angles by linking together the Group's entire customer base, financial functions, and services.

HR Strategy Basic Policy	Maximizing organizational capacity, grow sustainably as a bank • Reform our people culture, focus on personnel development and use • Improve work environment, systems, and processes in ways that enable each person to contribute fully by harnessing his or her aspirations, attributes, and capabilities
HR Development and Use from Medium- and Long-Term Viewpoint	**Building HR Systems Responsive** to Organizational Needs, External Climate
• Construct a plan for a future core HR pool and develop systematic follow-up • Strategically deploy and use people who are best suited to a given business from a Group perspective • Develop human resources for the entire Group	• Highly transparent and objective systems for compensation, job grades and evaluations • Multi-track career system that enables employees to opt for a career path • Flexible work shift systems with diverse options for work arrangements • Support medium- and long-term career planning

Our Human Resources Strategy Aligns with Our Management Principles

The management philosophy of Shinsei Bank has three core principles: (1) to become a banking group that is sought out by our customers, and contributes to the development of both domestic and international industrial economies, while maintaining stable profitability, (2) to become a banking group that values diverse talents and cultures and is constantly taking on the challenges presented by change, and (3) to become a trusted banking group that has highly transparent management and values all stakeholders. To fulfill our management principles, Shinsei Bank has created a work environment, systems, and processes that enable each employee to contribute as much as possible to the organization by harnessing his or her unique aspirations, attributes, and capabilities. With the financial industry enveloped by a environment changing at a dizzying pace and values such as work arrangements seemingly on the cusp of a sharp break with the past, management regards HR-related matters as one of its highest priorities for enabling growth of the organization and is putting reforms into practice by continuously reviewing its systems and measures. We seek to always be among the earliest to perceive changes in the external environment and understand the needs of the times so we can advance necessary reforms. In doing so, we think we can heighten employee motivation and loyalty and encourage each employee to perform to the best of his or her abilities in ways that maximize the organization's performance and enhance corporate value.

Toward Group-wide Human Resources Management

To promote greater cooperation within the Group, increase internal mobility, and ensure reliable implementation of management strategies, the Shinsei Bank Group dissolved the business group system in fiscal year 2016, the first year of the Third MTMP, and advanced reforms to its organizational system. Moreover, in fiscal year 2017, head-office functions across the Group were consolidated in the Group Headquarters at the parent bank and integrated with the aim of sharing management resources in an optimal way across the entire Group and making head-office functions more sophisticated. We will maximize synergies, including on business aspects, across the entire Group by sharing best practices from each Group company and stimulating each other in ways that produce unexpected reactions.

We strive to promote Group-wide development and use of human resources as well as the deepening of our corporate culture so human resources capable of delivering differentiated financial solutions can collaborate across divisions and Group frameworks to provide optimal value to our customers. The main point of our human resources development strategy is to construct organizations capable of self-directed shifts by cultivating skilled people who can learn and grow from self-reflection, people with a sense of loyalty and a strong willingness to serve others, and people with a customer-first mindset who can create services unconstrained by the frameworks of orthodox financial institutions.

Shinsei Bank provides various types of training programs tailored to the growth stage or career paths of its employees and encourages them to obtain qualifications, including courses designed to provide a wide range of general financial knowledge or to hone specialized knowledge and skills necessary for each field and job level, as well as schemes for enrolling in executive education programs at graduate schools in Japan or overseas. We are also implementing measures to cultivate human resources in many other ways such as supporting them in constructing self-directed career paths.

In fiscal year 2016, we launched the "I&D Project" as a way to debate measures for bringing out in full the latent capabilities of the Shinsei Bank Group's diverse human resources and companies, inviting young and mid-level employees from Group companies to set them loose to come up with creative ideas in this vein and propose them to the Group management team. The Group human resource data we aggregated from this project is centrally managed so we can analyze each employee

from many angles such as his or her suitability, capabilities and aspirations, providing us with a deeper understanding of our employees. That, in turn, has enabled us to adopt a talent management system where we deploy the most appropriate people to places where they can contribute the most. This project was formalized as the New Shinsei Group Project (NSGP) to be a platform where employees can propose ideas for new businesses of their own accord outside of the conventional operational framework in which they perform their roles.

Offering More Work Arrangement Options

Based on overall reforms to our human resources system and proposals from the aforementioned "I&D Project," we advanced initiatives to limit long working hours by swiftly adopting a flex-shift system of staggered work hours as well as various measures to encourage employees to be efficient so they can leave the office sooner.

Promoting Inclusion & Diversity

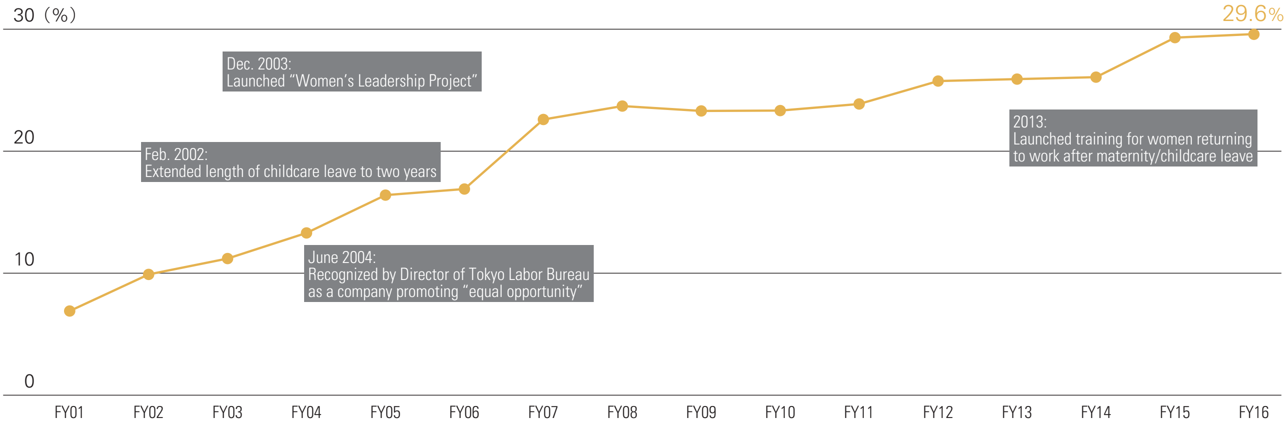
One of Shinsei Bank's greatest strengths is the diversity of its people in terms of age, gender, nationality and background, and it is the creativity generated by this diverse set of people that has enabled us to launch groundbreaking services and business models. Also, since its inception, Shinsei Bank has actively promoted the role of women in the workplace by expanding the availability of a variety of support frameworks, including childcare leave and shorter working hours, and forming the "Shinsei Women's Network" to facilitate interaction between female employees of the Group. As of March 31, 2017, the ratio of female managers at Shinsei Bank remains among the highest in the industry, with women representing about 29.6% of all titled managers. We aim to raise this ratio to 35% by 2020.

With Japan's population continuing to age and its birthrate continuing to decline, we will continue to promote personnel policies that are respectful of employees' attributes, characteristics and stages in life—whether they be women or seniors, raising children or caring for a relative—and that enable the Group to fully utilize the talents of this diverse pool of human resources. In addition, to maximize the latent potential of the Group engaged in a wide range of businesses, we will search for and appoint talent across the Group and strive to create knowledge-based synergies through personnel exchanges. Going forward, we will strive to utilize Group resources to their fullest by further promoting "Inclusion & Diversity" of an even more integrated Group as we seek to meet customers' increasingly complex and diverse needs by providing new solutions that are beyond the scope of existing frameworks.

Career Development System Supporting Women with a Career Orientation

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

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



SOCIAL

Educating Next Generation

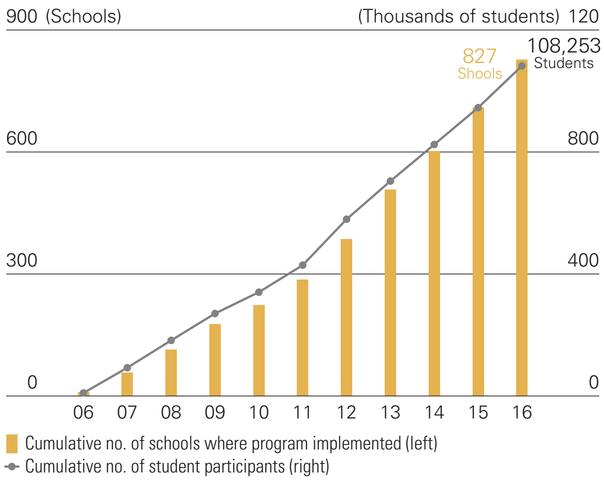
Promoting Financial Literacy Program “MoneyConnection®”

Shinsei Bank is actively working to promote “MoneyConnection®,” a financial literacy program. In collaboration with the program, our employees visit high schools and other places and participate in running the program as voluntary assistants (facilitators) to teachers. We have cooperated with three regional banks as a part of the nationwide promotion of this program, which commenced in fiscal year 2012. Three regional banks derive high interesting in this cooperation program from its distinctive features tied to local communities.

Strong Appeal as a Cooperative Program

The developers of the “MoneyConnection®” program noticed that one of the reasons young people who are not in employment, education or training (NEET) had gotten into that situation was their lack of financial literacy. With this in mind, Shinsei Financial Co., Ltd. worked jointly with Sodateage.net, an authorised specified non-profit organization, to develop this program in 2006. It is the first program in Japan aimed at keeping young people from becoming a NEET, and the main participants are high school students. What Shinsei Bank employees can offer is financial literacy, while Sodateage.net offers participants support and know-how regarding work. Combining these two areas of expertise, this program consists of enjoyable features, such as group work exercises and games so that students can enjoy learning throughout the course. While thinking ahead to what it will cost to live on their own and about personal finances and work, students learn about different lifestyles enabled by diversifying forms of work and working styles and what things and how much they will need to live in the years to come. The program offers young people an opportunity to think about their future.

No. of Schools where Program Implemented, No. of Student Participants



A Decade since the Program Began

In the decade since the program launched through March 31, 2017, the course has been offered at 820 schools in 33 prefectures across Japan, with the cumulative number of student participants totaling 107,843. We continue to work proactively on this program so that “Money Connection®” can be consistently utilized as a reliable program and will become a social platform to connect young people with society.

What Our Employee-Volunteers Say about the Program

“I still recall how students would listen intently with a serious look on their face when I told them about the difficulties I experienced with personal finances when I first struck out on my own as an adult,” said one employee-volunteer. In the questionnaire distributed to participants when the course finished, several students said they learned about the importance of personal finances and others said (the program) made them think seriously about the future. Other employee-volunteers said they felt their involvement in providing students with time to think about the future was a worthwhile endeavor.

An employee-volunteer who worked with students

Cards (working styles, monthly salary, lifestyles) used in the program

Our Post–Quake Recovery Support Activities in the Tohoku region of Japan

Since soon after the Great East Japan Earthquake caused massive damage across the Tohoku region, Shinsei Bank Group employees have continued to provide support to communities there, by implementing various activities. These include support activities with our employees visiting afflicted areas, donations of money collected from employees, and selling food and supplies produced at welfare centers in the three affected prefectures.

Support Activities in Miyagi Prefecture's Higashi-Matsushima City

In June 2013, "Value The Hotel Higashi-Matsushima Yamoto" opened as a lodging facility for recovery support workers in Miyagi Prefecture. Shinsei Bank provided a nonrecourse loan for the hotel's construction, with Shinsei Trust & Banking also a participant in the loan scheme. Our involvement in the region started with a proposal we made to the Higashi-Matsushima City's social welfare council to let us use the hotel as a base from which to conduct local support activities. Nearly two years after the quake and tsunami, support needs were starting to shift to offering residents mental and emotional care and support. Following a series of discussions, a Christmas concert was planned and held in the hotel's dining hall in December 2013 for all the residents of local temporary housing sites. Thanks to the cooperation of volunteer staff from the local social welfare council and the enthusiasm of employees who participated, the concert was a rousing success. The Christmas concert has become an annual event since then with the full support of the local social welfare council.

Bonds with the Local Community and Close Relationship through Face-to-Face Communication

With the aim of helping to maintain, restore and rebuild the local community beyond organizing concerts, we recently commenced activities with a focus on interacting with members of the local community such as arranging tea get-togethers at public housing for people living in disaster recovery sites. In every follow-up visit, we enjoy meeting again, feeling the bonds of trust we have established over the years through face-to-face communication.

When we visited in 2015, a high school student in the storytelling club told us there were no street lamps, and people felt scared everyday going home because the roads were pitch black. After hearing that, employees participating in support activities proposed giving the community a street lamp, and that, in turn, led them to call on Shinsei Bank Group employees as a whole to also make donations. In early summer 2016, the donations collected were used to present a street lamp to the city's Kameoka district, where a ceremony was held to unveil the new lamp. We feel this gift has further deepened ties between the local community and the Shinsei Bank Group.

Learning from Valuable Experiences

About half of employee-volunteers in each recovery support trip were first-timers. As normalcy returns, there are fewer opportunities for them to have direct experiences of touching and feeling disastrous places. At events like tea get-togethers where they met up with locals, however, there were times when conversation turned to touch directly on what locals experienced post-disaster, their journey since the disaster and what their plans were for the future. This was a valuable opportunity for employee-volunteers to experience the disaster stories of locals as if they were their own. Among the comments we received from employees who volunteered were: "This was my first trip to the disaster area and it took me so far outside of my normal life;" "It was literally 'a picture is worth a thousand words' experience;" and "what is reported in the mass media was just a small piece of the overall situation. By interacting with members of the local community, I felt I was able to catch a glimpse into their lives up to now. The experience pierced deeply into my heart."

An annual Christmas concert is becoming a regular year-end event for Higashi-Matsushima City.

A street lamp funded with donations from concerned Group employees was installed near the Kameoka District Center in Higashi Matsushima City

ENVIRONMENT

Environmental Initiatives

The Shinsei Bank Group recognizes environmental problems as one important management theme. We introduce here several environmental initiatives pursued within the Shinsei Bank Group.

[Shinsei Bank Group]

Forest Conservation Volunteer Activities

The Shinsei Bank Group participates twice a year in forest conservation volunteer projects in a wooded area of TAMAZO (Lion Forest) in Tama Zoological Park and in Katano City, Osaka Prefecture.

With direction from the specified NPO Woods and Environment Network Association, Shinsei Financial sponsors and organizes activities aimed at fostering an interest in environmental conservation and nature by providing people opportunities to perform various tasks such as maintaining wooded areas and thickets.

Volunteers rake up fallen leaves for use in helping culture shiitake spores and breed rhinoceros beetles and perform tasks such as clearing out bamboo grass leaves to preserve forest environments.

[Shinsei Bank]

Efforts to Reduce Electricity Use and Reduce Our Environmental Impact

Shinsei Bank continues to make every effort to conserve electricity in our head office throughout the fiscal year such as shutting off lights in common spaces and using motion sensors to control and shut down lighting in meeting rooms and reception areas. We also have other ongoing initiatives in place aimed at reducing the amount of electricity we use. Among these are voluntary initiatives to reduce electricity use during the summer when electricity is in high demand such as reducing ceiling lighting in common-space areas of the head office by about 75%, full adoption of a "cool biz" dress code for summer, optimizing air conditioner temperature settings and operating hours, installing auto controls to adjust lighting output in response to natural outdoor lighting (daylight), and installing auto controls on outdoor air inflows in response to indoor CO_2 concentrations. The Bank is also working to further reduce the environmental burden of its offices by relocating to energy-efficient buildings[1] and transitioning from 2014 all branches to virtual desktop infrastructure[2] (VDI) from PCs.

1 Site relocations were as follows: Head office (January 2011), Meguro Production Center (February 2012), Osaka branch (October 2013), and Nagoya branch (February 2016). The Nihonbashi Muromachi Nomura Building, where our head office is located, was certified in February 2015 as a "top-level installation" under the "mandatory reductions in total greenhouse gas emissions and emissions trading system" the Tokyo Metropolitan Ordinance on Environmental Preservation established.

2 Moving from PCs to virtual desktop infrastructure (VDI) usually enables desktop environments at organizations such as companies to be virtualized and computing to be processed on central servers, reducing electricity use. In most cases, VDI (on slim clients and central servers) save electricity versus desktop PCs.

Environment Impact Data

	Unit	FY2014	FY2015	FY2016
CO_2 Emissions	t	3,395	2,806	2,746
Electricity Usage	kWh	6,029,536	5,163,522	5,093,523
Gas Usage	m^3	90,000	90,000	90,000
Clean Water Usage	t	1,638	1,569	1,796

Notes: (1) Data are for all Shinsei Bank headquarter (do not include affiliated companies) and Meguro Production Center.
(2) CO_2 emissions data have been calculated according to "Guidelines for Calculating Specified Greenhouse Gas Emission Volume under the Total Emission Reduction Obligations and the Emission Trading Framework"

Amount of Waste Generated / Recycling Rate

	Unit	FY2014	FY2015	FY2016
Waste Generated	t	220	215	233
Amount Recycled	t	131	126	154
Amount of Waste Disposal	t	88	89	79
Recycling Rate	%	59.9%	58.6%	66.1%

Notes: (1) Data are for all Shinsei Bank headquarter (do not include affiliated companies) and Meguro Production Center.
(2) Waste generation data have been calculated according to data provided by building maintenance companies.

[Showa Leasing]

Showa Leasing prepares environmental targets each fiscal year in an effort to improve and conserve the environment and carries out corporate activities that reflect environmental considerations.

Handling of Eco-friendly Products

FY2016 Handling Value (Target Value ¥12,000 million)	FY2017 Target Value
¥16,614 million	¥12,800 million

The Energy Use Rationalization Business Support Program[1] (energy-saving subsidies) and the Ecolease Promotion Project[2] are among the specific initiatives Showa Leasing participates in as a designated leasing company, and we offer agency services to support our customers with the complicated procedures those applying for such subsidies must go through. We support the spread of eco-friendly products across a wide range of sectors, especially among small and medium-sized enterprises. We support adoption of renewable energy facilities, starting with industrial-use solar power generation systems and now encompassing biogas power generators. In such ways through the many years of financial know-how it has built up as a bank-affiliated leasing company, Showa Leasing supports its customers in addressing environmental management.

1 Energy Use Rationalization Business Support Program (energy saving subsidies)
This business subsidy program is administered by the Ministry of Economy, Trade and Industry (METI) for the purpose of contributing to the attainment of its energy-conservation goal of reducing final energy consumption by about 50.3 billion liters as of 2030. The program is administered by Sustainable Open Innovation Initiative, a general incorporated foundation, to support organizations such as private-sector businesses that adopt energy conservation facilities and technologies.

2 Ecolease Promotion Project
The Ecolease Promotion Project, led by the Ministry of the Environment (MoE), was established with the aim of addressing global warming, especially in the household, business, and transportation sectors. It is administered by Japan Association of Energy Service Companies (JAESCO), a general incorporated foundation. It subsidizes a prescribed ratio of the total lease expense from adopting low-carbon equipment that meets a minimum standard via leases for a wide array of areas such as renewable energy equipment, industrial machinery, and operational facilities.

Example: Eco-Friendly Equipment Adoption

Biogas power generation facility

Brokering Used Equipment (Buying-Selling Business)

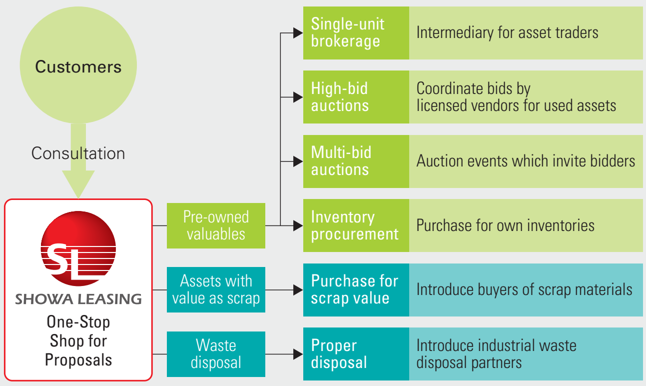
FY2016 Transactions Brokered (Target of 1,500 transactions)	FY2017 Transaction Target
1,005 transactions	1,500 transactions

Harnessing its corporate network and expertise from its leasing business, Showa Leasing is focusing on its business as a broker-dealer buying and selling used equipment. In terms of improving reuse and recycling rates, we think we can contribute to reducing environmental impacts and building a path to a circular economy. On the basis of the numerical targets we set, we are actively promoting this business.

We provide a one-stop, full-service menu for movable properties from their appraisal and sale to final disposal, leveraging our know-how in such assets. The disposal of movable properties at factories and offices require a complicated set of steps, and our services respond to customer worries about such difficulties as reducing volumes of disposal waste, proper disposal, and rigorous adoption of reuse and recycling practices.

Through such business activities, Showa Leasing contributes to realizing a sustainable society.

Full-Service Menu for Movable Properties



Advantages of a Full-Service Menu for Movable Properties

1) One-stop, efficient disposal of movable properties
2) Reduced disposal costs via lower volume of disposal waste and recycling
3) Compliance-focused, proper disposal

WEBSITE

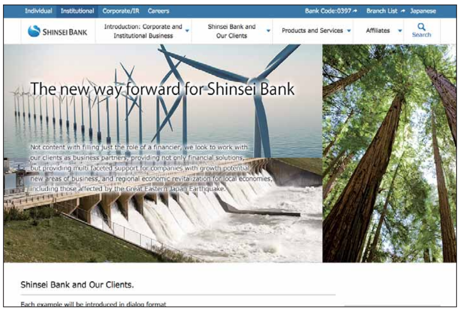
Our English and Japanese websites provide a wide range of corporate data as well as information for individual and institutional customers and investors.

INDIVIDUAL

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

The website for individual customers provides information on our comprehensive retail account, *PowerFlex*. Customers can log on to our Internet banking service, Shinsei *PowerDirect*, submit requests for information on *PowerFlex* and apply to open an account. Product offerings, campaigns, branch and ATM information, and detailed explanations on foreign currency deposits and investment trusts are covered here.

INSTITUTIONAL



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

This website provides information on our products and services for institutional customers, as well as the various solutions provided to customers based upon their business area, company lifecycle stage and company needs.

Additionally, information regarding branches, affiliates and market reports (Japanese language only) is also available.

CORPORATE/IR

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

The Corporate/IR website contains information on our corporate and management profiles, history, medium-term management plan, CSR initiatives and corporate governance. It also provides our news release, equity- and debt-related information, financial information and IR calendar.

Data Section

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

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

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

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

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%.

Fiscal year 2016 refers to the consolidated accounting period from April 1, 2016 to March 31, 2017 and other fiscal years are also stated in the same manner.

Additionally, "this fiscal year" refers to fiscal year 2016.

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, 2017

In the fiscal year ended March 31, 2017, we recorded a consolidated profit attributable to owners of the parent of ¥50.7 billion, decreased ¥10.1 billion from ¥60.9 billion recorded in the previous fiscal year. While the Bank experienced a decline in asset management product sales related revenue due to risk aversion caused by market turmoil, total revenue increased thanks to strong performances in our major business areas including the unsecured loan and the Structured Finance Businesses. However, due primarily to the non-recurrence of the large credit recoveries in the Institutional Business recorded in fiscal year 2015, consolidated profit decreased compared to the fiscal year 2015.

Total revenue was ¥228.5 billion, a ¥11.9 billion increase compared to fiscal year 2015. Of this amount, net interest income totaled ¥122.2 billion, which was almost the same as ¥122.3 billion recorded in fiscal year 2015. While the effects of the base rate reduction and spread compression due to greater competition caused by the introduction of the negative interest rate policy remained within the Bank's assumptions, strong performance in the lending operations of Consumer Finance Business offset such effects. Noninterest income totaled ¥106.2 billion, a ¥11.9 billion increase compared to ¥94.2 billion recorded in fiscal year 2015. This reflected a fee income

OVERVIEW (continued)

increase centered on the Structured Finance, a large gain on sales of securities and the absence of the loss recorded in fiscal year 2015 due to reassessment of a fund investment in the Institutional Business, while asset management product sales related revenue in the Retail Banking Business decreased.

General and administrative expenses excluding amortization of goodwill and intangible assets was ¥144.2 billion in the fiscal year ended March 31, 2017, increased from ¥141.3 billion recorded in the previous fiscal year 2016, mainly due to those related to IT systems as well as the effects of the revision of the tax code.

Net credit costs was ¥31.8 billion in the fiscal year ended March 31, 2017, increased ¥28.1 billion from ¥3.7 billion recorded in the previous fiscal year. This was primarily due to the absence of the large credit recoveries recorded in the Institutional Business in fiscal year 2015 as well as the provisioning of general reserves for loan losses corresponding to the steady growth of the loan balance of consumer finance and structured finance businesses.

Regarding reserves for losses on interest repayments, total additional reserves of ¥5.1 billion were provisioned in the fiscal year ended March 31, 2017, increased from ¥2.7 billion provisioned in the previous fiscal year.

The balance of loans and bills discounted as of March 31, 2017 totaled ¥4,833.4 billion, a ¥270.5 billion increase from ¥4,562.9 billion recorded as of March 31, 2016. While the balance of loans to institutional customers decreased, the increase was supported by the growth of the loan balance in the structured finance business, housing loan and the consumer finance business.

The net interest margin was 2.41%, increased from 2.40% recorded in fiscal year 2015. The increase was due to a greater impact of declined yield on interest-bearing liabilities than the impact of declined yield on interest-earning assets such as loans and securities.

The Basel III domestic standard (grandfathering basis) consolidated core capital adequacy ratio was 13.06% as of March 31, 2017, declined from 14.20% as of March 31, 2016. While core capital increased thanks to the accumulation of retained earnings despite the early redemption of subordinated debt and the undertaking of a share buyback, the consolidated core capital adequacy ratio declined due to an increase in risk assets resulting from a loan balance increase as well as a transition of the risk asset calculation methodology to internal ratings-based approach for the Lake portfolio. The Bank's Basel III international standard fully loaded basis Common Equity Tier 1 Capital Ratio was at 12.3% as of March 31, 2017 declined from 12.9% as of March 31, 2016. Capital adequacy ratios continue to be maintained at ample levels.

The nonperforming loan balance (nonconsolidated basis) under the Financial Revitalization Law decreased by ¥24.3 billion to ¥10.3 billion as of March 31, 2017. The nonperforming loan ratio to the total claims was 0.2% as of March 31, 2017 improved from 0.8% recorded as of March 31, 2016, which remained at a low level.

SIGNIFICANT EVENTS

ISSUANCE OF UNSECURED CORPORATE BONDS

On October 27, 2016, Shinsei Bank issued ¥10.0 billion of unsecured corporate bonds with an inter-bond pari passu clause.

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.

- 65,564,000 shares for ¥9,999 million from market at the Tokyo Stock Exchange during a period from June 1, 2016 to August 4, 2016
- 10,000,000 shares for ¥2,096 million from market at the Tokyo Stock Exchange during a period from February 1, 2017 to March 7, 2017

SELECTED FINANCIAL DATA (CONSOLIDATED)

Shinsei Bank, Limited and its Consolidated Subsidiaries
As of or for the fiscal years ended March 31, 2017, 2016, 2015, 2014 and 2013

	Billions of yen (except per share data and percentages)				
	2017	2016	2015	2014	2013
Statements of income data:					
Net interest income	**¥ 122.2**	¥ 122.3	¥ 126.4	¥ 110.5	¥ 111.6
Net fees and commissions	**25.5**	25.4	24.6	22.4	19.1
Net trading income	**7.3**	8.4	11.5	13.9	20.0
Net other business income	**73.3**	60.3	72.6	56.1	48.1
Total revenue	**228.5**	216.6	235.3	203.0	199.0
General and administrative expenses	**144.2**	141.3	144.2	135.0	130.9
Amortization of goodwill and intangible assets acquired in business combinations	**5.2**	7.4	8.6	9.7	10.8
Total general and administrative expenses	**149.4**	148.7	152.8	144.8	141.7
Net credit costs	**31.8**	3.7	11.8	0.2	5.5
Net business profit after net credit costs	**47.1**	64.0	70.5	57.9	51.6
Other gains (losses), net	**4.6**	(1.2)	2.1	(11.9)	2.1
Income before income taxes	**51.7**	62.8	72.7	46.0	53.8
Current income taxes	**2.1**	1.9	2.4	2.4	0.5
Deferred income taxes (benefit)	**(0.9)**	(0.5)	0.9	(0.7)	(1.3)
Profit attributable to noncontrolling interests	**(0.2)**	0.3	1.5	2.9	3.5
Profit attributable to owners of the parent	**¥ 50.7**	¥ 60.9	¥ 67.8	¥ 41.3	¥ 51.0
Balance sheet data:					
Trading assets	**¥ 244.1**	¥ 336.3	¥ 317.3	¥ 249.1	¥ 287.9
Securities	**1,014.6**	1,227.8	1,477.3	1,557.0	1,842.3
Loans and bills discounted	**4,833.4**	4,562.9	4,461.2	4,319.8	4,292.4
Customers' liabilities for acceptances and guarantees	**346.6**	280.6	291.7	358.4	511.0
Reserve for credit losses	**(100.1)**	(91.7)	(108.2)	(137.3)	(161.8)
Total assets	**9,258.3**	8,928.7	8,889.8	9,321.1	9,029.3
Deposits, including negotiable certificates of deposit	**5,862.9**	5,800.9	5,452.7	5,850.4	5,457.5
Trading liabilities	**212.2**	294.3	267.9	218.5	240.0
Borrowed money	**789.6**	801.7	805.2	643.4	719.2
Acceptances and guarantees	**346.6**	280.6	291.7	358.4	511.0
Total liabilities	**8,437.5**	8,135.6	8,136.0	8,598.5	8,345.6
Common stock	**512.2**	512.2	512.2	512.2	512.2
Total equity	**820.7**	793.1	753.7	722.5	683.6
Total liabilities and equity	**¥ 9,258.3**	¥ 8,928.7	¥ 8,889.8	¥ 9,321.1	¥ 9,029.3
Per share data:					
Common equity[1]	**¥ 316.38**	¥ 294.41	¥ 275.45	¥ 247.82	¥ 233.65
Basic earnings per share	**19.46**	22.96	25.57	15.59	19.24
Diluted earnings per share	**19.46**	22.96	—	15.59	—
Capital adequacy data:					
Capital ratio (Basel III, Domestic Standard)	**13.1%**	14.2%	14.9%	13.6%	—
Total capital adequacy ratio (Basel II)	**—**	—	—	13.8%	12.2%
Tier I capital ratio (Basel II)	**—**	—	—	12.2%	10.4%
Average balance data:					
Securities	**¥ 1,116.3**	¥ 1,336.9	¥ 1,604.9	¥ 1,892.7	¥ 2,014.3
Loans and bills discounted	**4,679.1**	4,434.2	4,326.8	4,241.5	4,246.2
Total assets	**9,093.5**	8,909.3	9,105.5	9,175.2	8,819.5
Interest-bearing liabilities	**7,283.4**	7,142.7	7,346.4	7,465.5	7,054.0
Total liabilities	**8,286.6**	8,135.9	8,367.3	8,472.1	8,163.8
Total equity	**806.9**	773.4	738.2	703.1	655.6
Other data:					
Return on assets	**0.6%**	0.7%	0.7%	0.5%	0.6%
Return on equity[1]	**6.3%**	8.1%	9.8%	6.5%	8.6%
Ratio of deposits, including negotiable certificates of deposit, to total liabilities	**69.5%**	71.3%	67.0%	68.0%	65.4%
Expense-to-revenue ratio[2]	**63.1%**	65.3%	61.3%	66.5%	65.8%
Nonperforming claims, nonconsolidated	**¥ 10.3**	¥ 34.7	¥ 60.9	¥ 164.7	¥ 242.6
Ratio of nonperforming claims to total claims, nonconsolidated	**0.2%**	0.8%	1.4%	3.8%	5.3%

1 Stock acquisition rights and noncontrolling interests are excluded from equity.
2 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 ¥122.2 billion in fiscal year 2016, about even with the ¥122.3 billion in the previous fiscal year. While the effects of the base rate reductions caused by the introduction of the negative interest rate policy and the compression of spreads caused by the resulting stiffer competition have remained within the Bank's expectations, the effects of these on net interest income were offset by a boost from loan growth at the consumer finance business and other factors.

NET REVENUE ON INTEREST-EARNING ASSETS

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

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

Billions of yen (except Yield/Rate)

	2017			2016		
Fiscal years ended March 31	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Interest-earning assets:						
Loans and bills discounted	¥ 4,679.1	¥ 127.4	2.72%	¥ 4,434.2	¥ 124.9	2.82%
Lease receivables and leased investment assets/ installment receivables	737.6	38.6	5.24	717.1	39.2	5.47
Securities	1,116.3	8.9	0.81	1,336.9	13.3	0.99
Other interest-earning assets[1]	185.9	2.0	n.m.[3]	277.8	2.5	n.m.[3]
Total revenue on interest-earning assets (A)	¥ 6,719.0	¥ 177.1	2.64%	¥ 6,766.2	¥ 179.9	2.66%
Interest-bearing liabilities:						
Deposits, including negotiable certificates of deposit	¥ 5,846.4	¥ 7.8	0.13%	¥ 5,624.2	¥ 8.4	0.15%
Borrowed money	735.8	3.4	0.46	775.6	4.7	0.62
Subordinated debt	19.6	0.5	2.65	56.9	1.6	2.88
Other borrowed money	716.1	2.8	0.40	718.7	3.1	0.44
Corporate bonds	109.3	1.1	1.03	130.8	2.8	2.20
Subordinated bonds	31.5	0.7	2.51	74.7	2.5	3.41
Other corporate bonds	77.7	0.3	0.43	56.0	0.3	0.58
Other interest-bearing liabilities[1]	591.8	3.8	n.m.[3]	611.9	2.2	n.m.[3]
Total expense on interest-bearing liabilities (B)	¥ 7,283.4	¥ 16.2	0.22%	¥ 7,142.7	¥ 18.3	0.26%
Net interest margin (A) - (B)	—	160.9	2.41%	—	161.5	2.40%
Non interest-bearing sources of funds:						
Non interest-bearing (assets) liabilities, net	¥ (1,365.1)	—	—	¥ (1,133.5)	—	—
Total equity excluding noncontrolling interest[2]	800.6	—	—	757.0	—	—
Total non interest-bearing sources of funds (C)	¥ (564.4)	—	—	¥ (376.4)	—	—
Total interest-bearing liabilities and non interest-bearing sources of funds (D) = (B)+(C)	¥ 6,719.0	¥ 16.2	0.24%	¥ 6,766.2	¥ 18.3	0.27%
Net revenue on interest-earning assets/ yield on interest-earning assets (A) - (D)	—	¥ 160.9	2.40%	—	¥ 161.5	2.39%
Reconciliation of total revenue on interest-earning assets to total interest income						
Total revenue on interest-earning assets	¥ 6,719.0	¥ 177.1	2.64%	¥ 6,766.2	¥ 179.9	2.66%
Less: Income on lease transactions and installment receivables	737.6	38.6	5.24	717.1	39.2	5.47
Total interest income	¥ 5,981.4	¥ 138.4	2.32%	¥ 6,049.0	¥ 140.7	2.33%
Total interest expenses	—	16.2	—	—	18.3	—
Net interest income	—	¥ 122.2	—	—	¥ 122.3	—

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.

The net interest margin increased from 2.40% in the previous fiscal year to 2.41% in fiscal year 2016. This was primarily the effect of a decline in the yield on interest-bearing liabilities from 0.26% to 0.22% exceeding the effect of a decline in the yield on interest-earning assets such as securities and loans from 2.66% to 2.64%. Net interest income including income on leasing and installment receivables for fiscal year 2016 was ¥160.9 billion, decreased from ¥161.5 billion in the previous fiscal year. While total interest expense on interest-bearing liabilities decreased from ¥18.3 billion in the previous fiscal year to ¥16.2 billion in fiscal year 2016, total interest income from interest-earning assets declined from ¥179.9 billion in the previous fiscal year to ¥177.1 billion in fiscal year 2016.

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 of ¥25.5 billion were recorded in fiscal year 2016, increased from ¥25.4 billion in the previous fiscal year, mainly due to factors such as an increase in fee income at the project finance business.

NET TRADING INCOME

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

TABLE 2. NET TRADING INCOME (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2017**	2016	Change (Amount)
Income from trading securities	**¥ 2.9**	¥ 3.4	¥ (0.5)
Income from securities held to hedge trading transactions	**0.0**	0.3	(0.2)
Income from trading-related financial derivatives	**4.3**	4.7	(0.4)
Other, net	**0.0**	(0.1)	0.1
Net trading income	**¥ 7.3**	¥ 8.4	¥ (1.0)

Net trading income consists of revenue from derivatives associated with transactions with customers as well as revenue from proprietary trading performed by the Bank. Net trading income of ¥7.3 billion was recorded for fiscal year 2016, decreased from ¥8.4 billion in the previous fiscal year.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

NET OTHER BUSINESS INCOME

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

TABLE 3. NET OTHER BUSINESS INCOME (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2017**	2016	Change (Amount)
Net gain on monetary assets held in trust	**¥ 3.9**	¥ 6.6	¥ (2.6)
Net gain on foreign exchanges	**10.4**	5.6	4.7
Net gain on securities	**13.2**	2.0	11.2
Net gain on other monetary claims purchased	**3.0**	2.7	0.2
Other, net:	**4.1**	4.0	0.0
Income (loss) from derivatives entered into for banking purposes, net	**(1.0)**	0.5	(1.6)
Equity in net income of affiliates	**2.8**	2.1	0.6
Gain on lease cancellation and other lease income, net	**1.3**	0.7	0.5
Other, net	**1.0**	0.5	0.4
Net other business income before income on lease transactions and installment receivables, net	**34.7**	21.0	13.6
Income on lease transactions and installment receivables, net	**38.6**	39.2	(0.5)
Net other business income	**¥ 73.3**	¥ 60.3	¥ 13.0

Net other business income in fiscal year 2016 was ¥73.3 billion, compared to ¥60.3 billion in the previous fiscal year. This was due to factors such as large gains booked on sales of investment securities in fiscal year 2016 at the structured finance business in the Institutional Business, the non-reoccurrence of losses due to reassessment of a fund investment in the principal transactions business recorded in the previous fiscal year, and the non-reoccurrence of effects from losses in the markets related business of the Global Markets Business recorded in the previous fiscal year due to substantial market volatility.

TOTAL REVENUE

As a result of the preceding factors, total revenue in fiscal year 2016 was ¥228.5 billion, as compared to ¥216.6 billion in the previous fiscal year.

GENERAL AND ADMINISTRATIVE EXPENSES

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

TABLE 4. GENERAL AND ADMINISTRATIVE EXPENSES (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2017**	2016	Change (Amount)
Personnel expenses	**¥ 56.6**	¥ 57.8	¥ (1.1)
Premises expenses	**21.0**	19.3	1.7
Technology and data processing expenses	**20.1**	19.3	0.8
Advertising expenses	**10.4**	10.4	(0.0)
Consumption and property taxes	**10.1**	8.6	1.4
Deposit insurance premium	**2.0**	2.0	(0.0)
Other general and administrative expenses	**23.7**	23.7	0.0
General and administrative expenses	**144.2**	141.3	2.8
Amortization of goodwill and intangible assets acquired in business combinations	**5.2**	7.4	(2.1)
Total general and administrative expenses	**¥ 149.4**	¥ 148.7	¥ 0.7

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

General and administrative expenses, excluding amortization of goodwill and intangible assets, came to ¥144.2 billion in fiscal year 2016, increased from ¥141.3 billion in the previous fiscal year. While we continued to promote business operational efficiencies, the rise in expenses reflected the effects of tax system revisions and systems investment to further expand our business base.

Personnel expenses of ¥56.6 billion were recorded in fiscal year 2016, decreased from ¥57.8 billion in the previous fiscal year. This was due to a continued focus on the promotion of operational efficiency even while the Bank allocated additional personnel to strategically important business areas in order to expand its customer base and enhance profitability.

Nonpersonnel expenses of ¥87.6 billion were recorded in fiscal year 2016, increased from ¥83.5 billion in the previous fiscal year. Despite exercising strict controls in the continued pursuit of operational rationalization across all businesses, nonpersonnel expenses rose as we allocated the resources necessary to grow our business base. The components of fiscal year 2016 nonpersonnel expenses include: 1) Premises expenses of ¥21.0 billion, increased from ¥19.3 billion in the previous fiscal year as a result of revisions to the years of useful life of some assets even as work on efficient operations remained a focus; 2) Technology and data processing expenses of ¥20.1 billion, increased from ¥19.3 billion in the previous fiscal year on continued investments aimed at stabilizing our information technology infrastructure; 3) Advertising expenses of ¥10.4 billion, about level with the sum recorded in the previous fiscal year on the continued implementation of an advertising campaign aimed at expanding our customer base; 4) Consumption and property tax expenses of ¥10.1 billion, increased from ¥8.6 billion in the previous fiscal year due primarily to the effects of pro-forma standard taxation, 5) Deposit insurance premium expenses of ¥2.0 billion, about even with the sum in the previous fiscal year as the insurance premium rate was not revised materially, and 6) Other general and administrative expenses of ¥23.7 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 ¥5.2 billion in fiscal year 2016, compared to ¥7.4 billion in the previous fiscal year. This reduction is attributable to factors such as the utilization of the sum-of-the-years' digits method in recording amortization of goodwill and intangible assets acquired in business combinations related to Shinsei Financial.

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

	Billions of yen		
Fiscal years ended March 31	**2017**	2016	Change (Amount)
Shinsei Financial	**¥ 3.0**	¥ 4.1	¥ (1.1)
Shinsei Personal Loan[1]	**(0.3)**	(0.3)	—
APLUS FINANCIAL	**—**	0.8	(0.8)
Showa Leasing	**2.5**	2.6	(0.0)
Others	**0.0**	0.1	(0.1)
Amortization of goodwill and intangible assets acquired in business combinations	**¥ 5.2**	¥ 7.4	¥ (2.1)

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RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

NET CREDIT COSTS

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

TABLE 6. NET CREDIT COSTS (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2017**	2016	Change (Amount)
Losses on write-off or sales of loans	**¥ 2.4**	¥ 1.3	¥ 1.1
Net provision of reserve for loan losses:			
Net provision of general reserve for loan losses	**21.8**	21.8	0.0
Net provision (reversal) of specific reserve for loan losses	**12.7**	(11.0)	23.7
Net provision (reversal) of reserve for loan losses to restructuring countries	**(0.0)**	(0.0)	(0.0)
Subtotal	**34.6**	10.8	23.8
Net provision of specific reserve for other credit losses	**0.2**	—	0.2
Other credit costs (recoveries) relating to leasing business	**(0.0)**	(0.2)	0.1
Recoveries of written-off claims	**(5.3)**	(8.1)	2.8
Net credit costs	**¥ 31.8**	¥ 3.7	¥ 28.1

Net credit costs consist primarily of provisions and reversals of reserves for loan losses. In accordance with Japanese accounting standards, the Bank maintains general reserves, specific reserves and specified overseas receivables reserves for loan losses 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.

Net credit costs of ¥31.8 billion were recorded for fiscal year 2016, increased from ¥3.7 billion in the previous fiscal year. This primarily reflected the non-reoccurrence of large gains on reversals booked in the previous fiscal year at the Institutional Business as well as provisioning to loan-loss reserves for the consumer finance and structured finance businesses in view of increases to their loan balances.

Recoveries of written-off claims of ¥5.3 billion were recorded in fiscal year 2016, compared to ¥8.1 billion in the previous fiscal year. Major components of the ¥5.3 billion of recoveries recorded in fiscal year 2016 include ¥0.2 billion of recoveries from Shinsei Bank (nonconsolidated basis) and ¥4.7 billion of recoveries from Shinsei Financial. It should be noted that net credit costs excluding recoveries of written-off claims in fiscal year 2016 were ¥37.2 billion, compared to ¥11.8 billion recorded in the previous fiscal year.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

OTHER GAINS (LOSSES), NET

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

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

	Billions of yen		
Fiscal years ended March 31	**2017**	2016	Change (Amount)
Net gain (loss) on disposal of premises and equipment	**¥ (0.2)**	¥ 0.4	¥ (0.6)
Gains on write-off of unclaimed debentures	**2.8**	0.4	2.4
Provision for reimbursement of debentures	**(1.0)**	(2.9)	1.8
Gains on write-off of unclaimed deposits	**1.2**	0.5	0.7
Gains on sale of nonperforming loans	**1.8**	1.1	0.7
Gain on purchase of loans	**4.2**	—	4.2
Gain on liquidation of subsidiaries	**1.2**	0.4	0.7
Loss on liquidation of subsidiaries	**(0.1)**	—	(0.1)
Loss on liquidation of affiliates	**(0.5)**	—	(0.5)
Provision of reserve for losses on interest repayments	**(5.1)**	(2.7)	(2.4)
Gain on sale of investments in subsidiaries	**0.2**	—	0.2
Loss on sale of investments in subsidiaries	**(0.1)**	—	(0.1)
Loss on sale of investments in affiliates	**—**	(0.2)	0.2
Impairment losses on long-lived assets	**(0.4)**	(0.6)	0.1
Gains on unexercised and forfeited stock acquisition rights	**—**	0.6	(0.6)
Other, net	**0.6**	1.5	(0.8)
Total	**¥ 4.6**	¥ (1.2)	¥ 5.8

Other losses of ¥4.6 billion were recorded in fiscal year 2016, including additional provisions to reserves for losses on interest repayments of ¥3.1 billion for APLUS FINANCIAL and of ¥2.0 billion for Shinsei Personal Finance.

INCOME BEFORE INCOME TAXES

As a result of the preceding factors income before income taxes totaled ¥51.7 billion for fiscal year 2016, compared to ¥62.8 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 ¥1.2 billion for fiscal year 2016, compared to a net expense of ¥1.4 billion in the previous fiscal year. In fiscal year 2016, current tax expense totaled ¥2.1 billion and deferred tax benefit totaled ¥0.9 billion. In the previous fiscal year, current tax expense totaled ¥1.9 billion and deferred tax benefit totaled ¥0.5 billion.

PROFIT ATTRIBUTABLE TO NONCONTROLLING INTERESTS (CONSOLIDATED)

Loss attributable to noncontrolling interests in fiscal year 2016 totaled ¥0.2 billion, compared to profit attributable to noncontrolling interests of ¥0.3 billion in the previous fiscal year. This profit category consists primarily of profit attributable to noncontrolling interests in the current fiscal year at consolidated subsidiaries with noncontrolling shareholders equal to their equity interest as well as interest payments on perpetual preferred securities issued by Bank subsidiaries with noncontrolling shareholders.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

TABLE 8. PROFIT ATTRIBUTABLE TO NONCONTROLLING INTERESTS (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2017**	2016	Change (Amount)
Dividends on preferred securities (hybrid Tier I capital) issued by foreign SPCs	**¥ 0.1**	¥ 0.6	¥ (0.4)
Others	**(0.3)**	(0.2)	(0.1)
Profit attributable to noncontrolling interests	**¥ (0.2)**	¥ 0.3	¥ (0.6)

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

As a result of the preceding factors, in fiscal year 2016, we recorded a consolidated profit attributable to owners of the parent of ¥50.7 billion, decreased from ¥60.9 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 9. RECONCILIATION FROM REPORTED-BASIS RESULTS TO OPERATING-BASIS RESULTS (CONSOLIDATED)

	Billions of yen					
	2017			2016		
Fiscal years ended March 31	**Reported-basis**	**Reclassifications**	**Operating-basis**	Reported-basis	Reclassifications	Operating-basis
Revenue:						
Net interest income	**¥ 122.2**	**¥ —**	**¥ 122.2**	¥ 122.3	¥ —	¥ 122.3
Noninterest income	**106.2**	**—**	**106.2**	94.2	—	94.2
Total revenue	**228.5**	**—**	**228.5**	216.6	—	216.6
General and administrative expenses[1,3]	**144.2**	**(1.7)**	**142.4**	141.3	(0.8)	140.5
Amortization of goodwill and intangible assets acquired in business combinations[2,3]	**5.2**	**(5.2)**	**—**	7.4	(7.4)	—
Total general and administrative expenses	**149.4**	**(7.0)**	**142.4**	148.7	(8.2)	140.5
Net business profit/Ordinary business profit[2]	**79.0**	**7.0**	**86.0**	67.8	8.2	76.0
Net credit costs	**31.8**	**—**	**31.8**	3.7	—	3.7
Amortization of goodwill and intangible assets acquired in business combinations[2]	**—**	**5.2**	**5.2**	—	7.2	7.2
Other gains (losses), net[1]	**4.6**	**(1.7)**	**2.8**	(1.2)	(0.9)	(2.1)
Income before income taxes	**51.7**	**—**	**51.7**	62.8	—	62.8
Income taxes and profit attributable to noncontrolling interests	**0.9**	**—**	**0.9**	1.8	—	1.8
Profit attributable to owners of the parent	**¥ 50.7**	**¥ —**	**¥ 50.7**	¥ 60.9	¥ —	¥ 60.9

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 10. OPERATING-BASIS ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS (RECOVERIES) BY BUSINESS LINE (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2017**	2016	Change (Amount)
Institutional Business:			
Net interest income	**¥ 21.9**	¥ 25.3	¥ (3.3)
Noninterest income	**40.1**	31.6	8.5
Total revenue	**62.1**	56.9	5.1
General and administrative expenses	**28.6**	29.7	(1.1)
Ordinary business profit	**33.5**	27.2	6.3
Net credit costs (recoveries)	**3.0**	(19.8)	22.9
Ordinary business profit after net credit costs (recoveries)	**¥ 30.4**	¥ 47.0	¥ (16.6)
Global Markets Business:			
Net interest income	**¥ 2.2**	¥ 1.8	¥ 0.4
Noninterest income	**8.7**	6.0	2.6
Total revenue	**11.0**	7.8	3.1
General and administrative expenses	**6.9**	7.3	(0.3)
Ordinary business profit	**4.0**	0.5	3.5
Net credit costs (recoveries)	**(0.0)**	(0.3)	0.2
Ordinary business profit after net credit costs (recoveries)	**¥ 4.1**	¥ 0.9	¥ 3.2
Individual Business:			
Net interest income	**¥ 98.0**	¥ 90.7	¥ 7.2
Noninterest income	**48.0**	48.5	(0.4)
Total revenue	**146.0**	139.3	6.7
General and administrative expenses	**103.9**	102.5	1.3
Ordinary business profit	**42.1**	36.7	5.3
Net credit costs	**28.7**	23.9	4.7
Ordinary business profit after net credit costs	**¥ 13.4**	¥ 12.7	¥ 0.6
Corporate/Other[1]:			
Net interest income	**¥ (0.0)**	¥ 4.3	¥ (4.3)
Noninterest income	**9.2**	8.0	1.2
Total revenue	**9.2**	12.4	(3.1)
General and administrative expenses	**2.9**	0.9	2.0
Ordinary business profit	**6.3**	11.5	(5.1)
Net credit costs (recoveries)	**0.2**	(0.0)	0.2
Ordinary business profit after net credit costs (recoveries)	**¥ 6.1**	¥ 11.5	¥ (5.3)
Total:			
Net interest income	**¥ 122.2**	¥ 122.3	¥ (0.0)
Noninterest income	**106.2**	94.2	11.9
Total revenue	**228.5**	216.6	11.9
General and administrative expenses	**142.4**	140.5	1.9
Ordinary business profit	**86.0**	76.0	10.0
Net credit costs	**31.8**	3.7	28.1
Ordinary business profit after net credit costs	**¥ 54.1**	¥ 72.3	¥ (18.1)

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

	Billions of yen		
Fiscal years ended March 31	**2017**	2016	Change (Amount)
Corporate Business[2,3]:			
Net interest income	**¥ 11.2**	¥ 10.3	¥ 0.8
Noninterest income	**5.8**	5.2	0.6
Total revenue	**17.0**	15.5	1.4
General and administrative expenses	**10.5**	11.6	(1.0)
Ordinary business profit	**6.4**	3.9	2.5
Net credit costs	**0.3**	0.7	(0.3)
Ordinary business profit after net credit costs	**¥ 6.1**	¥ 3.2	¥ 2.8
Structured Finance[2,3]:			
Net interest income	**¥ 9.4**	¥ 12.8	¥ (3.4)
Noninterest income	**12.4**	5.1	7.3
Total revenue	**21.8**	17.9	3.9
General and administrative expenses	**4.9**	4.7	0.1
Ordinary business profit	**16.9**	13.1	3.7
Net credit costs (recoveries)	**3.5**	(20.4)	24.0
Ordinary business profit after net credit costs (recoveries)	**¥ 13.3**	¥ 33.6	¥ (20.3)
Principal Transactions[2,3]:			
Net interest income	**¥ 2.5**	¥ 4.3	¥ (1.7)
Noninterest income	**7.3**	2.8	4.5
Total revenue	**9.9**	7.2	2.7
General and administrative expenses	**4.3**	4.7	(0.4)
Ordinary business profit	**5.6**	2.4	3.2
Net credit costs	**0.1**	0.2	(0.1)
Ordinary business profit after net credit costs	**¥ 5.5**	¥ 2.1	¥ 3.3
Showa Leasing[3]:			
Net interest income	**¥ (1.2)**	¥ (2.1)	¥ 0.9
Noninterest income	**14.4**	18.4	(3.9)
Total revenue	**13.2**	16.2	(3.0)
General and administrative expenses	**8.8**	8.5	0.2
Ordinary business profit	**4.4**	7.6	(3.2)
Net credit costs (recoveries)	**(1.0)**	(0.4)	(0.6)
Ordinary business profit after net credit costs (recoveries)	**¥ 5.4**	¥ 8.0	¥ (2.5)
Institutional Business:			
Net interest income	**¥ 21.9**	¥ 25.3	¥ (3.3)
Noninterest income	**40.1**	31.6	8.5
Total revenue	**62.1**	56.9	5.1
General and administrative expenses	**28.6**	29.7	(1.1)
Ordinary business profit	**33.5**	27.2	6.3
Net credit costs (recoveries)	**3.0**	(19.8)	22.9
Ordinary business profit after net credit costs (recoveries)	**¥ 30.4**	¥ 47.0	¥ (16.6)

1 Net of consolidation adjustments, if applicable.
2 The "Corporate Business" segment of the "Institutional Business" now includes the business of "Shinsei Trust & Banking," previously included in the "Structured Finance" segment, and the business of the "New Business Promotion & Support Department," previously included in the "Principal Transactions" segment.
3 The expense allocation methods utilized in the "Institutional Business" have been revised and headquarter function associated expenses previously included within the "Corporate Business" segment have been allocated to the respective segments.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

Total revenue for the Institutional Business was ¥62.1 billion in fiscal year 2016, compared to ¥56.9 billion in the previous fiscal year. Of this amount, net interest income was ¥21.9 billion in fiscal year 2016, decreased from ¥25.3 billion in the previous fiscal year. This decline was primarily due to the non-recurrence of significant dividend income from securities investments recorded in the previous fiscal year. Additionally, noninterest income was ¥40.1 billion in fiscal year 2016, increased from ¥31.6 billion in the previous fiscal year. This performance reflected fees from brisk trends in the structured finance business and large gains on sales of investment securities as well as the non-recurrence of losses booked in the previous fiscal year on the reassessment of a fund investment in the principal transactions business.

Within the Institutional Business, the Corporate Business recorded total revenue of ¥17.0 billion in fiscal year 2016, compared to ¥15.5 billion in the previous fiscal year. This result reflects revenue growth from growing relationships with existing customers and initiatives with past customers to foster new business with a focus on profitability, and revenue growth compared to the previous fiscal year from such factors as robust trends in structured products that meet the needs of the customers of regional financial institutions for investment instruments and foreign currency derivatives for corporations.

The Structured Finance recorded total revenue of ¥21.8 billion in fiscal year 2016, compared to ¥17.9 billion in the previous fiscal year. This increase compared to the previous fiscal year was due to factors such as a brisk trend in fees on new formation projects centering on real estate finance and project finance and the booking of substantial gains on the sale of investment securities involving past projects in real estate finance that had been fully depreciated.

The Principal Transactions recorded total revenue of ¥9.9 billion in fiscal year 2016, compared to ¥7.2 billion in the previous fiscal year. Total revenue increased mainly as a result of the non-reoccurrence of a loss due to the reassessment of a fund investment during the previous fiscal year.

Showa Leasing recorded total revenue of ¥13.2 billion in fiscal year 2016, decreased from ¥16.2 billion in the previous fiscal year. This was due to such factors as the non-reoccurrence of gains on the redemption of equity holdings.

General and administrative expenses in fiscal year 2016 totaled ¥28.6 billion, compared to ¥29.7 billion in the previous fiscal year. We continued to promote operational efficiency across all business lines, and as a result of effective resource allocation to growth fields, expenses declined versus the previous fiscal year.

Net credit costs in fiscal year 2016 totaled ¥3.0 billion versus net credit recoveries of ¥19.8 billion in the previous fiscal year. Costs rose on provisions to allowances owing to a solid accumulation of assets mainly at the structured finance business in addition to the non-reoccurrence of significant gains on the reversal of loan-loss reserves as a result of progression in NPL disposals recorded in the previous fiscal year.

As a result of the preceding factors, the Institutional Business recorded an ordinary business profit after net credit costs of ¥30.4 billion in fiscal year 2016, compared to ¥47.0 billion 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 12. GLOBAL MARKETS BUSINESS ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS (RECOVERIES) BY BUSINESS (CONSOLIDATED)[1]

	Billions of yen		
Fiscal years ended March 31	**2017**	2016	Change (Amount)
Markets:			
Net interest income	**¥ 1.9**	¥ 1.7	¥ 0.2
Noninterest income	**6.4**	3.3	3.0
Total revenue	**8.3**	5.1	3.2
General and administrative expenses	**3.3**	3.4	(0.1)
Ordinary business profit	**5.0**	1.6	3.4
Net credit costs (recoveries)	**(0.0)**	(0.1)	0.0
Ordinary business profit after net credit costs (recoveries)	**¥ 5.1**	¥ 1.7	¥ 3.4
Others:			
Net interest income	**¥ 0.3**	¥ 0.0	¥ 0.2
Noninterest income	**2.2**	2.6	(0.3)
Total revenue	**2.6**	2.7	(0.1)
General and administrative expenses	**3.6**	3.8	(0.2)
Ordinary business profit (loss)	**(1.0)**	(1.1)	0.0
Net credit costs (recoveries)	**0.0**	(0.2)	0.2
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ (1.0)**	¥ (0.8)	¥ (0.1)
Global Markets Business:			
Net interest income	**¥ 2.2**	¥ 1.8	¥ 0.4
Noninterest income	**8.7**	6.0	2.6
Total revenue	**11.0**	7.8	3.1
General and administrative expenses	**6.9**	7.3	(0.3)
Ordinary business profit	**4.0**	0.5	3.5
Net credit costs (recoveries)	**(0.0)**	(0.3)	0.2
Ordinary business profit after net credit costs (recoveries)	**¥ 4.1**	¥ 0.9	¥ 3.2

1 Net of consolidation adjustments, if applicable.

The Global Markets Business recorded total revenue of ¥11.0 billion in fiscal year 2016, compared to ¥7.8 billion in the previous fiscal year. Total revenue increased compared to the previous fiscal year as a result of initiatives to promote the development and provision of products that satisfy the needs of customers and grow the customer base.

The Markets recorded total revenue of ¥8.3 billion in fiscal year 2016, increased from ¥5.1 billion in the previous fiscal year. This was the due to an increase in revenues on customer transactions, primarily derivatives transactions, and a firm performance in the markets related business versus the previous fiscal year.

The Others recorded total revenue of ¥2.6 billion in fiscal year 2016, decreased from ¥2.7 billion in the previous fiscal year.

General and administrative expenses for the Global Markets Business in fiscal year 2016 totaled ¥6.9 billion, compared to ¥7.3 billion in the previous fiscal year. We worked to bolster management resources and direct them into priority fields to augment our market transaction capabilities and rebuild our customer base, and as a result of progress in promoting efficiency across each business line, expenses declined versus the previous fiscal year.

Net credit costs for the Global Markets Business came to net recoveries of ¥0.0 billion (¥91 million) in fiscal year 2016, compared with net recoveries of ¥0.3 billion 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 ¥4.1 billion in fiscal year 2016, compared to ¥0.9 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; 4) Shinsei Property Finance. Also, Shinsei Personal Loan (the former SHINKI) was added as the "No Loan" brand to the "Shinsei Financial" sub-segment, which includes Shinsei Bank Lake.

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

	Billions of yen		
Fiscal years ended March 31	**2017**	2016	Change (Amount)
Retail Banking:			
Net interest income	**¥ 23.4**	¥ 21.5	¥ 1.9
Loans	**10.8**	10.3	0.4
Deposits	**12.6**	11.1	1.4
Noninterest income	**2.5**	5.4	(2.8)
Asset Management Products	**7.1**	9.6	(2.5)
Other Fees (ATM, Fund Transfer, FX etc.)	**(4.6)**	(4.2)	(0.3)
Total revenue	**26.0**	27.0	(0.9)
General and administrative expenses	**33.5**	33.3	0.2
Ordinary business profit (loss)	**(7.5)**	(6.3)	(1.2)
Net credit costs (recoveries)	**(0.6)**	0.1	(0.8)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ (6.8)**	¥ (6.4)	¥ (0.3)
Shinsei Financial and Shinsei Bank Lake:			
Net interest income	**¥ 64.2**	¥ 61.2	¥ 3.0
Shinsei Bank Lake	**38.0**	31.7	6.2
NOLOAN	**6.5**	6.9	(0.3)
Noninterest income	**(0.9)**	(2.0)	1.1
Total revenue	**63.2**	59.1	4.1
General and administrative expenses	**32.4**	32.2	0.2
Ordinary business profit	**30.7**	26.8	3.9
Net credit costs	**20.5**	15.2	5.3
Ordinary business profit after net credit costs	**¥ 10.2**	¥ 11.6	¥ (1.3)
APLUS FINANCIAL:			
Net interest income	**¥ 9.0**	¥ 6.8	¥ 2.1
Noninterest income	**45.7**	44.9	0.8
Total revenue	**54.8**	51.7	3.0
General and administrative expenses	**37.0**	36.1	0.8
Ordinary business profit	**17.8**	15.6	2.1
Net credit costs	**8.6**	8.7	(0.1)
Ordinary business profit after net credit costs	**¥ 9.2**	¥ 6.8	¥ 2.3
Others[1]:			
Net interest income	**¥ 1.2**	¥ 1.1	¥ 0.1
Noninterest income	**0.6**	0.2	0.4
Total revenue	**1.8**	1.3	0.5
General and administrative expenses	**0.8**	0.7	0.0
Ordinary business profit	**1.0**	0.5	0.4
Net credit costs (recoveries)	**0.2**	(0.1)	0.4
Ordinary business profit after net credit costs (recoveries)	**¥ 0.8**	¥ 0.7	¥ 0.0
Individual Business:			
Net interest income	**¥ 98.0**	¥ 90.7	¥ 7.2
Noninterest income	**48.0**	48.5	(0.4)
Total revenue	**146.0**	139.3	6.7
General and administrative expenses	**103.9**	102.5	1.3
Ordinary business profit	**42.1**	36.7	5.3
Net credit costs	**28.7**	23.9	4.7
Ordinary business profit after net credit costs	**¥ 13.4**	¥ 12.7	¥ 0.6

1 Includes Shinsei Property Finance and unallocated consumer finance business financials.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

The Individual Business recorded an ordinary business profit after net credit costs of ¥13.4 billion in fiscal year 2016, compared to ¥12.7 billion in the previous fiscal year.

RETAIL BANKING

Retail Banking recorded total revenue of ¥26.0 billion in fiscal year 2016, compared to ¥27.0 billion in the previous fiscal year.

Of this amount, net interest income was ¥23.4 billion in fiscal year 2016, compared to ¥21.5 billion in the previous fiscal year.

New housing loan originations continued to be robust, and along with a net increase in the housing loan balance overall and revenues growth, net interest income from deposits increased on smooth accumulation of foreign currency deposits. Noninterest income came to ¥2.5 billion in fiscal year 2016, compared to ¥5.4 billion in the previous fiscal year, due to an increase in ATM-related fees in addition to a decline in the sale of investment products.

General and administrative expenses of ¥33.5 billion were recorded in fiscal year 2016, compared to ¥33.3 billion in the previous fiscal year. This was the result of the continued pursuit of efficiency and rationalization across all businesses on one front while initiatives to grow the customer base were aggressively deployed.

Net credit recoveries of ¥0.6 billion were recorded in fiscal year 2016, compared to costs of ¥0.1 billion in the previous fiscal year.

As a result of the preceding factors, an ordinary business loss after net credit recoveries of ¥6.8 billion was recorded in fiscal year 2016, compared to an ordinary business loss after net credit costs of ¥6.4 billion 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 ¥10.2 billion in fiscal year 2016, compared to ¥11.6 billion in the previous fiscal year.

Total revenue was ¥63.2 billion in fiscal year 2016, compared to ¥59.1 billion in the previous fiscal year, primarily as a result of loan balance growth.

Net credit costs were ¥20.5 billion in fiscal year 2016, increased from ¥15.2 billion in the previous fiscal year. While the Bank continued to engage in a gradual strengthening of its credit controls and loan collection frameworks, net credit costs increased as a result of factors such as loan balance growth compared to the previous year.

APLUS FINANCIAL

APLUS FINANCIAL recorded an ordinary business profit after net credit costs after related consolidation adjustments of ¥9.2 billion in fiscal year 2016, increased from ¥6.8 billion in the previous fiscal year. Total revenue in fiscal year 2016 was ¥54.8 billion, increased from ¥51.7 billion recorded in the previous fiscal year. Of this amount, net interest income was ¥9.0 billion in fiscal year 2016, increased from ¥6.8 billion in the previous fiscal year due to a firm trend in asset balance. Noninterest income was ¥45.7 billion in fiscal year 2016, increased from ¥44.9 billion in the previous fiscal year as a result of robust trends at the installment sales credit and credit card businesses. General and administrative expenses were ¥37.0 billion in fiscal year 2016, increased from ¥36.1 billion in the previous fiscal year. This increase 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 ¥8.6 billion in fiscal year 2016, compared to ¥8.7 billion in the previous fiscal year.

Others includes the results of Shinsei Property Finance and the unallocated consumer finance business financials.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

INTEREST REPAYMENT

While the Bank made a total additional provision of ¥2.7 billion to reserves for losses on interest repayments in fiscal year 2015, in fiscal year 2016, a recalculation of the necessary amount of reserves required to cover future interest repayment risk based upon recent repayment trends was performed, and as a result an additional provision of ¥2.0 billion for this reserve was booked for Shinsei Personal Loan and an additional provision of ¥3.1 billion was booked for APLUS FINANCIAL.

Shinsei Financial's usage of reserves for losses on interest repayments (interest repayments and related principal amortization) was ¥28.1 billion in fiscal year 2016, compared to ¥31.2 billion utilized in the previous fiscal year. In fiscal year 2016, no additional provisions to reserves for losses on interest repayments were made and the total balance of reserves for losses on interest repayments as of March 31, 2017 was ¥87.8 billion, compared to ¥116.0 billion as of March 31, 2016.

Shinsei Personal Loan's usage of reserves for losses on interest repayments (interest repayments and related principal amortization) in fiscal year 2016 was ¥3.6 billion, compared to ¥3.5 billion utilized in the previous fiscal year. In fiscal year 2016, Shinsei Personal Loan made an additional provision of ¥2.0 billion to reserves for losses on interest repayments, and the total balance of reserves for losses on interest repayments was ¥6.9 billion as of March 31, 2017, compared to ¥8.5 billion as of March 31, 2016.

APLUS FINANCIAL and its consolidated subsidiaries' usage of reserves for losses on interest repayments (interest repayments and related principal amortization) was ¥5.1 billion in fiscal year 2016, compared to ¥4.4 billion utilized in the previous fiscal year. In fiscal year 2015 an additional ¥3.1 billion has been provisioned as reserves for losses on interest repayments and the total balance of reserves for losses on interest repayments was ¥7.0 billion as of March 31, 2017, compared to ¥9.1 billion as of March 31, 2016.

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 ¥6.1 billion in fiscal year 2016.

TABLE 14. CORPORATE/OTHER ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS (RECOVERIES) BY BUSINESS (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2017**	2016	Change (Amount)
Treasury:			
Net interest income	**¥ (0.0)**	¥ 4.3	¥ (4.4)
Noninterest income	**7.1**	7.1	(0.0)
Total revenue	**7.0**	11.5	(4.4)
General and administrative expenses	**1.7**	1.6	0.0
Ordinary business profit	**5.3**	9.8	(4.4)
Net credit costs	**—**	—	—
Ordinary business profit after net credit costs	**¥ 5.3**	¥ 9.8	¥ (4.4)
Others[1]:			
Net interest income	**¥ 0.0**	¥ (0.0)	¥ 0.0
Noninterest income	**2.1**	0.8	1.2
Total revenue	**2.1**	0.8	1.3
General and administrative expenses	**1.2**	(0.7)	2.0
Ordinary business profit	**0.9**	1.6	(0.7)
Net credit costs (recoveries)	**0.2**	(0.0)	0.2
Ordinary business profit after net credit costs (recoveries)	**¥ 0.7**	¥ 1.6	¥ (0.9)
Corporate/Other[1]:			
Net interest income	**¥ (0.0)**	¥ 4.3	¥ (4.3)
Noninterest income	**9.2**	8.0	1.2
Total revenue	**9.2**	12.4	(3.1)
General and administrative expenses	**2.9**	0.9	2.0
Ordinary business profit	**6.3**	11.5	(5.1)
Net credit costs (recoveries)	**0.2**	(0.0)	0.2
Ordinary business profit after net credit costs (recoveries)	**¥ 6.1**	¥ 11.5	¥ (5.3)

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

Total revenue for the Treasury was ¥7.0 billion in fiscal year 2016, compared to ¥11.5 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, and smaller internal gains (losses) in inter-office accounts between the head office and branches.

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 a net income of ¥43.4 billion on a nonconsolidated basis for the fiscal year ended March 31, 2017. 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 15. COMPARISON OF TARGETS AND RESULTS FOR KEY MEASURES IN THE REVITALIZATION PLAN (NONCONSOLIDATED)

Billions of yen (except percentages)

	2017		2016	
Fiscal years ended March 31	**Target**	**Actual**	Target	Actual
Net income	**¥ 36.0**	**¥ 43.4**	¥ 42.0	¥ 41.5
Total expenses (without taxes)[1]	**76.1**	**71.7**	72.5	70.1
Return on equity based on net business profit[2]	**4.5%**	**4.2%**	5.5%	4.5%

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, 2017 and 2016.

RESULTS OF OPERATIONS (NONCONSOLIDATED) (continued)

TABLE 16. SUPPLEMENTAL MEASURES (NONCONSOLIDATED)

Fiscal years ended March 31	Billions of yen 2017	2016
Gross business profit (*gyomu sorieki*):		
Net interest income	**¥ 90.9**	¥ 93.7
Net fees and commissions[1]	**(2.9)**	(0.3)
Net trading income	**4.0**	4.8
Net other business income	**19.0**	10.9
Total gross business profit	**111.1**	109.2
Expenses[2]	**77.6**	75.2
Net business profit (*jisshitsu gyomu jun-eki*)	**33.5**	33.9
Net credit costs (recoveries)	**3.9**	(20.1)
Other, net[3]	**3.2**	(4.7)
Net operating income (*keijo rieki*)	**32.8**	49.3
Extraordinary income (loss)	**7.9**	(6.5)
Income before income taxes	**40.8**	42.8
Current income taxes (benefit)	**(0.0)**	(0.6)
Deferred income taxes (benefit)	**(2.5)**	1.8
Net income	**¥ 43.4**	¥ 41.5

1 Includes net gain (loss) on monetary assets held in trust of ¥4.4 billion in the fiscal year ended March 31, 2017 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.

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.

CRITICAL ACCOUNTING POLICIES (continued)

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 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.

CRITICAL ACCOUNTING POLICIES (continued)

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 carry-forwards" 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, 2018 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 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

CRITICAL ACCOUNTING POLICIES (continued)

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 non-consolidated 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:

- 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.

CRITICAL ACCOUNTING POLICIES (continued)

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, 2017, we had consolidated total assets of ¥9,258.3 billion, representing a 3.7% increase from March 31, 2016.

The balance of loans and bills discounted as of March 31, 2017 was ¥4,833.4 billion, increased by ¥270.5 billion from ¥4,562.9 billion as of March 31, 2016. While the balance of loans to institutional customers decreased, the increase was supported by the growth of the loan balance in the Structured Finance Business, housing loan and the Consumer Finance Business.

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, 2017. As reflected below, 69.6% of the securities will mature during the next five years. The balance of securities as of March 31, 2017 was ¥1,014.6 billion, decreased compared to the balance of ¥1,227.8 billion as of March 31, 2016. Nearly half of the investments in securities were consisted 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 ¥495.6 billion as of March 31, 2017, as compared to ¥750.0 billion as of March 31, 2016.

TABLE 17. SECURITIES BY MATURITY (CONSOLIDATED)

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**

Billions of yen

	As of March 31, 2016							
	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	¥ 40.0	¥ 130.5	¥ 275.5	¥ 121.2	¥ 134.8	¥ 47.9	¥ —	¥ 750.0
Japanese local government bonds	0.5	—	—	—	—	—	—	0.5
Japanese corporate bonds	13.7	20.7	28.0	5.1	—	1.5	—	69.1
Japanese equity securities	—	—	—	—	—	—	27.5	27.5
Foreign bonds and other	40.1	77.0	42.1	72.6	40.4	31.0	77.2	380.5
Total securities	¥ 94.4	¥ 228.2	¥ 345.6	¥ 199.0	¥ 175.2	¥ 80.4	¥ 104.7	¥ 1,227.8

FINANCIAL CONDITION (continued)

LOAN PORTFOLIO

As of March 31, 2017, loans and bills discounted totaled ¥4,833.4 billion. This represented 52.2% 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 24.3% of total loans as of March 31, 2017. Loans to the real estate industry consisted in part of non recourse and project finance loans. Loans to others of ¥2,389.1 billion as of March 31, 2017 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 ¥1,974.4 billion.

TABLE 18. LOANS BY BORROWER INDUSTRY (CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2017		2016	
Domestic offices (excluding Japan offshore market account):				
Manufacturing	**¥ 198.9**	**4.2%**	¥ 197.3	4.4%
Agriculture and forestry	**0.0**	**0.0**	0.0	0.0
Fishery	**0.0**	**0.0**	0.1	0.0
Mining, quarrying and gravel extraction	**0.3**	**0.0**	0.2	0.0
Construction	**8.9**	**0.2**	10.5	0.2
Electric power, gas, heat supply and water supply	**230.7**	**4.9**	235.6	5.3
Information and communications	**42.9**	**0.9**	37.3	0.8
Transportation, postal service	**188.0**	**4.0**	181.4	4.1
Wholesale and retail	**114.5**	**2.4**	104.3	2.4
Finance and insurance	**573.8**	**12.1**	541.4	12.1
Real estate	**575.6**	**12.2**	608.1	13.6
Services	**330.1**	**7.0**	308.2	6.9
Local government	**76.7**	**1.6**	79.4	1.8
Others	**2,389.1**	**50.5**	2,157.9	48.4
Total domestic (A)	**¥ 4,730.0**	**100.0%**	¥ 4,462.2	100.0%
Overseas offices (including Japan offshore market accounts):				
Governments	**¥ 0.5**	**0.6%**	¥ 0.7	0.8%
Financial institutions	**7.3**	**7.1**	8.5	8.5
Others	**95.4**	**92.3**	91.3	90.7
Total overseas (B)	**¥ 103.3**	**100.0%**	¥ 100.6	100.0%
Total (A+B)	**¥ 4,833.4**		¥ 4,562.9	

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, 2017, the increase in total loans resulted from an increase in both variable-interest rate loans and fixed-interest rate loans.

TABLE 19. LOAN MATURITY (NONCONSOLIDATED)

	Billions of yen	
As of March 31	**2017**	2016
Fixed-interest loans:		
One year or less[1]	**¥ —**	¥ —
Over one year to three years	**14.5**	17.6
Over three years to five years	**16.6**	16.4
Over five years to seven years	**33.3**	31.9
Over seven years	**993.9**	855.0
Indefinite term	**259.3**	216.7
Variable-interest loans:		
One year or less[1]	**¥ —**	¥ —
Over one year to three years	**715.8**	673.3
Over three years to five years	**780.9**	793.3
Over five years to seven years	**217.8**	215.3
Over seven years	**770.4**	757.5
Indefinite term	**8.5**	11.9
Total loans:		
One year or less	**¥ 725.0**	¥ 710.6
Over one year to three years	**730.4**	691.0
Over three years to five years	**797.5**	809.8
Over five years to seven years	**251.2**	247.2
Over seven years	**1,764.3**	1,612.6
Indefinite term	**267.8**	228.7
Total loans	**¥ 4,536.4**	¥ 4,300.1

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, 2017, 14.4% 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, Showa Leasing and Shinsei Personal Loan. For a discussion of the nonperforming claims of Shinsei Financial, APLUS FINANCIAL, Showa Leasing and Shinsei Personal Loan see "—Asset Quality of Shinsei Financial, APLUS FINANCIAL, Showa Leasing and Shinsei Personal Loan."

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, 2017:

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: 4,536.4	Other 180.7	Total loans and bills discounted: 4,536.4
Legally bankrupt		9E	100.0% for unsecured portion	Claims against bankrupt and quasi-bankrupt obligors 2.9 (Amount of coverage, coverage ratio) (2.9*, 100.0%) *Amount of reserve for loan losses is 0.2, collateral and guarantees is 2.7		Loans to bankrupt obligors 0.7
Virtually bankrupt		9D	100.0% for unsecured portion			Non accrual delinquent loans 5.7
Possibly bankrupt		9C	58.2% for unsecured portion	Doubtful claims 3.6 (Amount of coverage, coverage ratio) (2.0*, 58.2%) *Amount of reserve for loan losses is 2.0, collateral and guarantees is —		
Need caution	Substandard	9B	52.3% for unsecured portion	Substandard claims (loan account only) 3.8 (Amount of coverage, coverage ratio) (2.6*, 69.4%) *Amount of reserve for loan losses is 1.0, collateral and guarantees is 1.5		Loans past due for three months or more Restructured loans 3.8
	Other need caution	9A	3.7% for total claims	Normal claims 4,706.7		Normal 4,526.0
Normal		0A–6C	0.4% for total claims			
				Total nonperforming claims and ratio to total claims 10.3, 0.2% (Total amount of coverage, coverage ratio) (7.7*, 74.2%) *Total amount of reserve for loan losses is 3.3, collateral and guarantees is 4.3		Total risk-monitored loans and ratio to total loans and bills discounted 10.3, 0.2%

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

In October 2002, the FSA announced the "Program for Financial Revival" that has led to more stringent evaluations of claims. This program requires banks to use discounted cash flow analyses, among other measures, when providing loan loss reserves against major borrowers with substandard claims. Through the program, the FSA also sought greater scrutiny of the effect of recording large amounts of deferred tax assets on the quality of a bank's regulatory capital. We have exceeded the FSA's requirements for employing the discounted cash flow method, applying it to approximately 90%, by principal amount, and ¥500 million or more in outstanding balance, of our claims against substandard obligors and possibly bankrupt obligors, excluding non Japanese transactions and transactions with individuals as their future cash flows cannot be reasonably estimated.

FINANCIAL CONDITION (continued)

SELF-ASSESSMENT GUIDELINES AND RESERVE POLICIES

DEFINITION OF OBLIGOR CLASSIFICATIONS

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

DEFINITIONS OF CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

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

DEFINITIONS OF RISK-MONITORED LOANS

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

FINANCIAL CONDITION (continued)

RESERVE POLICIES

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

CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

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

DISCLOSURE OF CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

Our current management team has consistently emphasized the monitoring of nonperforming loans. Shinsei's total amount of nonperforming claims as disclosed pursuant to the Financial Revitalization Law decreased by ¥24.3 billion, or 70.1%, to ¥10.3 billion, between March 31, 2016 and 2017. During the fiscal year ended March 31, 2017, claims against bankrupt and quasi-bankrupt obligors decreased from ¥4.9 billion to ¥2.9 billion, doubtful claims decreased from ¥27.0 billion to ¥3.6 billion, and substandard claims increased from ¥2.6 billion to ¥3.8 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, 2017 decreased to 0.2%, compared to 0.8% as of March 31, 2016.

Shinsei's claims against other need caution obligors, excluding substandard claims, totaled ¥53.0 billion as of March 31, 2017, a 11.6% decrease from ¥60.0 billion as of March 31, 2016. These include private placement bonds guaranteed by Shinsei and classified as claims against other need caution obligors. These claims represented 1.1% of total nonconsolidated claims as of March 31, 2017, decreased from 1.4% as of March 31, 2016.

TABLE 20. CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW (NONCONSOLIDATED)

Billions of yen (except percentages)

As of March 31	**2017**	2016
Claims against bankrupt and quasi-bankrupt obligors	**¥ 2.9**	¥ 4.9
Doubtful claims	**3.6**	27.0
Substandard claims	**3.8**	2.6
Total claims disclosed under the Financial Revitalization Law[1]	**10.3**	34.7
Normal claims and claims against other need caution obligors, excluding substandard claims	**4,706.7**	4,340.9
Total claims	**¥ 4,717.1**	¥ 4,375.6
Ratio of total claims disclosed under the Financial Revitalization Law to total claims	**0.2%**	0.8%

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, 2017, 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, 58.2% for doubtful claims and 69.4% for substandard claims. For all claims classified under the Financial Revitalization Law, the coverage ratio was 74.2%, a decrease from 97.9% as of March 31, 2016.

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, 2017 and 2016, ¥33.9 billion and ¥34.0 billion, respectively, of such claims were written off on a nonconsolidated basis.

TABLE 21. COVERAGE RATIOS FOR NONPERFORMING CLAIMS DISCLOSED UNDER THE FINANCIAL REVITALIZATION LAW (NONCONSOLIDATED)

Billions of yen (except percentages)

	Amount of claims	Amounts of coverage: Reserve for loan losses	Collateral and guarantees	Total	Coverage ratio
As of March 31, 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%**
As of March 31, 2016:					
Claims against bankrupt and quasi-bankrupt obligors	¥ 4.9	¥ —	¥ 4.9	¥ 4.9	100.0%
Doubtful claims	27.0	1.9	24.9	26.9	99.5
Substandard claims	2.6	0.4	1.5	2.0	78.0
Total	¥ 34.7	¥ 2.4	¥ 31.5	¥ 33.9	97.9%

CHANGES IN AMOUNT OF NONPERFORMING CLAIMS

The table below sets forth Shinsei's experience since March 31, 2015 with the removal of nonperforming claims and the emergence of new claims on a nonconsolidated basis:

TABLE 22. 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, 2015	¥ 4.5	¥ 52.1	¥ 4.2	¥ 60.9
Claims newly added April 1, 2015 to March 31, 2016	1.1	0.0	3.5	4.7
Claims removed April 1, 2015 to March 31, 2016	(2.7)	(24.5)	(3.6)	(30.9)
Claims migrating between classifications April 1, 2015 to March 31, 2016	(0.2)	(0.5)	0.8	—
Net change	(1.8)	(25.0)	0.7	(26.2)
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**

In 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. Of the newly added nonperforming claims, ¥2.3 billion were classified as substandard claims, and ¥3.0 billion were classified as Doubtful claims.

For the fiscal year ended March 31, 2016, ¥4.7 billion of claims were newly classified as substandard or worse, while Shinsei removed ¥30.9 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 23. RESERVE FOR CREDIT LOSSES (NONCONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2017	2016
General reserve for loan losses	**¥ 22.9**	¥ 21.6
Specific reserve for loan losses	**2.3**	2.7
Reserve for loans to restructuring countries	**0.0**	0.0
Subtotal of reserve for loan losses	**25.2**	24.3
Specific reserve for other credit losses	**4.1**	3.9
Total reserve for credit losses	**¥ 29.3**	¥ 28.2
Total claims[1]	**¥ 4,717.1**	¥ 4,375.6
Ratio of total reserve for loan losses to total claims	**0.5%**	0.6%
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, 2017 and 2016, Shinsei's total reserve for credit losses on a nonconsolidated basis was ¥29.3 billion and ¥28.2 billion, respectively, constituting 0.6% and 0.6%, respectively, of total claims.

TABLE 24. RESERVE RATIOS BY BORROWERS' CATEGORY (NONCONSOLIDATED)

Percentages

As of March 31		2017	2016
Legally and virtually bankrupt	(unsecured portion)	**100.0%**	100.0%
Possibly bankrupt	(unsecured portion)	**58.2%**	292.6%
Substandard	(unsecured portion)	**52.3%**	56.2%
Other need caution	(total claims)	**3.7%**	6.4%
	(unsecured portion)	**6.6%**	11.1%
Normal	(total claims)	**0.4%**	0.4%

RISK-MONITORED LOANS

Consolidated risk-monitored loans decreased by 24.8% during the fiscal year ended March 31, 2017 to ¥71.7 billion. The decrease of ¥28.9 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 25. RISK-MONITORED LOANS (CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2017	2016
Total loans and bills discounted	**¥ 4,833.4**	¥ 4,562.9
Loans to bankrupt obligors (A)	**4.6**	4.3
Nonaccrual delinquent loans (B)	**33.3**	62.3
Subtotal (A)+(B)	**¥ 37.9**	¥ 66.6
Ratio to total loans and bills discounted	**0.8%**	1.5%
Loans past due for three months or more (C)	**¥ 1.7**	¥ 1.6
Restructured loans (D)	**32.0**	26.9
Total risk-monitored loans (A)+(B)+(C)+(D)	**¥ 71.7**	¥ 95.3
Ratio to total loans and bills discounted	**1.5%**	2.1%
Reserve for credit losses	**¥ 100.1**	¥ 91.7

FINANCIAL CONDITION (continued)

TABLE 26. RISK-MONITORED LOANS (NONCONSOLIDATED)

As of March 31	2017	2016
	Billions of yen (except percentages)	
Total loans and bills discounted	**¥ 4,536.4**	¥ 4,300.1
Loans to bankrupt obligors (A)	**0.7**	1.3
Nonaccrual delinquent loans (B)	**5.7**	30.7
Subtotal (A)+(B)	**¥ 6.5**	¥ 32.0
Ratio to total loans and bills discounted	**0.1%**	0.7%
Loans past due for three months or more (C)	**¥ 1.1**	¥ 1.4
Restructured loans (D)	**2.6**	1.1
Total risk-monitored loans (A)+(B)+(C)+(D)	**¥ 10.3**	¥ 34.6
Ratio to total loans and bills discounted	**0.2%**	0.8%
Reserve for credit losses	**¥ 29.3**	¥ 28.2

TABLE 27. RISK-MONITORED LOANS BY BORROWER INDUSTRY (NONCONSOLIDATED)

As of March 31	2017	2016
	Billions of yen	
Domestic offices (excluding Japan offshore market account):		
Manufacturing	**¥ 3.6**	¥ 0.7
Agriculture and forestry	**—**	—
Fishery	**—**	—
Mining, quarrying and gravel extraction	**—**	—
Construction	**0.0**	—
Electric power, gas, heat supply and water supply	**—**	—
Information and communications	**0.0**	0.0
Transportation and postal service	**0.7**	1.1
Wholesale and retail	**0.2**	0.3
Finance and insurance	**—**	—
Real estate	**—**	26.1
Services	**0.3**	0.6
Local government	**—**	—
Individual	**2.4**	2.6
Overseas yen loan and overseas loans booked domestically	**1.1**	2.9
Total domestic (A)	**¥ 8.6**	¥ 34.6
Overseas offices (including Japan offshore market accounts):		
Governments	**¥ —**	¥ —
Financial institutions	**—**	—
Commerce and industry	**1.6**	—
Others	**—**	—
Total overseas (B)	**¥ 1.6**	¥ —
Total (A+B)	**¥ 10.3**	¥ 34.6

FINANCIAL CONDITION (continued)

ASSET QUALITY OF SHINSEI FINANCIAL, APLUS FINANCIAL, SHOWA LEASING AND SHINSEI PERSONAL LOAN

Shinsei Financial, APLUS FINANCIAL, Showa Leasing and Shinsei Personal Loan 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, Showa Leasing's and Shinsei Personal Loan'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, Shinsei Personal Loan and other subsidiaries as of the dates indicated:

TABLE 28. RISK-MONITORED LOANS BREAKDOWN FOR LARGE ENTITIES (CONSOLIDATED)

	Billions of yen					
	Shinsei	Shinsei Financial	APLUS FINANCIAL	Shinsei Personal Loan	Other subsidiaries	Total
As of March 31, 2017:						
Loans to bankrupt obligors	**¥ 0.7**	**¥ 3.4**	**¥ 0.0**	**¥ 0.0**	**¥ 0.3**	**¥ 4.6**
Nonaccrual delinquent loans	**5.7**	**10.4**	**11.1**	**0.9**	**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**	**18.6**	**8.3**	**2.2**	**0.0**	**32.0**
Total	**¥ 10.3**	**¥ 32.6**	**¥ 19.6**	**¥ 3.1**	**¥ 5.9**	**¥ 71.7**
As of March 31, 2016:						
Loans to bankrupt obligors	¥ 1.3	¥ 2.3	¥ 0.0	¥ 0.0	¥ 0.5	¥ 4.3
Nonaccrual delinquent loans	30.7	9.2	12.8	1.0	8.5	62.3
Loans past due for three months or more	1.4	0.0	0.0	—	0.1	1.6
Restructured loans	1.1	15.9	7.7	2.0	—	26.9
Total	¥ 34.6	¥ 27.5	¥ 20.7	¥ 3.0	¥ 9.2	¥ 95.3

TABLE 29. 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, 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**
As of March 31, 2016:					
Credits to bankrupt obligors	¥ —	¥ 0.0	¥ 0.0	¥ 0.1	¥ 0.1
Nonaccrual delinquent credits	—	5.9	4.0	0.0	9.9
Credits past due for three months or more	—	0.4	0.0	—	0.5
Restructured credits	—	0.3	0.0	—	0.3
Total	¥ —	¥ 6.7	¥ 4.0	¥ 0.1	¥ 10.9

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

FUNDING AND LIQUIDITY

We continues to optimize its funding base through deposits from retail customers. Total deposits and negotiable certificates of deposit increase from ¥5,800.9 billion as of March 31, 2016 to ¥5,862.9 billion as of March 31, 2017. The retail deposits balance totaled ¥4,875.6 billion as of March 31, 2017, a increase of ¥55.0 billion compared to March 31, 2016. Retail Banking constitutes 83.2% 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 30. DIVERSIFICATION BY FUNDING TYPE (CONSOLIDATED)

As of March 31	Billions of yen	
	2017	2016
Retail deposits	**¥ 4,875.6**	¥ 4,820.6
Institutional deposits	**987.2**	980.3
Total	**¥ 5,862.9**	¥ 5,800.9

DEPOSITS

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

TABLE 31. MATURITY SCHEDULE OF TIME DEPOSITS (CONSOLIDATED)

As of March 31	Billions of yen	
	2017	2016
Less than three months[1]	**¥ 1,589.7**	¥ 1,655.8
Three months or more, but less than six months	**151.1**	286.9
Six months or more, but less than one year	**235.9**	107.2
One year or more, but less than two years	**541.2**	240.5
Two years or more, but less than three years	**73.1**	539.6
Three years or more	**165.3**	175.3
Total	**¥ 2,756.7**	¥ 3,005.6

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 32. MATURITY SCHEDULE OF CORPORATE BONDS (CONSOLIDATED)

Corporate Bonds

Fiscal year ending March 31	Billions of yen
2018	¥ 21.0
2019	10.0
2020	25.0
2021	15.0
2022 and thereafter	41.6
Total	¥ 112.6

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 33. SHINSEI'S CREDIT RATINGS AS OF JULY 2017

Rating agency	Long-term (Outlook)	Short-term
Moody's	Baa2 (Stable)	Prime-2
Standard & Poor's (S&P)	BBB+ (Positive)	A-2
Japan Credit Rating Agency (JCR)	BBB+ (Positive)	J-2
Rating and Investment Information, Inc. (R&I)	A- (Stable)	a-1

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, 2017 and 2016:

TABLE 34. OTHER CONTRACTUAL CASH OBLIGATIONS (CONSOLIDATED)

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

	Billions of yen		
Payments due by period as of March 31, 2016	1 year or less	Over 1 year	Total
Borrowed money	¥ 383.2	¥ 418.4	¥ 801.7
Obligations under finance leases	0.4	1.7	2.1
Total	¥ 383.6	¥ 420.2	¥ 803.9

FINANCIAL CONDITION (continued)

TAXATION

SCHEDULE OF TAX LOSS CARRYFORWARDS

As of March 31, 2017, Shinsei had ¥250.4 billion of tax loss carryforwards based on the consolidated corporate tax system.

TABLE 35. SCHEDULE OF TAX LOSS CARRY-FORWARDS

	Billions of yen	
Year tax loss carry-forwards generated/renewed	Amount	Date of expiry
Shinsei Bank		
March 31, 2009	¥ 107.4	March 31, 2018
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	12.0	March 31, 2026
Total	¥ 250.4	
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	6.6	March 31, 2026
Total	¥ 26.0	

The table above sets forth a schedule of tax loss carryforwards of Shinsei Bank and APLUS FINANCIAL as of March 31, 2017. 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 96.

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. As of December 1, 2016, Showa Leasing and its wholly-owned domestic subsidiaries were included in the Shinsei Bank consolidated tax group.

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, 2017 and 2016:

TABLE 36. EQUITY (CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2017	2016
Common stock	**¥ 512.2**	¥ 512.2
Capital surplus	**78.5**	79.4
Stock acquisition rights	**0.5**	0.5
Retained earnings	**312.5**	267.7
Treasury stock, at cost	**(79.5)**	(72.5)
Accumulated other comprehensive income:		
Unrealized gain on available-for-sale securities	**10.2**	11.9
Deferred gain (loss) on derivatives under hedge accounting	**(13.9)**	(14.7)
Foreign currency translation adjustments	**0.1**	0.3
Defined retirement benefit plans	**(1.3)**	(2.9)
Total	**¥ 819.5**	¥ 781.8
Noncontrolling interests	**1.2**	11.2
Total equity	**¥ 820.7**	¥ 793.1
Ratio of total equity to total assets	**8.9%**	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, 2017 was 13.06%, compared with 14.20% as of March 31, 2016.

See "COMPOSITION OF CAPITAL DISCLOSURE (CONSOLIDATED)" on Page 200.

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, 2017 and 2016, we held ¥16.4 billion and ¥30.7 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, 2017 and 2016, the total principal amount of participation interests in loans transferred to third-parties removed from the loan account was ¥8.3 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 ¥3,537.7 billion and ¥3,569.4 billion as of March 31, 2017 and 2016, 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 ¥3,255.8 billion and ¥3,352.2 billion as of March 31, 2017 and 2016, 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, 2017 and 2016, we had ¥346.6 billion and ¥280.6 billion, respectively, of outstanding acceptances and guarantees.

APLUS FINANCIAL extends credit in the form of guarantees. The most significant component of its guarantee business is providing guarantees on installment shopping credit provided by other lenders to customers of its partner merchants. APLUS FINANCIAL also offers collection guarantees for foreign automobile dealers. As of March 31, 2017 and 2016, ¥245.6 billion and ¥237.7 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, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
ASSETS			
Cash and due from banks (Notes 4, 23, 24 and 38)	**¥ 1,398,691**	¥ 1,129,213	**$ 12,508,424**
Call loans (Note 38)	**4,472**	—	**40,000**
Receivables under securities borrowing transactions (Note 38)	**1,625**	4,243	**14,536**
Other monetary claims purchased (Notes 5 and 38)	**44,243**	81,763	**395,671**
Trading assets (Notes 6, 23, 38 and 39)	**244,113**	336,345	**2,183,096**
Monetary assets held in trust (Notes 7, 23 and 38)	**241,681**	255,526	**2,161,342**
Securities (Notes 8, 23, 24 and 38)	**1,014,635**	1,227,859	**9,073,825**
Loans and bills discounted (Notes 9, 23, 24 and 38)	**4,833,452**	4,562,923	**43,225,297**
Foreign exchanges (Note 10)	**19,617**	17,024	**175,440**
Lease receivables and leased investment assets (Notes 23, 35 and 38)	**191,488**	211,453	**1,712,467**
Other assets (Notes 11, 23, 24, 38 and 39)	**895,158**	799,420	**8,005,356**
Premises and equipment (Notes 12, 23 and 35)	**47,980**	48,781	**429,087**
Intangible assets (Notes 13 and 35)	**52,020**	48,897	**465,220**
Assets for retirement benefits (Note 21)	**7,075**	2,394	**63,279**
Deferred issuance expenses for debentures	**0**	3	**7**
Deferred tax assets (Note 32)	**15,542**	14,050	**139,000**
Customers' liabilities for acceptances and guarantees (Note 22)	**346,675**	280,620	**3,100,300**
Reserve for credit losses (Note 14)	**(100,154)**	(91,732)	**(895,674)**
Total assets	**¥ 9,258,324**	¥ 8,928,789	**$ 82,796,673**
LIABILITIES AND EQUITY			
Liabilities:			
Deposits, including negotiable certificates of deposit (Notes 15, 23 and 38)	**¥ 5,862,922**	¥ 5,800,994	**$ 52,431,789**
Debentures (Notes 16 and 38)	**6,561**	16,740	**58,682**
Call money (Notes 23 and 38)	**53,600**	40,000	**479,342**
Payables under repurchase agreements (Notes 23 and 38)	**36,467**	23,779	**326,130**
Payables under securities lending transactions (Notes 23 and 38)	**337,952**	118,139	**3,022,286**
Trading liabilities (Notes 17, 38 and 39)	**212,241**	294,326	**1,898,062**
Borrowed money (Notes 18, 23, 24 and 38)	**789,670**	801,742	**7,061,981**
Foreign exchanges (Note 10)	**102**	75	**917**
Short-term corporate bonds (Note 38)	**168,000**	129,400	**1,502,415**
Corporate bonds (Notes 19, 23, 24 and 38)	**112,600**	95,121	**1,006,975**
Other liabilities (Notes 20, 23, 38 and 39)	**388,307**	380,458	**3,472,609**
Accrued employees' bonuses	**8,519**	8,419	**76,192**
Accrued directors' bonuses	**75**	77	**678**
Liabilities for retirement benefits (Note 21)	**8,256**	8,791	**73,840**
Reserve for reimbursement of debentures	**3,737**	2,903	**33,420**
Reserve for losses on interest repayments	**101,846**	133,695	**910,806**
Deferred tax liabilities (Note 32)	**—**	378	**—**
Acceptances and guarantees (Notes 22, 23 and 38)	**346,675**	280,620	**3,100,300**
Total liabilities	**8,437,537**	8,135,665	**75,456,424**
Equity:			
Common stock (Note 26)	**512,204**	512,204	**4,580,617**
Capital surplus	**78,506**	79,461	**702,079**
Stock acquisition rights (Note 27)	**584**	512	**5,227**
Retained earnings	**312,538**	267,716	**2,795,018**
Treasury stock, at cost (Note 26)	**(79,539)**	(72,559)	**(711,318)**
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities (Note 8)	**10,299**	11,911	**92,110**
Deferred gain (loss) on derivatives under hedge accounting	**(13,925)**	(14,770)	**(124,536)**
Foreign currency translation adjustments	**199**	362	**1,782**
Defined retirement benefit plans (Note 21)	**(1,344)**	(2,970)	**(12,020)**
Total	**819,524**	781,869	**7,328,959**
Noncontrolling interests (Note 25)	**1,262**	11,254	**11,290**
Total equity	**820,786**	793,124	**7,340,249**
Total liabilities and equity	**¥ 9,258,324**	¥ 8,928,789	**$ 82,796,673**

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, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Interest income:			
Interest on loans and bills discounted	**¥ 127,482**	¥ 124,988	**$ 1,140,068**
Interest and dividends on securities	**8,991**	13,300	**80,406**
Interest on deposits with banks	**1,092**	1,119	**9,767**
Other interest income	**922**	1,331	**8,250**
Total interest income	**138,488**	140,739	**1,238,491**
Interest expenses:			
Interest on deposits, including negotiable certificates of deposit	**7,814**	8,436	**69,880**
Interest and discounts on debentures	**10**	24	**92**
Interest on other borrowings	**3,407**	4,912	**30,477**
Interest on corporate bonds	**1,126**	2,877	**10,076**
Other interest expenses	**3,850**	2,142	**34,439**
Total interest expenses	**16,209**	18,394	**144,964**
Net interest income	**122,278**	122,345	**1,093,527**
Fees and commissions income	**49,207**	47,357	**440,057**
Fees and commissions expenses	**23,704**	21,864	**211,989**
Net fees and commissions	**25,502**	25,493	**228,068**
Net trading income (loss) (Note 28)	**7,373**	8,427	**65,941**
Other business income (loss), net:			
Income on lease transactions and installment receivables, net	**38,672**	39,250	**345,842**
Net gain (loss) on monetary assets held in trust	**3,931**	6,606	**35,162**
Net gain (loss) on foreign exchanges	**10,405**	5,661	**93,052**
Net gain (loss) on securities	**13,242**	2,007	**118,423**
Net gain (loss) on other monetary claims purchased	**3,012**	2,742	**26,937**
Other, net (Note 29)	**4,117**	4,069	**36,820**
Net other business income (loss)	**73,380**	60,338	**656,236**
Total revenue	**228,534**	216,603	**2,043,772**
General and administrative expenses:			
Personnel expenses	**56,628**	57,824	**506,424**
Premises expenses	**21,089**	19,355	**188,606**
Technology and data processing expenses	**20,169**	19,308	**180,374**
Advertising expenses	**10,403**	10,460	**93,036**
Consumption and property taxes	**10,112**	8,638	**90,435**
Deposit insurance premium	**2,052**	2,077	**18,359**
Other general and administrative expenses	**23,796**	23,709	**212,815**
General and administrative expenses	**144,253**	141,373	**1,290,049**
Amortization of goodwill and intangible assets acquired in business combinations	**5,243**	7,417	**46,896**
Total general and administrative expenses	**149,497**	148,791	**1,336,945**
Net business profit (loss)	**79,037**	67,811	**706,827**
Net credit costs (recoveries) (Note 30)	**31,898**	3,730	**285,271**
Other gains (losses), net (Note 31)	**4,617**	(1,264)	**41,293**
Income (loss) before income taxes	**51,755**	62,817	**462,849**
Income taxes (benefit) (Note 32):			
Current	**2,139**	1,999	**19,132**
Deferred	**(900)**	(511)	**(8,055)**
Profit	**50,517**	61,329	**451,772**
Profit (loss) attributable to noncontrolling interests	**(242)**	378	**(2,168)**
Profit attributable to owners of the parent	**¥ 50,759**	¥ 60,951	**$ 453,940**
	Yen		U.S. dollars (Note 1)
Basic earnings per share (Note 33)	**¥ 19.46**	¥ 22.96	**$ 0.17**
Diluted earnings per share (Note 33)	**¥ 19.46**	¥ 22.96	**$ 0.17**

See accompanying "Notes to Consolidated Financial Statements," which are an integral part of these statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Profit	**¥ 50,517**	¥ 61,329	**$ 451,772**
Other comprehensive income (Note 34):			
Unrealized gain (loss) on available-for-sale securities	**(273)**	993	**(2,450)**
Deferred gain (loss) on derivatives under hedge accounting	**845**	(3,269)	**7,559**
Foreign currency translation adjustments	**(2,289)**	(1,474)	**(20,471)**
Defined retirement benefit plans	**1,625**	(2,475)	**14,535**
Share of other comprehensive income in affiliates	**192**	(2,415)	**1,723**
Total other comprehensive income	**100**	(8,641)	**896**
Comprehensive income	**¥ 50,617**	¥ 52,687	**$ 452,668**
Total comprehensive income attributable to:			
Owners of the parent	**¥ 51,455**	¥ 52,988	**$ 460,165**
Noncontrolling interests	**(838)**	(300)	**(7,497)**

See accompanying "Notes to Consolidated Financial Statements," which are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal year ended March 31, 2017

	Millions of yen											
						Accumulated other comprehensive income						
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock, at cost	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Noncontrolling interests	Total equity
BALANCE, April 1, 2015	¥512,204	¥79,461	¥1,211	¥209,419	¥ (72,558)	¥10,830	¥ (11,501)	¥3,682	¥ (515)	¥732,234	¥ 21,528	¥753,762
Dividends				(2,653)						(2,653)		(2,653)
Profit attributable to owners of the parent				60,951						60,951		60,951
Purchase of treasury stock					(0)					(0)		(0)
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 inclusion of consolidated subsidiaries				(0)						(0)		(0)
Changes by exclusion of consolidated subsidiaries				—						—		—
Net change during the year			(698)			1,080	(3,269)	(3,320)	(2,454)	(8,661)	(10,273)	(18,935)
BALANCE, March 31, 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 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**

	Thousands of U.S. dollars (Note 1)											
						Accumulated other comprehensive income						
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock, at cost	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Noncontrolling interests	Total equity
BALANCE, March 31, 2016	**$ 4,580,617**	**$ 710,623**	**$ 4,584**	**$2,394,175**	**$ (648,893)**	**$106,527**	**$ (132,096)**	**$ 3,240**	**$ (26,561)**	**$6,992,216**	**$ 100,652**	**$ 7,092,868**
Dividends				**(23,734)**						**(23,734)**		**(23,734)**
Profit attributable to owners of the parent				**453,940**						**453,940**		**453,940**
Purchase of treasury stock					**(108,174)**					**(108,174)**		**(108,174)**
Disposal of treasury stock		**(29,142)**			**45,749**					**16,607**		**16,607**
Transfer to capital surplus from retained earnings		**29,142**		**(29,142)**						**—**		**—**
Changes in ownership interest of the parent related to transactions with noncontrolling interests		**(8,544)**								**(8,544)**		**(8,544)**
Changes by inclusion of consolidated subsidiaries				**(24)**						**(24)**		**(24)**
Changes by exclusion of consolidated subsidiaries				**(197)**						**(197)**		**(197)**
Net change during the year			**643**			**(14,417)**	**7,560**	**(1,458)**	**14,541**	**6,869**	**(89,362)**	**(82,493)**
BALANCE, March 31, 2017	**$ 4,580,617**	**$ 702,079**	**$ 5,227**	**$2,795,018**	**$ (711,318)**	**$ 92,110**	**$ (124,536)**	**$ 1,782**	**$ (12,020)**	**$7,328,959**	**$ 11,290**	**$ 7,340,249**

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, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Cash flows from operating activities:			
Income (loss) before income taxes	**¥ 51,755**	¥ 62,817	**$ 462,849**
Adjustments for:			
Income taxes paid	**(2,548)**	(2,620)	**(22,787)**
Depreciation (other than leased assets as lessor)	**12,517**	10,436	**111,944**
Amortization of goodwill and intangible assets acquired in business combinations	**5,243**	7,417	**46,896**
Impairment losses on long-lived assets	**450**	636	**4,024**
Net change in reserve for credit losses	**8,788**	(16,500)	**78,595**
Net change in reserve for losses on interest repayments	**(31,849)**	(36,555)	**(284,826)**
Net change in other reserves	**946**	2,442	**8,460**
Interest income	**(138,488)**	(140,739)	**(1,238,491)**
Interest expenses	**16,209**	18,394	**144,964**
Investment (gains) losses	**(16,234)**	(7,435)	**(145,188)**
Net exchange (gain) loss	**1,768**	20,111	**15,814**
Net change in trading assets	**92,231**	(18,946)	**824,823**
Net change in trading liabilities	**(82,085)**	26,349	**(734,085)**
Net change in loans and bills discounted	**(270,492)**	(101,633)	**(2,419,000)**
Net change in deposits, including negotiable certificates of deposit	**61,909**	348,239	**553,651**
Net change in debentures	**(10,178)**	(15,560)	**(91,025)**
Net change in borrowed money (other than subordinated debt)	**36,428**	4,139	**325,779**
Net change in corporate bonds (other than subordinated corporate bonds)	**17,478**	22,875	**156,310**
Net change in interest-bearing deposits with banks (other than due from the Bank of Japan)	**(21,747)**	5,755	**(194,485)**
Net change in call loans, receivables under resale agreements, receivables under securities borrowing transactions and other monetary claims purchased	**35,827**	96,858	**320,399**
Net change in call money, payables under repurchase agreements, payables under securities lending transactions, and short-term corporate bonds (liabilities)	**284,701**	(147,203)	**2,546,067**
Net change in foreign exchange assets and liabilities	**(2,566)**	1,560	**(22,949)**
Interest received	**140,878**	137,928	**1,259,865**
Interest paid	**(14,216)**	(17,039)	**(127,140)**
Net change in securities for trading purposes	**7**	38	**70**
Net change in monetary assets held in trust for trading purposes	**12,269**	16,217	**109,725**
Net change in lease receivables and leased investment assets	**9,271**	15,623	**82,918**
Other, net	**(22,600)**	(117,809)	**(202,112)**
Total adjustments	**123,920**	112,985	**1,108,216**
Net cash provided by (used in) operating activities	**175,676**	175,802	**1,571,065**
Cash flows from investing activities:			
Purchase of investments	**(1,794,568)**	(4,283,191)	**(16,048,729)**
Proceeds from sales of investments	**1,781,961**	4,258,832	**15,935,985**
Proceeds from maturity of investments	**164,298**	225,688	**1,469,310**
Purchase of premises and equipment (other than leased assets as lessor)	**(4,799)**	(3,982)	**(42,921)**
Purchase of intangible assets (other than leased assets as lessor)	**(14,064)**	(11,279)	**(125,780)**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**(443)**	(1,479)	**(3,963)**
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation	**3,062**	—	**27,385**
Other, net	**(38)**	1,587	**(344)**
Net cash provided by (used in) investing activities	**135,407**	186,174	**1,210,943**
Cash flows from financing activities:			
Repayment of subordinated debt	**(38,600)**	(7,400)	**(345,197)**
Payment for redemption of subordinated corporate bonds	**—**	(87,849)	**—**
Proceeds from noncontrolling shareholders	**50**	1	**447**
Payment for capital returned to noncntrolling shareholders	**(6,439)**	(9,000)	**(57,588)**
Dividends paid	**(2,653)**	(2,653)	**(23,734)**
Dividends paid to noncontrolling shareholders	**(451)**	(987)	**(4,039)**
Payment for purchase of treasury stock	**(12,096)**	(0)	**(108,174)**
Purchase of investments in subsidiaries not resulting in change in scope of consolidation	**(1,321)**	(0)	**(11,821)**
Net cash provided by (used in) financing activities	**(61,512)**	(107,889)	**(550,106)**
Foreign currency translation adjustments on cash and cash equivalents	**(60)**	(95)	**(543)**
Net change in cash and cash equivalents	**249,510**	253,991	**2,231,359**
Cash and cash equivalents at beginning of year	**1,080,357**	826,365	**9,661,572**
Cash and cash equivalents at end of year (Note 4)	**¥ 1,329,867**	¥ 1,080,357	**$ 11,892,931**

Note: Investments consist of securities and monetary assets held in trust for other than trading purposes.
See accompanying "Notes to Consolidated Financial Statements," which are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal year ended March 31, 2017

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.

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.

As permitted by the Financial Instruments and Exchange Act of Japan, yen amounts, except for per share amounts, are presented in millions of yen and are rounded down to the nearest million. As a result, the totals do not necessarily conform to the sum of the individual amounts.

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 ¥111.82 to U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2017. 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.

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, 2017 and 2016 were as follows:

	2017	2016
Consolidated subsidiaries	**124**	160
Unconsolidated subsidiaries	**97**	90
Affiliates accounted for by the equity method	**20**	20
Affiliates accounted for not applying the equity method	**—**	1

Innovation Engine Regenerative Medicalcare Investment Limited Partnership and 3 other companies were newly consolidated due to their formation, EISHIN KOGYO Co., Ltd. was newly consolidated due to the acquisition of shares, and SL WING CO., LTD. and 1 other company were newly consolidated due to their increased materiality.

Additionally, Lexia LLC and 33 other companies were excluded from the scope of consolidation due to liquidation, KIRAYAKA LEASING Co., Ltd. and 1 other company were excluded from the scope of consolidation due to the sale of shares, Maple Insurance Service CO., LTD. was excluded from the scope of consolidation due to a merger with APLUS CO., LTD. and Aoba Godo Kaisha and 5 other companies were excluded from the scope of consolidation due to their decreased materiality in the fiscal year ended March 31, 2017.

ES Shipping Corporation and 3 other companies were newly included in the scope of application of the equity method due to their formation, GE Nissen Credit Co., Ltd. was newly included in the scope of application of the equity method due to the acquisition of shares, and Woori SB Tenth Asset Securitization Specialty Co., Ltd. and 4 other companies were excluded from the scope of application of the equity method due to liquidation in the fiscal year ended March 31, 2017. GE Nissen Credit Co., Ltd. changed its company name to Nissen Credit Service Co., Ltd. on June 1, 2017.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) CONSOLIDATED

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 fact 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, 2017 were as 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 Principal Investments Ltd.	Japan	100.0%

All significant inter-company transactions, related account balances and unrealized gains have been eliminated upon consolidation. As of March 31, 2017, the fiscal year ending dates were March 31 for 94 subsidiaries, September 30 for 2 subsidiaries, December 31 for 26 subsidiaries and February 28 for 2 subsidiaries. Regarding the 1 company of the Bank's consolidated subsidiaries which has 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, 2017.

Major affiliates accounted for by the equity method as of March 31, 2017 were as listed below:

Name	Location	Percentage ownership
Jih Sun Financial Holding Co., Ltd.	Taiwan	35.4%

(B) GOODWILL AND INTANGIBLE ASSETS ACQUIRED IN BUSINESS COMBINATIONS

The Bank 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 with amortization method and period are as 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
- 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

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

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

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

(D) TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS AND TRANSACTIONS

(a) The financial statements of consolidated foreign subsidiaries are translated into Japanese yen at exchange rates as of their respective balance sheet dates, except for equity, which is translated at historical exchange rates. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity in the accompanying consolidated balance sheets.

(b) Foreign currency accounts held by consolidated foreign subsidiaries are translated into functional currency of each subsidiary at exchange rates as of their respective balance sheet dates.

(c) Foreign currency-denominated assets and liabilities of the Bank and consolidated domestic subsidiaries are translated into Japanese yen at exchange rates as of their respective balance sheet dates, except for investments in unconsolidated subsidiaries and affiliates which are translated at the relevant historical exchange rates.

(E) CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the consolidated statements of cash flows, consist of cash on hand, due from the Bank of Japan and noninterest-bearing deposits.

(F) OTHER MONETARY CLAIMS PURCHASED

Other monetary claims purchased held for trading purposes, except for those included in trading accounts, are recorded at fair value and unrealized gains and losses are recorded in "Other business income (loss), net."

(G) VALUATION OF TRADING ACCOUNT ACTIVITIES

Trading account positions entered into to generate gains arising from short-term changes in interest rates, currency exchange rates or market prices of financial instruments and other market related indices, or from price differences among markets, are included in "Trading assets" and "Trading liabilities" on a trade-date basis.

Trading securities and monetary claims purchased for trading purposes are stated at market value and derivative financial instruments related to trading positions are stated at fair value based on estimated amounts that would be settled in cash if such positions were terminated at the end of the fiscal year, which reflects liquidity and credit risks.

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

(H) MONETARY ASSETS HELD IN TRUST

The components of trust assets are accounted for based on the accounting standards appropriate for each asset type. Instruments held in trust for trading purposes are recorded at fair value and unrealized gains and losses are recorded in "Other business income (loss), net." Instruments held in trust classified as available-for-sale are recorded at fair value with the corresponding unrealized gains and losses recorded directly in a separate component of equity.

Instruments held in trust classified as available-for-sale of which fair value cannot be reliably determined are carried at cost.

(I) SECURITIES

Securities other than securities in (G) VALUATION OF TRADING ACCOUNT ACTIVITIES are classified into the four categories, principally based on the management's intent to own the security, as follows:

(i) Trading securities are securities held in anticipation of gains arising from short-term changes in market value and/or held for resale to customers. Trading securities 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 the 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,

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

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, 2017 were principally as follows:

Buildings .... 3 years to 50 years
Equipment ...... 2 years to 20 years

Pursuant to an amendment to the Corporate Tax Act, certain consolidated subsidiaries adopted Accounting Standards Board of Japan Practical Issues Task Force No. 32 "Practical Solution on a change in depreciation method due to Tax Reform 2016" and changed the depreciation method for building improvements and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method.

The effect of this change on profit and loss for the fiscal year ended March 31, 2017 was immaterial.

(K) SOFTWARE

Capitalized software for internal use is depreciated using the straight-line method based on the Group's estimated useful lives (primarily 5 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 case where it is difficult to reasonably estimate future cash flows, the reserve is provided based on expected loss amount for the remaining term of respective claims.

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

For specific foreign claims, there is a reserve for loans to restructuring countries which has been provided based on losses

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

estimated by considering the political and economic conditions in those countries.

All claims are assessed by business divisions based on the predetermined internal rules for self-assessment of asset quality. A division independent of business divisions conducts verifications of these assessments, and additional reserves may be provided based on the verification results.

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

For collateralized or guaranteed claims of the Bank and certain consolidated subsidiaries to legally bankrupt obligors or virtually bankrupt obligors, the amount of claims exceeding the estimated value of collateral or guarantees, which is deemed uncollectible, has been charged off and totaled ¥109,727 million (U.S.$981,287 thousand) and ¥123,460 million as of March 31, 2017 and 2016, 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. Certain consolidated subsidiaries recognizes retirement benefit obligations at the amount that would be payable if employees retired voluntarily at the consolidated balance sheet date.

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.

(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 grand 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 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 ¥122 million (U.S.$1,093 thousand) and ¥125 million for the fiscal years ended March 31, 2017 and 2016, 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.

From the beginning of the fiscal year ended March 31, 2017, the Group has applied ASBJ Guidance No. 26 "Implementation Guidance on Recoverability of Deferred Tax Assets," which provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets.

The previous guidance provided a basic framework which included certain specific restrictions on recognizing deferred tax assets depending on the company's classification in respect of its profitability, taxable profit and temporary differences, etc.

The new guidance does not change such basic framework but, in limited cases, allows companies to recognize deferred tax assets even for a deductible temporary difference for which it was specifically prohibited to recognize a deferred tax asset under the previous guidance, if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in some future period.

There was no effect by the application of new guidance on the consolidated financial statements.

(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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

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 cash flow and that of the hedging instrument.

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

(b) Hedge of foreign exchange fluctuation risks

The Bank applies either deferral hedge accounting or fair value hedge accounting in accordance with Industry Audit Committee Report No. 25 issued, on July 29, 2002, by of the JICPA, to the derivative transactions that meet the hedge accounting criteria for mitigating foreign currency fluctuation risks of its financial assets and liabilities.

Funding swap transactions are foreign exchange swaps, and consist of spot foreign exchange contracts bought or sold and forward foreign exchange contracts bought or sold. Such transactions are contracted for the purpose of lending or borrowing in a different currency and converting the corresponding principal equivalents and foreign currency equivalents to pay and receive, whose amounts and due dates are predetermined at the time of the transactions, into forward foreign exchange contracts bought or sold.

Under deferral hedge accounting, hedged items are identified by grouping the foreign currency-denominated financial assets and liabilities by currency and designating derivative transactions such as currency swap transactions, funding swap transactions and forward exchange contracts as hedging instruments. Hedge effectiveness is assessed by confirming that the total foreign currency position of the hedged items is equal to or larger than that of hedging instruments.

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

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

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

(Z) PER SHARE INFORMATION

Basic earnings per share ("EPS") calculations represent profit attributable to owners of the parent which is available to common shareholders, divided by the weighted average number of outstanding shares of common stock during the respective period, retroactively adjusted for stock splits and reverse stock splits.

Diluted EPS calculations consider the dilutive effect of common stock equivalents, which include stock acquisition rights, assuming that stock acquisition rights were fully exercised at the time of issuance for those issued during the period and at the beginning of the period for those previously issued and outstanding at the beginning of the period.

3. BUSINESS COMBINATION

CONSOLIDATED

On June 30, 2016 and December 1, 2016, the Bank acquired full ownership of Showa Leasing, a consolidated subsidiary of the Bank, through additional acquisition and a share exchange, respectively.

(A) OVERVIEW OF TRANSACTION

(a) Names and business descriptions of the acquired company
Name of the acquired company: Showa Leasing Co., Ltd.
Business descriptions: Leasing Business

(b) Date on which the business combination was effected
(i) June 30, 2016
(ii) December 1, 2016

(c) Legal form of the business combination
(i) Additional acquisition from a noncontrolling shareholder
(ii) A share exchange that makes the Bank a wholly-owning parent company and Showa Leasing a wholly-owned subsidiary

(d) Name of the company after the business combination
No change in name

(e) Other matters with regard to the transaction
The business combination was executed as part of the Bank's initiatives in the Third Medium-Term Management Plan. By making Showa Leasing the Bank's wholly-owned subsidiary, the Bank seeks to accelerate the achievement of the Group integration set forth in its "medium-to-long term vision" and 3rd Medium-Term Management Plan by establishing a framework that would promote rapid, flexible decision-making by the Group's management. Through this, the Bank will maximize the corporate value of the Group in order to become a financial innovator.

(B) 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 with noncontrolling shareholders as a transaction under common control.

(C) ACQUISITION COST OF THE BUSINESS COMBINATION

	Millions of yen	Thousands of U.S. dollars
Cash	¥ 1,321	$ 11,821
The Bank's common shares	1,856	16,607
Acquisition cost	¥ 3,178	$ 28,428

(D) SHARE EXCHANGE RATIO, METHOD OF CALCULATING THE RATIO, AND NUMBER OF SHARES ISSUED ON A SHARE EXCHANGE TRANSACTION ON DECEMBER 1, 2016

(a) Share exchange ratio
One share of common stock of Showa Leasing, in exchange for 2.17 shares of common stock of the Bank

(b) Method of calculation
In order to ensure fairness and reasonableness in calculating the share exchange ratio under the share exchange, the Bank and Showa Leasing requested an independent third-party appraisal agency to calculate the share exchange ratio, the said agency being KPMG FAS Co., Ltd. (hereinafter, "KPMG FAS")

KPMG FAS analyzed the value of the Bank's common shares and Showa Leasing's common shares, and calculated the share exchange ratio by considering the result of the analysis. KPMG FAS adopted the average market price analysis for the Bank's common shares and the comparable companies' analysis and the discounted cash flow analysis for Showa Leasing's common shares. As a result of giving consideration to the share exchange ratio calculation result submitted from KPMG FAS, both the Bank and Showa Leasing have found the share exchange ratio set out in "(i) Share exchange ratio" as stated above to be appropriate and not damaging the interests of the shareholders of the two companies, and the share exchange ratio has been determined and approved by board of directors meetings of each company on September 21, 2016.

(c) Number of shares issued
10,037,782 shares

(E) CHANGES IN EQUITY RELATED TO TRANSACTION WITH NONCONTROLLING SHAREHOLDERS

A decrease in capital surplus due to the above transactions with noncontrolling shareholders is ¥955 million (U.S.$8,544 thousand).

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4. CASH AND CASH EQUIVALENTS — CONSOLIDATED

The reconciliation of cash and cash equivalents and cash and due from banks in the consolidated balance sheets as of March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Cash and due from banks	**¥ 1,398,691**	¥ 1,129,213	**$ 12,508,424**
Interest-bearing deposits included in due from banks (other than due from the Bank of Japan)	**(68,824)**	(48,856)	**(615,493)**
Cash and cash equivalents	**¥ 1,329,867**	¥ 1,080,357	**$ 11,892,931**

5. OTHER MONETARY CLAIMS PURCHASED — CONSOLIDATED

(a) Other monetary claims purchased as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Trading purposes	**¥ 4,213**	¥ 17,076	**$ 37,681**
Other	**40,030**	64,686	**357,990**
Total	**¥ 44,243**	¥ 81,763	**$ 395,671**

(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, 2017 and 2016 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2017		2016		**2017**	
	Fair value	**Unrealized loss**	Fair value	Unrealized loss	**Fair value**	**Unrealized loss**
Trading purposes	**¥ 4,213**	**¥ 1,110**	¥ 17,076	¥ 6,267	**$ 37,681**	**$ 9,936**

6. TRADING ASSETS — CONSOLIDATED

Trading assets as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Trading securities	**¥ 1,743**	¥ 22,489	**$ 15,589**
Derivatives for trading securities	**1,531**	1,255	**13,693**
Derivatives for securities held to hedge trading transactions	**21,812**	24,651	**195,064**
Trading-related financial derivatives	**205,290**	287,176	**1,835,905**
Other	**13,736**	772	**122,845**
Total	**¥ 244,113**	¥ 336,345	**$ 2,183,096**

7. MONETARY ASSETS HELD IN TRUST — CONSOLIDATED

(a) Monetary assets held in trust as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Trading purposes	**¥ 21,797**	¥ 34,066	**$ 194,933**
Other	**219,883**	221,459	**1,966,409**
Total	**¥ 241,681**	¥ 255,526	**$ 2,161,342**

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, 2017 and 2016 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2017		2016		**2017**	
	Fair value	**Unrealized loss**	Fair value	Unrealized loss	**Fair value**	**Unrealized loss**
Trading purposes	**¥ 21,797**	**¥ 58**	¥ 34,066	¥ 262	**$ 194,933**	**$ 526**

(c) The acquisition cost and the carrying amount of monetary assets held in trust for other than trading purposes as of March 31, 2017 and 2016 were as follows:

	Millions of yen							
	2017				2016			
	Acquisition cost	**Gross unrealized gain**	**Gross unrealized loss**	**Carrying amount**	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying amount
Other	**¥ 220,543**	**¥ 47**	**¥ 706**	**¥ 219,883**	¥ 222,476	¥ —	¥ 1,016	¥ 221,459

	Thousands of U.S. dollars			
	2017			
	Acquisition cost	**Gross unrealized gain**	**Gross unrealized loss**	**Carrying amount**
Other	**$ 1,972,308**	**$ 424**	**$ 6,323**	**$ 1,966,409**

8. SECURITIES CONSOLIDATED

(a) Securities as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Trading securities	**¥ 0**	¥ 7	**$ 0**
Securities being held to maturity	**496,268**	559,567	**4,438,101**
Securities available for sale:			
Securities carried at fair value	**424,032**	574,738	**3,792,101**
Securities carried at cost whose fair value cannot be reliably determined	**41,573**	43,452	**371,789**
Investments in unconsolidated subsidiaries and affiliates	**52,760**	50,093	**471,834**
Total	**¥ 1,014,635**	¥ 1,227,859	**$ 9,073,825**

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, 2017 and 2016 were ¥6,667 million (U.S.$59,626 thousand) and ¥8,520 million, respectively. In addition, nil and ¥1,717 million of those securities were further pledged as of March 31, 2017 and 2016, 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, 2017 and 2016 were ¥1,000 million (U.S.$89 thousand) and nil, respectively.

8. SECURITIES (CONTINUED)

CONSOLIDATED

(b) The amortized/acquisition cost and the fair values of securities (other than trading securities) as of March 31, 2017 and 2016 were as follows:

	Millions of yen							
	2017				2016			
	Amortized/ Acquisition cost	**Gross unrealized gain**	**Gross unrealized loss**	**Fair value**	Amortized/ Acquisition cost	Gross unrealized gain	Gross unrealized loss	Fair value
Securities being held to maturity:								
Japanese national government bonds	**¥ 493,562**	**¥ 5,593**	**¥ —**	**¥ 499,156**	¥ 535,841	¥ 8,387	¥ —	¥ 544,229
Other	**2,706**	**164**	**—**	**2,870**	23,725	709	—	24,434
Total	**¥ 496,268**	**¥ 5,758**	**¥ —**	**¥ 502,026**	¥ 559,567	¥ 9,097	¥ —	¥ 568,664
Securities available for sale:								
Equity securities	**¥ 12,916**	**¥ 14,785**	**¥ 255**	**¥ 27,446**	¥ 13,328	¥ 8,969	¥ 220	¥ 22,077
Japanese national government bonds	**2,036**	**18**	**—**	**2,055**	211,411	2,955	124	214,242
Japanese local government bonds	**—**	**—**	**—**	**—**	500	5	—	505
Japanese corporate bonds	**118,562**	**330**	**1,023**	**117,869**	67,918	1,528	280	69,166
Other, primarily foreign debt securities	**281,402**	**2,740**	**2,351**	**281,791**	283,510	3,033	883	285,661
Total	**¥ 414,918**	**¥ 17,875**	**¥ 3,631**	**¥ 429,162**	¥ 576,669	¥ 16,492	¥ 1,508	¥ 591,653

	Thousands of U.S. dollars			
	2017			
	Amortized/ Acquisition cost	**Gross unrealized gain**	**Gross unrealized loss**	**Fair value**
Securities being held to maturity:				
Japanese national government bonds	**$ 4,413,900**	**$ 50,024**	**$ —**	**$ 4,463,924**
Other	**24,201**	**1,473**	**—**	**25,674**
Total	**$ 4,438,101**	**$ 51,497**	**$ —**	**$ 4,489,598**
Securities available for sale:				
Equity securities	**$ 115,508**	**$ 132,230**	**$ 2,289**	**$ 245,449**
Japanese national government bonds	**18,212**	**166**	**—**	**18,378**
Japanese local government bonds	**—**	**—**	**—**	**—**
Japanese corporate bonds	**1,060,302**	**2,952**	**9,152**	**1,054,102**
Other, primarily foreign debt securities	**2,516,567**	**24,512**	**21,034**	**2,520,045**
Total	**$ 3,710,589**	**$ 159,860**	**$ 32,475**	**$ 3,837,974**

Note: "Other, primarily foreign debt securities" 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, 2017 and 2016, was ¥27 million (U.S. $245 thousand) and ¥439 million, which was related to equity securities, respectively.

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, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Unrealized gain (loss) before deferred tax on:			
Available-for-sale securities	**¥ 14,244**	¥ 14,984	**$ 127,385**
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	**1,246**	2,297	**11,151**
Securities being held to maturity, reclassified from available-for-sale in the past, under extremely illiquid market conditions	**(172)**	(789)	**(1,543)**
Other monetary assets held in trust	**(659)**	(1,016)	**(5,899)**
Deferred tax liabilities	**(3,110)**	(3,614)	**(27,820)**
Unrealized gain (loss) on available-for-sale securities before interest adjustments	**11,548**	11,861	**103,274**
Noncontrolling interests	**(20)**	(76)	**(185)**
The Group's interests in unrealized gain (loss) on available-for-sale securities held by affiliates to which the equity method is applied	**(1,227)**	125	**(10,979)**
Unrealized gain (loss) on available-for-sale securities	**¥ 10,299**	¥ 11,911	**$ 92,110**

(d) Available-for-sale securities sold during the fiscal year ended March 31, 2017 and 2016 were as follows:

	Millions of yen					
	2017			2016		
	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	**¥ 4,499**	**¥ 2,713**	**¥ 6**	¥ 5,338	¥ 4,541	¥ —
Japanese national government bonds	**1,007,195**	**6,412**	**2,808**	3,445,868	4,464	294
Japanese local government bonds	**24,055**	**9**	**19**	26,535	2	45
Japanese corporate bonds	**50,785**	**4,979**	**28**	42,418	123	9
Other	**658,637**	**6,343**	**3,677**	610,596	3,770	4,448
Total	**¥ 1,745,173**	**¥ 20,460**	**¥ 6,540**	¥ 4,130,756	¥ 12,902	¥ 4,797

	Thousands of U.S. dollars		
	2017		
	Proceeds from sales	**Gains on sales**	**Losses on sales**
Available-for-sale securities sold:			
Equity securities	**$ 40,235**	**$ 24,271**	**$ 61**
Japanese national government bonds	**9,007,291**	**57,351**	**25,112**
Japanese local government bonds	**215,130**	**85**	**177**
Japanese corporate bonds	**454,174**	**44,534**	**256**
Other	**5,890,162**	**56,732**	**32,888**
Total	**$ 15,606,992**	**$ 182,973**	**$ 58,494**

9. LOANS AND BILLS DISCOUNTED

CONSOLIDATED

Loans and bills discounted as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Loans on deeds	**¥ 4,053,330**	¥ 3,822,431	**$ 36,248,710**
Loans on bills	**20,070**	25,694	**179,485**
Bills discounted	**3,265**	5,766	**29,205**
Overdrafts	**756,786**	709,031	**6,767,897**
Total	**¥ 4,833,452**	¥ 4,562,923	**$ 43,225,297**

(a) Risk-monitored loans

Loans and bills discounted include loans to bankrupt obligors of ¥4,618 million (U.S.$41,300 thousand) and ¥4,310 million as of March 31, 2017 and 2016, respectively, as well as nonaccrual delinquent loans of ¥33,358 million (U.S.$298,322 thousand) and ¥62,352 million as of March 31, 2017 and 2016, 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, 2017 and 2016 were ¥1,728 million (U.S.$15,462 thousand) and ¥1,699 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, 2017 and 2016 were ¥32,023 million (U.S.$286,381 thousand) and ¥26,978 million, respectively.

(b) Loan participations

The total amounts accounted for as the transfer of loans by loan participations as of March 31, 2017 and 2016 were ¥8,359 million (U.S.$74,763 thousand) and ¥8,384 million, respectively. This "off-balance sheet" treatment is in accordance with guidelines issued by the JICPA. The total amounts of such loans in which the Bank participated were ¥5,927 million (U.S.$53,012 thousand) and ¥6,756 million as of March 31, 2017 and 2016, 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, 2017 and 2016 were ¥3,265 million (U.S.$29,205 thousand) and ¥5,766 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 ¥3,537,749 million (U.S.$31,637,891 thousand) and ¥3,569,428 million as of March 31, 2017 and 2016, 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 ¥3,255,887 million (U.S.$29,117,223 thousand) and ¥3,352,221 million as of March 31, 2017 and 2016, respectively. Since a large majority of these commitments expires without being drawn upon, the unfulfilled amounts do not necessarily represent future cash requirements. Many such agreements include conditions granting the Bank and 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, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Foreign exchange assets:			
Foreign bills receivable	**¥ 3,028**	¥ 1,596	**$ 27,085**
Due from foreign banks	**16,589**	15,427	**148,355**
Total	**¥ 19,617**	¥ 17,024	**$ 175,440**
Foreign exchange liabilities:			
Foreign bills payable	**¥ 102**	¥ 75	**$ 917**
Total	**¥ 102**	¥ 75	**$ 917**

11. OTHER ASSETS

CONSOLIDATED

Other assets as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Accrued income	**¥ 14,081**	¥ 15,090	**$ 125,927**
Prepaid expenses	**4,098**	3,567	**36,652**
Fair value of derivatives	**80,443**	98,367	**719,406**
Accounts receivable	**114,350**	43,213	**1,022,630**
Installment receivables	**541,401**	516,336	**4,841,727**
Security deposits	**11,332**	12,975	**101,348**
Suspense payments	**18,561**	18,079	**165,991**
Margin deposits for futures transactions	**3,832**	4,280	**34,273**
Cash collateral paid for financial instruments	**48,856**	38,961	**436,919**
Other	**58,200**	48,548	**520,483**
Total	**¥ 895,158**	¥ 799,420	**$ 8,005,356**

Installment receivables in "Other assets" as of March 31, 2017 and 2016 include credits to bankrupt obligors of ¥113 million (U.S.$1,015 thousand) and ¥117 million, nonaccrual delinquent credits of ¥9,306 million (U.S.$83,223 thousand) and ¥9,937 million, credits past due for three months or more of ¥423 million (U.S.$3,790 thousand) and ¥554 million, and restructured credits of ¥184 million (U.S.$1,652 thousand) and ¥319 million, respectively.

12. PREMISES AND EQUIPMENT

CONSOLIDATED

Premises and equipment as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Buildings	**¥ 29,649**	¥ 29,850	**$ 265,155**
Land	**3,180**	3,336	**28,446**
Tangible leased assets as lessor	**47,335**	45,687	**423,317**
Other	**28,518**	24,561	**255,040**
Subtotal	**108,684**	103,435	**971,958**
Accumulated depreciation	**(60,703)**	(54,654)	**(542,871)**
Net book value	**¥ 47,980**	¥ 48,781	**$ 429,087**

13. INTANGIBLE ASSETS

CONSOLIDATED

Intangible assets as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Software			
Software	**¥ 15,733**	¥ 13,424	**$ 140,708**
Software in progress	**18,365**	12,464	**164,239**
Goodwill, net:			
Goodwill	**18,492**	22,286	**165,377**
Negative goodwill	**(3,808)**	(4,171)	**(34,060)**
Intangible assets acquired in business combinations	**2,504**	4,188	**22,400**
Intangible leased assets as lessor	**0**	1	**5**
Other	**732**	703	**6,551**
Total	**¥ 52,020**	¥ 48,897	**$ 465,220**

14. RESERVE FOR CREDIT LOSSES

CONSOLIDATED

Reserve for credit losses as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Reserve for loan losses:			
General reserve for loan losses	**¥ 68,947**	¥ 64,543	**$ 616,595**
Specific reserve for loan losses	**27,093**	23,280	**242,300**
Reserve for loan losses to restructuring countries	**0**	0	**2**
Subtotal	**96,041**	87,825	**858,897**
Specific reserve for other credit losses	**4,112**	3,906	**36,777**
Total	**¥ 100,154**	¥ 91,732	**$ 895,674**

15. DEPOSITS, INCLUDING NEGOTIABLE CERTIFICATES OF DEPOSIT

CONSOLIDATED

Deposits, including negotiable certificates of deposit, as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Current	**¥ 14,023**	¥ 13,915	**$ 125,410**
Ordinary	**2,230,883**	2,015,195	**19,950,663**
Notice	**17,629**	20,095	**157,660**
Time	**2,756,729**	3,005,648	**24,653,280**
Negotiable certificates of deposit	**373,673**	301,001	**3,341,745**
Other	**469,982**	445,137	**4,203,031**
Total	**¥ 5,862,922**	¥ 5,800,994	**$ 52,431,789**

16. DEBENTURES

CONSOLIDATED

(a) Debentures as of March 31, 2017 and 2016 consisted of the following:

Issuer	Description	Issue	Maturity	Interest Rate (%)	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Shinsei Bank, Limited	Five-year coupon debentures[1]	Apr. 2011 to Apr. 2013	Apr. 2016 to Apr. 2018	0.08	**¥ 6,561**	¥ 16,740	**$ 58,682**
	Total				**¥ 6,561**	¥ 16,740	**$ 58,682**

1 This includes a series of five-year Long-Term Credit Debentures.

(b) Annual maturities of debentures as of March 31, 2017 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2018	**¥ 6,107**	**$ 54,615**
2019	**454**	**4,067**
2020 and thereafter	**—**	**—**
Total	**¥ 6,561**	**$ 58,682**

17. TRADING LIABILITIES

CONSOLIDATED

Trading liabilities as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Derivatives for trading securities	**¥ 952**	¥ 797	**$ 8,518**
Derivatives for securities held to hedge trading transactions	**16,329**	22,564	**146,029**
Trading-related financial derivatives	**193,338**	268,452	**1,729,014**
Trading securities sold for short sales	**1,621**	2,511	**14,501**
Total	**¥ 212,241**	¥ 294,326	**$ 1,898,062**

18. BORROWED MONEY

CONSOLIDATED

(a) Borrowed money as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Subordinated debt	**¥ 12,400**	¥ 51,000	**$ 110,892**
Other	**777,270**	750,742	**6,951,089**
Total	**¥ 789,670**	¥ 801,742	**$ 7,061,981**

(b) The weighted average interest rate applicable to the total balance of borrowed money as of March 31, 2017 was 0.53%.

(c) Annual maturities of borrowed money as of March 31, 2017 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2018	**¥ 431,686**	**$ 3,860,551**
2019	**95,192**	**851,299**
2020	**74,363**	**665,033**
2021	**46,160**	**412,807**
2022 and thereafter	**142,267**	**1,272,291**
Total	**¥ 789,670**	**$ 7,061,981**

19. CORPORATE BONDS

CONSOLIDATED

(a) Corporate bonds as of March 31, 2017 and 2016 consisted of the following:

Issuer	Description	Issue	Maturity	Interest Rate (%)	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Shinsei Bank, Limited	Unsecured straight bonds, payable in Euroyen[1]	May 2007	May 2037	0.10 to 3.10[4]	**¥ 200**	¥ 200	**$ 1,789**
	Unsecured subordinated bonds, payable in Yen[2]	Oct. 2012 to Dec. 2013	Oct. 2022 to Dec. 2023	2.02 to 4.00	**31,400**	31,400	**280,808**
	Unsecured straight bond, payable in Yen[3]	Jul. 2014 to Oct. 2016	Jul. 2017 to Oct. 2021	0.250 to 0.416	**26,000**	16,000	**232,516**
Hotaka GK	Unsecured straight bond, payable in Yen	Dec. 2011	Dec. 2016	1.635	**—**	3,000	**—**
Marusei GK	Unsecured straight bond, payable in Yen	Jan. 2012	Dec. 2016	2.824	**—**	500	**—**
Tsumagoi GK	Unsecured straight bond, payable in Yen	Apr. 2012	Jun. 2017	2.25	**2,000**	2,000	**17,886**
AMOne GK	Unsecured straight bond, payable in Yen	Jan. 2009	Aug. 2016	2.18	**—**	3,021	**—**
Showa Leasing Co., Ltd.	Unsecured straight bond, payable in Yen[3]	Feb. 2014 to Sept. 2016	Feb. 2017 to Sept. 2019	0.19 to 0.70	**23,000**	19,000	**205,688**
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	**30,000**	20,000	**268,288**
	Total				**¥ 112,600**	¥ 95,121	**$ 1,006,975**

1 This includes a series of straight bonds issued under Euro Medium Term Note Programme.
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 are not decided as of March 31, 2017 and 2016.

(b) Annual maturities of corporate bonds as of March 31, 2017 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2018	**¥ 21,000**	**$ 187,802**
2019	**10,000**	**89,429**
2020	**25,000**	**223,574**
2021	**15,000**	**134,144**
2022 and thereafter	**41,600**	**372,026**
Total	**¥ 112,600**	**$ 1,006,975**

20. OTHER LIABILITIES CONSOLIDATED

Other liabilities as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Accrued expenses	**¥ 24,461**	¥ 23,245	**$ 218,757**
Unearned income	**23,379**	22,920	**209,081**
Income taxes payable	**3,273**	1,909	**29,273**
Fair value of derivatives	**73,604**	86,419	**658,240**
Matured debentures, including interest	**3,807**	7,057	**34,048**
Accounts payable	**71,471**	66,136	**639,166**
Deferred gains on installment receivables and credit guarantees	**31,468**	32,584	**281,419**
Asset retirement obligations	**8,970**	8,890	**80,220**
Deposits payable	**99,257**	91,505	**887,655**
Cash collateral received for financial instruments	**34,210**	28,198	**305,945**
Other	**14,402**	11,591	**128,805**
Total	**¥ 388,307**	¥ 380,458	**$ 3,472,609**

21. EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN ASSETS CONSOLIDATED

(a) The changes in defined benefit obligation for the fiscal years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Balance at beginning of the year	**¥ 87,925**	¥ 86,381	**$ 786,316**
Current service cost	**4,084**	4,363	**36,529**
Interest cost	**975**	1,010	**8,728**
Actuarial (gains) losses	**450**	109	**4,032**
Benefits paid	**(4,099)**	(3,953)	**(36,658)**
Decrease due to termination of retirement benefit plan in a subsidiary	**(689)**	—	**(6,167)**
Others	**41**	14	**367**
Balance at end of the year	**¥ 88,689**	¥ 87,925	**$ 793,147**

(b) The changes in plan assets for the fiscal years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Balance at beginning of the year	**¥ 81,528**	¥ 81,257	**$ 729,103**
Expected return on plan assets	**1,916**	1,908	**17,137**
Actuarial gains (losses)	**2,427**	(3,391)	**21,710**
Contributions from the employer	**5,230**	5,247	**46,777**
Benefits paid	**(3,593)**	(3,493)	**(32,141)**
Balance at end of the year	**¥ 87,508**	¥ 81,528	**$ 782,586**

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, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Defined benefit obligation	**¥ 81,791**	¥ 80,455	**$ 731,461**
Plan assets	**(87,508)**	(81,528)	**(782,585)**
Subtotal	**(5,716)**	(1,072)	**(51,124)**
Unfunded defined benefit obligation	**6,897**	7,469	**61,685**
Net liability (asset) arising from benefit obligation	**¥ 1,180**	¥ 6,397	**$ 10,561**

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Liability for retirement benefits	**¥ 8,256**	¥ 8,791	**$ 73,840**
Asset for retirement benefits	**(7,075)**	(2,394)	**(63,279)**
Net liability (asset) arising from benefit obligation	**¥ 1,180**	¥ 6,397	**$ 10,561**

(d) The components of net periodic retirement benefit cost for the fiscal years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Current service cost	**¥ 4,084**	¥ 4,363	**$ 36,529**
Interest cost	**975**	1,010	**8,728**
Expected return on plan assets	**(1,916)**	(1,908)	**(17,137)**
Amortization of past service cost	**(474)**	(511)	**(4,243)**
Recognized actuarial (gains) losses	**561**	1,210	**5,023**
Other (primarily consists of extraordinary severance benefit)	**29**	116	**267**
Net periodic retirement benefit cost	**¥ 3,261**	¥ 4,282	**$ 29,167**

(e) Other comprehensive income on defined retirement benefit plans (before adjusting for tax effects) for the fiscal years ended March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Past service cost	**¥ (474)**	¥ (511)	**$ (4,242)**
Actuarial gains (losses)	**2,529**	(2,289)	**22,621**
Total	**¥ 2,055**	¥ (2,801)	**$ 18,379**

(f) Accumulated other comprehensive income on defined retirement benefit plans (before adjusting for tax effects) as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Unrecognized past service cost	**¥ 480**	¥ 954	**$ 4,295**
Unrecognized actuarial gains (losses)	**(1,728)**	(4,257)	**(15,455)**
Total	**¥ (1,247)**	¥ (3,302)	**$ (11,160)**

21. EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN ASSETS (CONTINUED) CONSOLIDATED

(g) Plan assets

(i) Components of plan assets

Plan assets as of March 31, 2017 and 2016 consisted of the following:

	2017	2016
Domestic bonds	**26.4%**	25.7%
Foreign bonds	**11.4**	11.4
Domestic equity securities	**18.3**	16.7
Foreign equity securities	**17.7**	16.4
Life insurance company accounts (general accounts)	**18.4**	19.4
Other	**7.8**	10.4
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, 2017, 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, 2017 and 2016 were set forth as follows:

	2017	2016
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%**	1.00-7.06%

22. ACCEPTANCES AND GUARANTEES CONSOLIDATED

Acceptances and guarantees as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Guarantees	**¥ 346,675**	¥ 280,620	**$ 3,100,300**

23. ASSETS PLEDGED AS COLLATERAL CONSOLIDATED

Assets pledged as collateral and liabilities collateralized as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Assets pledged as collateral:			
Cash and due from banks	**¥ 10**	¥ 1,098	**$ 90**
Trading assets	**730**	7,360	**6,535**
Monetary assets held in trust	**508**	3,706	**4,545**
Securities	**563,096**	488,083	**5,035,740**
Loans and bills discounted	**87,524**	113,979	**782,724**
Lease receivables and leased investment assets	**23,515**	42,024	**210,296**
Other assets	**57,190**	70,058	**511,452**
Premises and equipment	**6,815**	4,523	**60,953**
Liabilities collateralized:			
Deposits, including negotiable certificates of deposit	**¥ 1,071**	¥ 1,159	**$ 9,580**
Payables under repurchase agreements	**36,467**	23,779	**326,130**
Payables under securities lending transactions	**267,414**	116,409	**2,391,469**
Borrowed money	**328,769**	376,918	**2,940,164**
Corporate bonds	**2,000**	8,521	**17,886**
Other liabilities	**15**	10	**137**
Acceptances and guarantees	**954**	970	**8,533**

23. ASSETS PLEDGED AS COLLATERAL (CONTINUED)

CONSOLIDATED

In addition, ¥60 million (U.S.$537 thousand) and ¥60 million of cash and due from banks and ¥47,770 million (U.S.$427,208 thousand) and ¥62,559 million of securities as of March 31, 2017 and 2016, were pledged as collateral for transactions, including exchange settlements, swap transactions, replacement of margin for futures transactions and other.

Also, ¥3,832 million (U.S.$34,273 thousand) and ¥4,280 million of margin deposits for futures transactions outstanding, ¥11,332 million (U.S.$101,348 thousand) and ¥12,975 million of security deposits, ¥48,856 million (U.S.$436,919 thousand) and ¥38,961 million of cash collateral paid for financial instruments, nil and ¥141 million of guarantee deposits under resale agreements and repurchase agreements, ¥92 million (U.S.$828 thousand) and nil of margin on foreign exchange and ¥11,994 million (U.S.$107,263 thousand) and nil of cash collateral for Zengin-net were included in "Other assets" as of March 31, 2017 and 2016, respectively.

24. NONRECOURSE DEBTS

CONSOLIDATED

Nonrecourse debts in consolidated special purpose companies as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Nonrecourse debts:			
Borrowed money	**¥ 49,876**	¥ 74,593	**$ 446,044**
Corporate bonds	**2,000**	8,521	**17,886**
Assets corresponding to nonrecourse debts:			
Cash and due from banks	**¥ —**	¥ 1,038	**$ —**
Securities	**66,983**	98,860	**599,033**
Loans and bills discounted	**—**	18,904	**—**
Other assets	**6,987**	7,604	**62,492**

The above balances included certain amount of "Assets pledged as collateral" in Note 23.

25. PREFERRED SECURITIES ISSUED BY SUBSIDIARIES OUTSIDE JAPAN

CONSOLIDATED

The noncumulative perpetual preferred securities issued by the Bank's wholly owned subsidiaries outside Japan as of March 31, 2017 and 2016 were as follows:

Issuer	Issued date	Issue amount (in millions)	Dividend rate[1]	Floating dividend start date	Type	Redemption date at the issuer's option	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Shinsei Finance (Cayman) Limited	Feb. 2006	U.S.$775	6.418%	Jul. 2016	step-up	Jul. 2016[1]	**¥ —**	¥ 3,398	**$ —**
Shinsei Finance II (Cayman) Limited	Mar. 2006	U.S.$700	7.16%	Jul. 2016	non step-up	Jul. 2016[2]	**—**	1,930	**—**
Total							**¥ —**	¥ 5,328	**$ —**

1 The preferred securities issued by Shinsei Finance (Cayman) Limited were fully redeemed in July 2016.
2 The preferred securities issued by Shinsei Finance II (Cayman) Limited were fully redeemed in July 2016.

These preferred securities were accounted for as noncontrolling interests in the consolidated balance sheet as of March 31, 2016.

26. EQUITY

CONSOLIDATED

The authorized number of shares of common stock as of March 31, 2017 was 4,000,000 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, 2016:		
Beginning of year	2,750,346	96,428
Increase[1]	—	1
Decrease	—	—
End of year	2,750,346	96,429
Fiscal year ended March 31, 2017:		
Beginning of year	**2,750,346**	**96,429**
Increase[2]	**—**	**75,564**
Decrease[3]	**—**	**(10,037)**
End of year	**2,750,346**	**161,955**

1 The increase of treasury stock is associated with the acquisition of fractional shares.
2 The increase of treasury stock is associated with the repurchase from the market.
3 The decrease of treasury stock is associated with the allocation of treasury stocks through the share exchange.

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 Companies Act also provides for purchasing treasury stock and disposing of such treasury stock by resolution of the Board of Directors. The total carrying amount of the monies, etc. delivered to shareholders for treasury stock purchased may not exceed the surplus available for dividend as at the day on which such act takes effect. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

27. STOCK ACQUISITION RIGHTS

CONSOLIDATED

The Bank and a subsidiary issue stock acquisition rights as a stock option plan to directors, executive officers and employees of the Bank and its subsidiaries.

Some stock acquisition rights provide eligible individuals (the "holders") with the right to purchase stock of the issuers, without any cash consideration, others with offsetting the remuneration claims against the issuers. The amount of money to be paid upon exercising stock acquisition rights is the amount calculated by multiplying the payment amount per share (the "exercise price") by the number of shares that can be purchased through the exercise of one stock acquisition right. Conditions are stipulated in the "Agreement on the Grant of Stock Acquisition Rights" entered between the issuers and the holders to whom stock acquisition rights were allotted based on the resolution of the annual general meeting of shareholders and the meeting of the Board of Directors which resolves the issuance of stock acquisition rights subsequent to the shareholders' meeting.

The following table shows the details of stock acquisition rights issued during the fiscal year ended March 31, 2017.

(a) Stock-based compensation expenses for the fiscal years ended March 31, 2017 and 2016 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
General and administrative expenses	**¥ 71**	¥ —	**$ 643**

(b) Gains on unexercised and forfeited stock acquisition rights for the fiscal years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Other gains (losses), net	**¥ —**	¥ 698	**$ —**

(c) Details of stock options

Stock options outstanding as of March 31, 2017 and 2016 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	3,306,000	135	June 1, 2009 - May 8, 2017	555	131 or 143
18th	May 25, 2007	1,480,000	26	June 1, 2009 - May 8, 2017	555	131 or 143
19th	July 2, 2007	140,000	32	July 1, 2009 - June 19, 2017	527	121 or 132
20th	May 30, 2008	2,830,000	124	June 1, 2010 - May 13, 2018	416	158 or 169
21st	May 30, 2008	2,081,000	30	June 1, 2010 - May 13, 2018	416	158 or 169
22nd	July 10, 2008	203,000	43	July 1, 2010 - June 24, 2018	407	127 or 137
23rd	December 1, 2008	97,000	17	December 1, 2010 - November 11, 2018	221	53 or 57
1st (Share compensation-type)[1]	May 26, 2016	134,300	2	May 27, 2016 - May 26, 2046	1	162

1 This is the Bank's first issuance of equity remuneration type of stock options with JPY 1 of exercise price, only for the Bank's directors (excluding outside directors).

(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.

27. STOCK ACQUISITION RIGHTS (CONTINUED)

CONSOLIDATED

(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, 2016				
Nonvested (share)				
Outstanding at the beginning of the year	—	—	—	—
Granted during the year	—	—	—	—
Forfeited during the year	—	—	—	—
Vested during the year	—	—	—	—
Outstanding at the end of the year	—	—	—	—
Vested (share)				
Outstanding at the beginning of the year	1,224,000	805,000	140,000	1,139,000
Vested during the year	—	—	—	—
Exercised during the year	—	—	—	—
Forfeited during the year	—	6,000	—	—
Exercisable at the end of the year	1,224,000	799,000	140,000	1,139,000
Exercise price (Yen)	555	555	527	416
Weighted average stock price at the date of exercise (Yen)	—	—	—	—
Fiscal year ended March 31, 2017				
Nonvested (share)				
Outstanding at the beginning of the year	**—**	**—**	**—**	**—**
Granted during the year	**—**	**—**	**—**	**—**
Forfeited during the year	**—**	**—**	**—**	**—**
Vested during the year	**—**	**—**	**—**	**—**
Outstanding at the end of the year	**—**	**—**	**—**	**—**
Vested (share)				
Outstanding at the beginning of the year	**1,224,000**	**799,000**	**140,000**	**1,139,000**
Vested during the year	**—**	**—**	**—**	**—**
Exercised during the year	**—**	**—**	**—**	**—**
Forfeited during the year	**—**	**—**	**—**	**—**
Exercisable at the end of the year	**1,224,000**	**799,000**	**140,000**	**1,139,000**
Exercise price (Yen)	**555**	**555**	**527**	**416**
Weighted average stock price at the date of exercise (Yen)	**—**	**—**	**—**	**—**

	21st	22nd	23rd	1st (Share compensation-type)
Fiscal year ended March 31, 2016				
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	42,000	188,000	54,000	—
Vested during the year	—	—	—	—
Exercised during the year	—	—	—	—
Forfeited during the year	—	10,000	—	—
Exercisable at the end of the year	42,000	178,000	54,000	—
Exercise price (Yen)	416	407	221	—
Weighted average stock price at the date of exercise (Yen)	—	—	—	—
Fiscal year ended March 31, 2017				
Nonvested (share)				
Outstanding at the beginning of the year	**—**	**—**	**—**	**—**
Granted during the year	**—**	**—**	**—**	**134,300**
Forfeited during the year	**—**	**—**	**—**	**—**
Vested during the year	**—**	**—**	**—**	**134,300**
Outstanding at the end of the year	**—**	**—**	**—**	**—**
Vested (share)				
Outstanding at the beginning of the year	**42,000**	**178,000**	**54,000**	**—**
Vested during the year	**—**	**—**	**—**	**134,300**
Exercised during the year	**—**	**—**	**—**	**—**
Forfeited during the year	**—**	**—**	**—**	**—**
Exercisable at the end of the year	**42,000**	**178,000**	**54,000**	**134,300**
Exercise price (Yen)	**416**	**407**	**221**	**1**
Weighted average stock price at the date of exercise (Yen)	**—**	**—**	**—**	**—**

27. STOCK ACQUISITION RIGHTS (CONTINUED)

CONSOLIDATED

(ii) OJBC Co. Ltd

	1st	2nd
Fiscal year ended March 31, 2016		
Nonvested (share)		
Outstanding at the beginning of the year	—	—
Granted during the year	2,114,680	—
Forfeited during the year	—	—
Vested during the year	—	—
Outstanding at the end of the year	2,114,680	—
Vested (share)		
Outstanding at the beginning of the year	—	—
Vested during the year	—	—
Exercised during the year	—	—
Forfeited during the year	—	—
Exercisable at the end of the year	—	—
Exercise price (USD)	1.10	—
Weighted average stock price at the date of exercise (USD)	—	—
Fiscal year ended March 31, 2017		
Nonvested (share)		
Outstanding at the beginning of the year	**2,114,680**	**—**
Granted during the year	**—**	**72,920**
Forfeited during the year	**72,920**	**—**
Vested during the year	**—**	**—**
Outstanding at the end of the year	**2,041,760**	**72,920**
Vested (share)		
Outstanding at the beginning of the year	**—**	**—**
Vested during the year	**—**	**—**
Exercised during the year	**—**	**—**
Forfeited during the year	**—**	**—**
Exercisable at the end of the year	**—**	**—**
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, 2017 and 2016.

(i) The Bank

a) Method used: Black-Scholes option pricing model

b) Major inputs and variables to the model

	1st (Share compensation-type)
Exercise period	From May 27, 2016 to May 26, 2046
Expected volatility[1]	47.04%
Expected life[2]	8.3 years
Expected dividends[3]	¥1.00/Share
Risk-free interest rate[4]	-0.174%

1 Measured based on the historical stock price corresponding to expected life (from February 7, 2008 to May 26, 2016).
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 sum of the actual dividend for the fiscal year ended in March, 2015 (¥1.00/Share) and the interim fiscal year ended in March, 2016 (zero /Share).
4 Used the yield of JGB with the maturity that is approximate to expected life.

(ii) OJBC Co. Ltd

a) Method used: Binominal model

b) Major inputs and variables to the model

	2nd
Exercise period	From May 25, 2018 to May 25, 2026
Expected volatility[1]	45.00%
Expected life[2]	10.0 years
Expected dividends[3]	—
Risk-free interest rate[4]	1.87%

1 Measured based on the historical stock price of comparable similar companies corresponding to the end of exercise period (10 years).
2 Assumed based on the term from grant date to the end of exercise period.
3 Based on the recent actual dividend (0%).
4 Used the yield of US Treasury Bond with the maturity that is equivalent to expected life.

27. STOCK ACQUISITION RIGHTS (CONTINUED) CONSOLIDATED

(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, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Income (loss) from trading securities	**¥ 2,913**	¥ 3,477	**$ 26,053**
Income (loss) from securities held to hedge trading transactions	**86**	359	**773**
Income (loss) from trading-related financial derivatives	**4,360**	4,761	**38,992**
Other, net	**13**	(170)	**123**
Total	**¥ 7,373**	¥ 8,427	**$ 65,941**

29. OTHER BUSINESS INCOME (LOSS), NET CONSOLIDATED

"Other, Net" in other business income (loss), net, for the fiscal years ended March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Income (loss) from derivatives entered into for banking purposes, net	**¥ (1,087)**	¥ 579	**$ (9,728)**
Equity in net income (loss) of affiliates	**2,821**	2,126	**25,229**
Gain on lease cancellation and other lease income (loss), net	**1,314**	770	**11,755**
Other, net	**1,069**	592	**9,564**
Total	**¥ 4,117**	¥ 4,069	**$ 36,820**

30. NET CREDIT COSTS CONSOLIDATED

Net credit costs for the fiscal years ended March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Losses on write-off or sales of loans	**¥ 2,477**	¥ 1,302	**$ 22,156**
Net provision (reversal) of reserve for loan losses:			
Net provision (reversal) of general reserve for loan losses	**21,856**	21,819	**195,466**
Net provision (reversal) of specific reserve for loan losses	**12,765**	(11,016)	**114,164**
Net provision (reversal) of reserve for loan losses to restructuring countries	**(0)**	(0)	**(3)**
Subtotal	**34,622**	10,802	**309,627**
Net provision (reversal) of specific reserve for other credit losses	**205**	—	**1,839**
Other credit costs (recoveries) relating to leasing business	**(63)**	(208)	**(565)**
Recoveries of written-off claims	**(5,343)**	(8,166)	**(47,786)**
Total	**¥ 31,898**	¥ 3,730	**$ 285,271**

31. OTHER GAINS (LOSSES), NET

CONSOLIDATED

Other gains (losses), net for the fiscal years ended March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Net gain (loss) on disposal of premises and equipment	**¥ (219)**	¥ 473	**$ (1,967)**
Gains on write-off of unclaimed debentures	**2,852**	431	**25,507**
Provision for reimbursement of debentures	**(1,083)**	(2,903)	**(9,693)**
Gains on write-off of unclaimed deposits	**1,284**	574	**11,491**
Gains on sale of nonperforming loans	**1,874**	1,100	**16,763**
Gain on purchase of loans	**4,236**	—	**37,884**
Gain on liquidation of subsidiaries	**1,210**	446	**10,827**
Loss on liquidation of subsidiaries	**(153)**	—	**(1,369)**
Loss on liquidation of affiliates	**(528)**	—	**(4,730)**
Provision of reserve for losses on interest repayments	**(5,190)**	(2,700)	**(46,422)**
Gain on sale of investments in subsidiaries	**257**	—	**2,301**
Loss on sale of investments in subsidiaries	**(154)**	—	**(1,381)**
Loss on sale of investments in affiliates	**—**	(277)	**—**
Impairment losses on long-lived assets	**(450)**	(636)	**(4,024)**
Gains on unexercised and forfeited stock acquisition rights	**—**	698	**—**
Other, net	**682**	1,528	**6,106**
Total	**¥ 4,617**	¥ (1,264)	**$ 41,293**

• Impairment losses on long-lived assets

For the fiscal years ended March 31, 2017 and 2016, respectively, "Impairment losses on long-lived assets" of ¥450 million (U.S.$4,024 thousand) and ¥636 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, assuming their recoverable amount to be zero.

32. INCOME TAXES

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% and 33.0% for the fiscal years ended March 31, 2017 and 2016, respectively.

(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, 2017 and 2016 was as follows:

	2017	2016
Normal effective statutory tax rate	**30.8%**	33.0%
Increase (decrease) in taxes resulting from:		
Permanently tax-exempt income	**(0.0)**	(0.0)
Amortization of goodwill	**1.9**	3.2
Equity in net income/loss of affiliates	**(0.9)**	(1.1)
Other nondeductible expenses	**0.3**	0.2
Foreign tax	**0.1**	0.1
Change in valuation allowance	**(28.1)**	(73.5)
Effect of reduction of carried tax loss deduction limit	**—**	0.0
Effect of tax rate reduction	**—**	0.9
Expiration of tax loss carryforwards	**—**	35.6
Other	**(1.6)**	3.8
Actual effective tax rate	**2.3%**	2.3%

32. INCOME TAXES (CONTINUED)

CONSOLIDATED

(b) The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities, as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Deferred tax assets:			
Tax loss carryforwards	**¥ 98,539**	¥ 95,350	**$ 881,230**
Reserve for credit losses	**84,337**	84,228	**754,226**
Reserve for losses on interest repayments	**32,851**	45,965	**293,789**
Securities	**21,113**	10,470	**188,821**
Monetary assets held in trust	**7,581**	13,054	**67,800**
Deferred loss on derivatives under hedge accounting	**7,115**	6,365	**63,630**
Other	**22,307**	18,959	**199,499**
Subtotal	**273,846**	274,395	**2,448,994**
Valuation allowance	**(248,572)**	(250,838)	**(2,222,972)**
Total deferred tax assets	**25,273**	23,556	**226,022**
Offset with deferred tax liabilities	**(9,730)**	(9,506)	**(87,022)**
Net deferred tax assets	**¥ 15,542**	¥ 14,050	**$ 139,000**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	**¥ 3,250**	¥ 3,737	**$ 29,069**
Deferred gain on derivatives under hedge accounting	**2,801**	3,252	**25,051**
Assets for retirement benefits	**1,648**	—	**14,742**
Asset retirement costs included in premises and equipment	**1,030**	1,147	**9,215**
Temporary differences due to business combination (primarily related to identified intangible assets)	**862**	1,324	**7,709**
Other	**138**	424	**1,235**
Total deferred tax liabilities	**9,730**	9,885	**87,022**
Offset with deferred tax assets	**(9,730)**	(9,506)	**(87,022)**
Net deferred tax liabilities	**¥ —**	¥ 378	**$ —**

(c) The Bank has ¥250,401 million (U.S.$2,239,324 thousand) of tax loss carryforward related to corporate tax as of March 31, 2017. The schedule of tax loss carryforward and its expiration date are as follows:

	Amount		
Fiscal year ended March 31	Millions of yen	Thousands of U.S. dollars	Date of expiry
2009	¥ 107,450	$ 960,924	March 31, 2018
2011	20,013	178,981	March 31, 2020
2012	16,730	149,623	March 31, 2021
2013	23,214	207,609	March 31, 2022
2014	18,594	166,288	March 31, 2023
2015	34,702	310,347	March 31, 2024
2016	17,631	157,677	March 31, 2025
2017	12,062	107,875	March 31, 2026
Total	¥ 250,401	$ 2,239,324	

In addition, other material tax loss carryforwards of major subsidiaries as of March 31, 2017 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	$ 9,624	March 31, 2020
	March 31, 2012	7,563	67,640	March 31, 2021
	March 31, 2013	887	7,939	March 31, 2022
	March 31, 2014	9,895	88,496	March 31, 2023
	March 31, 2017	6,620	59,210	March 31, 2026
	Total	¥ 26,043	$ 232,909	

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, 2017 and 2016 was as follows:

	Earnings (Millions of yen)	Weighted average shares (Thousands)	EPS (Yen)	EPS (U.S. dollars)
For the fiscal year ended March 31, 2017:				
Basic EPS				
Profit (loss) attributable to owners of the parent available to common shareholders	**¥ 50,759**	**2,607,680**	**¥ 19.46**	**$ 0.17**
Effect of dilutive securities				
Stock acquisition rights	**—**	**113**		
Diluted EPS				
Profit (loss) attributable to owners of the parent for computation	**¥ 50,759**	**2,607,794**	**¥ 19.46**	**$ 0.17**

	Earnings (Millions of yen)	Weighted average shares (Thousands)	EPS (Yen)
For the fiscal year ended March 31, 2016:			
Basic EPS			
Profit (loss) attributable to owners of the parent available to common shareholders	¥ 60,951	2,653,918	¥ 22.96
Effect of dilutive securities			
Stock acquisition rights	—	1	
Diluted EPS			
Profit (loss) attributable to owners of the parent for computation	¥ 60,951	2,653,919	¥ 22.96

34. OTHER COMPREHENSIVE INCOME CONSOLIDATED

The components of other comprehensive income for the fiscal years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the fiscal year	¥ 12,438	¥ 4,019	$ 111,233
Reclassification adjustment to profit or loss	(13,216)	(2,266)	(118,191)
Amount before income tax effect	(778)	1,753	(6,958)
Income tax effect	504	(759)	4,508
Total	(273)	993	(2,450)
Deferred gain (loss) on derivatives under hedge accounting:			
Gains (losses) arising during the fiscal year	(4,148)	(4,851)	(37,102)
Reclassification adjustment to profit or loss	3,795	2,653	33,946
Amount before income tax effect	(352)	(2,197)	(3,156)
Income tax effect	1,198	(1,071)	10,715
Total	845	(3,269)	7,559
Foreign currency translation adjustments:			
Gains (losses) arising during the fiscal year	(1,470)	(1,508)	(13,149)
Reclassification adjustment to profit or loss	(818)	33	(7,322)
Amount before income tax effect	(2,289)	(1,474)	(20,471)
Income tax effect	—	—	—
Total	(2,289)	(1,474)	(20,471)
Defined retirement benefit plans:			
Gains (losses) arising during the fiscal year	1,821	(3,387)	16,292
Reclassification adjustment to profit or loss	233	585	2,087
Amount before income tax effect	2,055	(2,801)	18,379
Income tax effect	(429)	326	(3,844)
Total	1,625	(2,475)	14,535
Share of other comprehensive income in affiliates:			
Gains (losses) arising during the fiscal year	(494)	(2,415)	(4,423)
Reclassification adjustment to profit or loss	687	0	6,146
Amount before income tax effect	192	(2,415)	1,723
Income tax effect	—	—	—
Total	192	(2,415)	1,723
Total other comprehensive income	¥ 100	¥ (8,641)	$ 896

35. LEASE TRANSACTIONS CONSOLIDATED

(A) FINANCE LEASE TRANSACTIONS

AS LESSEE

(a) For finance lease transactions, where the ownership of the property is deemed to transfer to the lessee, lease assets are software included in "Intangible assets."

(b) For finance lease transactions, where the ownership of the property is not deemed to transfer to the lessee, lease assets are primarily buildings, tools, equipment and fixtures included in "Premises and equipment."

(c) Depreciation method is described in "(U) LEASE TRANSACTIONS" in Note 2 "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

AS LESSOR

(a) Breakdown of "Lease receivables and leased investment assets" as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Lease receivables	¥ 67,078	¥ 70,412	$ 599,883
Leased investment assets:			
Lease payment receivables	134,320	152,999	1,201,224
Estimated residual value	5,454	5,760	48,783
Interest equivalent	(15,690)	(18,026)	(140,320)
Other	323	307	2,897
Subtotal	124,409	141,040	1,112,584
Total	¥ 191,488	¥ 211,453	$ 1,712,467

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35. LEASE TRANSACTIONS (CONTINUED) CONSOLIDATED

(b) Lease payment receivables for "Lease receivables and leased investment assets" as of March 31, 2017 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	**¥ 21,110**	**$ 188,792**	**¥ 40,677**	**$ 363,779**
Due after one year within two years	**16,065**	**143,672**	**31,537**	**282,036**
Due after two years within three years	**12,391**	**110,813**	**22,241**	**198,908**
Due after three years within four years	**8,243**	**73,719**	**14,817**	**132,515**
Due after four years within five years	**5,989**	**53,565**	**8,633**	**77,210**
Due after five years	**6,900**	**61,708**	**16,412**	**146,775**
Total	**¥ 70,700**	**$ 632,269**	**¥ 134,320**	**$ 1,201,223**

(B) OPERATING LEASE TRANSACTIONS

Noncancelable operating lease obligations as lessee and lease payment receivables as lessor as of March 31, 2017 and 2016 were as follows:

AS LESSEE

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Lease obligations:			
Due within one year	**¥ 4,609**	¥ 4,632	**$ 41,218**
Due after one year	**7,697**	11,853	**68,835**
Total	**¥ 12,306**	¥ 16,486	**$ 110,053**

AS LESSOR

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Lease payment receivables:			
Due within one year	**¥ 4,544**	¥ 4,348	**$ 40,638**
Due after one year	**20,001**	20,417	**178,875**
Total	**¥ 24,545**	¥ 24,766	**$ 219,513**

36. SEGMENT INFORMATION 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

36. SEGMENT INFORMATION (CONTINUED)

CONSOLIDATED

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.

The overview of revision of reportable segments resulting from organization changes is stated below.

On April 1, 2016, in order to facilitate inter-Division collaboration within the Group, as well as to enhance the maneuverability of the Bank's organization, we abolished the "Group" and "Sub-Group" structures and in their place had introduced a new organizational structure under which a "Division" is the basic business management unit. Also, we aim to improve organizational efficiency by rebuilding the functions of each business and restructuring and integrating of Divisions. As a result, the reportable segments were revised in the fiscal year as follows:

(1) Change in segment names

"Institutional Group," "Global Markets Group" and "Individual Group" have changed to "Institutional Business," "Global Markets Business" and "Individual Business," respectively.

Likewise, "Markets Sub-Group" and "Other Global Markets Group" have changed to "Markets" and "Other Global Markets," respectively. In addition, "Treasury Sub-Group" in Corporate/Other has changed to "Treasury." These name changes have no impact on the segment information.

(2) Change in classification of reportable segments

"Corporate Business" segment in Institutional Business includes trust business, which was formerly included in "Structured Finance" segment and business related to New Business Promotion & Support Department, which was formerly included in "Principal Transactions" segment.

"Other" segment in Corporate/Other includes business related to financial research, which was formerly included in "Other Global Markets Group" segment in Global Markets Group.

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, 2016 was presented based on the new classification of reportable segments.

(b) METHODS OF MEASUREMENT FOR THE AMOUNTS OF REVENUE, PROFIT (LOSS), ASSETS, LIABILITIES AND OTHER ITEMS BY REPORTABLE SEGMENTS

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES," except for interest on inter-segment transactions and indirect expense.

Interest on inter-segment transactions is calculated using an inter-office rate. Indirect expense is allocated, based on the predetermined internal rule, to each reportable segment according to the budget which is set at the beginning of the fiscal year.

From the beginning of the fiscal year ended March 31, 2017, we have changed the allocation method of expenses in order to evaluate performances in each segment properly; expenses of the headquarter related to Institutional Business which were formerly included in "Corporate Business" segment have been allocated to each segment in Institutional Business. In addition, the amount of profit and loss of reportable segments for the fiscal year ended March 31, 2016 is presented based on the allocation method for the fiscal year ended March 31, 2017.

36. SEGMENT INFORMATION (CONTINUED)

CONSOLIDATED

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

	Millions of yen					
	Institutional Business				Global Markets Business	
Fiscal year ended March 31, 2017	Corporate Business	Structured Finance	Principal Transactions	Showa Leasing	Markets	Other Global Markets
Revenue:	¥ 17,058	¥ 21,896	¥ 9,991	¥ 13,230	¥ 8,393	¥ 2,621
Net Interest Income	11,220	9,422	2,592	(1,255)	1,967	323
Noninterest Income[1]	5,837	12,473	7,398	14,486	6,426	2,297
Expenses	10,583	4,959	4,322	8,802	3,311	3,668
Net Credit Costs (Recoveries)	371	3,590	130	(1,024)	(92)	1
Segment Profit (Loss)	¥ 6,104	¥ 13,346	¥ 5,539	¥ 5,452	¥ 5,175	¥ (1,048)
Segment Assets[2]	¥ 1,680,679	¥ 1,253,269	¥ 174,426	¥ 483,932	¥ 414,430	¥ 60,840
Segment Liabilities	¥ 897,009	¥ 71,704	¥ 3,631	¥ —	¥ 218,752	¥ 54,940
Includes:						
1. Equity in net income (loss) of affiliates	¥ —	¥ —	¥ 2,420	¥ —	¥ —	¥ —
2. Investment in affiliates	—	—	52,189	—	—	—
Other:						
Goodwill (Negative Goodwill):						
Amortization	¥ —	¥ —	¥ —	¥ 2,275	¥ —	¥ —
Unamortized balance	—	—	—	17,171	—	—
Intangible assets acquired in business combinations:						
Amortization	¥ —	¥ —	¥ —	¥ 299	¥ —	¥ —
Unamortized balance	—	—	—	1,195	—	—
Impairment losses on long-lived assets	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 179

	Millions of yen						
	Individual Business				Corporate/Other		
		Consumer Finance					
Fiscal year ended March 31, 2017	Retail Banking	Shinsei Financial	APLUS FINANCIAL	Other	Treasury	Other	Total
Revenue:	¥ 26,032	¥ 63,283	¥ 54,857	¥ 1,895	¥ 7,089	¥ 2,179	¥ 228,529
Net Interest Income	23,490	64,212	9,076	1,228	(50)	48	122,278
Noninterest Income[1]	2,541	(928)	45,781	666	7,140	2,130	106,251
Expenses	33,564	32,499	37,042	812	1,704	1,207	142,479
Net Credit Costs (Recoveries)	(679)	20,515	8,604	275	—	207	31,898
Segment Profit (Loss)	¥ (6,852)	¥ 10,267	¥ 9,211	¥ 807	¥ 5,385	¥ 764	¥ 54,151
Segment Assets[2]	¥ 1,354,865	¥ 485,260	¥ 911,368	¥ 61,147	¥ 599,903	¥ 0	¥ 7,480,125
Segment Liabilities	¥ 4,882,253	¥ 44,929	¥ 254,910	¥ 270	¥ —	¥ 0	¥ 6,428,401
Includes:							
1. Equity in net income (loss) of affiliates	¥ —	¥ —	¥ —	¥ 400	¥ —	¥ —	¥ 2,821
2. Investment in affiliates	—	—	—	427	—	—	52,617
Other:							
Goodwill (Negative Goodwill):							
Amortization	¥ —	¥ 1,284	¥ —	¥ (0)	¥ —	¥ —	¥ 3,559
Unamortized balance	—	(2,484)	—	(3)	—	—	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

36. SEGMENT INFORMATION (CONTINUED)

CONSOLIDATED

Fiscal year ended March 31, 2016	Millions of yen					
	Institutional Business				Global Markets Business	
	Corporate Business	Structured Finance	Principal Transactions	Showa Leasing	Markets	Other Global Markets
Revenue:	¥ 15,592	¥ 17,948	¥ 7,201	¥ 16,236	¥ 5,122	¥ 2,762
Net Interest Income	10,360	12,836	4,365	(2,195)	1,726	91
Noninterest Income[1]	5,232	5,111	2,835	18,431	3,395	2,670
Expenses	11,647	4,763	4,771	8,595	3,471	3,890
Net Credit Costs (Recoveries)	724	(20,484)	289	(404)	(109)	(277)
Segment Profit (Loss)	¥ 3,220	¥ 33,669	¥ 2,140	¥ 8,045	¥ 1,760	¥ (851)
Segment Assets[2]	¥ 1,682,650	¥ 1,183,275	¥ 211,088	¥ 472,163	¥ 480,031	¥ 63,981
Segment Liabilities	¥ 848,924	¥ 94,663	¥ 2,428	¥ —	¥ 293,874	¥ 56,074
Includes:						
1. Equity in net income (loss) of affiliates	¥ 41	¥ —	¥ 2,085	¥ —	¥ —	¥ —
2. Investment in affiliates	—	—	49,462	—	—	—
Other:						
Goodwill (Negative Goodwill):						
Amortization	¥ —	¥ —	¥ —	¥ 2,319	¥ —	¥ —
Unamortized balance	—	—	—	19,317	—	—
Intangible assets acquired in business combinations:						
Amortization	¥ —	¥ —	¥ —	¥ 332	¥ —	¥ —
Unamortized balance	—	—	—	1,495	—	—
Impairment losses on long-lived assets	¥ 39	¥ —	¥ —	¥ —	¥ 1	¥ —

Fiscal year ended March 31, 2016	Millions of yen						
	Individual Business				Corporate/Other		
		Consumer Finance					
	Retail Banking	Shinsei Financial	APLUS FINANCIAL	Other	Treasury	Other	Total
Revenue:	¥ 27,005	¥ 59,133	¥ 51,789	¥ 1,379	¥ 11,554	¥ 874	¥ 216,602
Net Interest Income	21,581	61,208	6,882	1,123	4,372	(7)	122,345
Noninterest Income[1]	5,424	(2,074)	44,907	256	7,182	882	94,256
Expenses	33,330	32,265	36,147	781	1,698	(797)	140,566
Net Credit Costs (Recoveries)	142	15,207	8,778	(130)	—	(5)	3,730
Segment Profit (Loss)	¥ (6,467)	¥ 11,660	¥ 6,863	¥ 729	¥ 9,855	¥ 1,677	¥ 72,304
Segment Assets[2]	¥ 1,275,431	¥ 435,779	¥ 830,325	¥ 18,319	¥ 840,905	¥ 0	¥ 7,493,952
Segment Liabilities	¥ 4,837,410	¥ 24,273	¥ 234,765	¥ 38	¥ 227	¥ 0	¥ 6,392,682
Includes:							
1. Equity in net income (loss) of affiliates	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 2,126
2. Investment in affiliates	—	—	—	—	—	—	49,462
Other:							
Goodwill (Negative Goodwill):							
Amortization	¥ 128	¥ 1,949	¥ 858	¥ (0)	¥ —	¥ —	¥ 5,256
Unamortized balance	—	(1,199)	—	(3)	—	—	18,114
Intangible assets acquired in business combinations:							
Amortization	¥ —	¥ 1,829	¥ —	¥ —	¥ —	¥ —	¥ 2,161
Unamortized balance	—	2,693	—	—	—	—	4,188
Impairment losses on long-lived assets	¥ 214	¥ 156	¥ —	¥ —	¥ 0	¥ 224	¥ 636

36. SEGMENT INFORMATION (CONTINUED)

CONSOLIDATED

	Thousands of U.S. dollars					
	Institutional Business				Global Markets Business	
Fiscal year ended March 31, 2017	Corporate Business	Structured Finance	Principal Transactions	Showa Leasing	Markets	Other Global Markets
Revenue:	$ 152,554	$ 195,820	$ 89,355	$ 118,323	$ 75,067	$ 23,441
Net Interest Income	100,347	84,266	23,188	(11,227)	17,599	2,896
Noninterest Income[1]	52,207	111,554	66,167	129,550	57,468	20,545
Expenses	94,646	44,357	38,654	78,724	29,616	32,810
Net Credit Costs (Recoveries)	3,319	32,110	1,164	(9,161)	(830)	11
Segment Profit (Loss)	$ 54,589	$ 119,353	$ 49,537	$ 48,760	$ 46,281	$ (9,380)
Segment Assets[2]	$ 15,030,225	$ 11,207,916	$ 1,559,885	$ 4,327,785	$ 3,706,233	$ 544,096
Segment Liabilities	$ 8,021,901	$ 641,247	$ 32,478	$ —	$ 1,956,292	$ 491,329
Includes:						
1. Equity in net income (loss) of affiliates	$ —	$ —	$ 21,644	$ —	$ —	$ —
2. Investment in affiliates	—	—	466,729	—	—	—
Other:						
Goodwill (Negative Goodwill):						
Amortization	$ —	$ —	$ —	$ 20,352	$ —	$ —
Unamortized balance	—	—	—	153,564	—	—
Intangible assets acquired in business combinations:						
Amortization	$ —	$ —	$ —	$ 2,681	$ —	$ —
Unamortized balance	—	—	—	10,692	—	—
Impairment losses on long-lived assets	$ —	$ —	$ —	$ —	$ —	$ 1,609

	Thousands of U.S. dollars						
	Individual Business				Corporate/Other		
		Consumer Finance					
Fiscal year ended March 31, 2017	Retail Banking	Shinsei Financial	APLUS FINANCIAL	Other	Treasury	Other	Total
Revenue:	$ 232,805	$ 565,939	$ 490,588	$ 16,954	$ 63,399	$ 19,487	$ 2,043,732
Net Interest Income	210,077	574,246	81,168	10,989	(456)	434	1,093,527
Noninterest Income[1]	22,728	(8,307)	409,420	5,965	63,855	19,053	950,205
Expenses	300,167	290,642	331,267	7,270	15,240	10,795	1,274,188
Net Credit Costs (Recoveries)	(6,077)	183,471	76,947	2,465	—	1,852	285,271
Segment Profit (Loss)	$ (61,285)	$ 91,826	$ 82,374	$ 7,219	$ 48,159	$ 6,840	$ 484,273
Segment Assets[2]	$ 12,116,484	$ 4,339,656	$ 8,150,320	$ 546,841	$ 5,364,903	$ 0	$ 66,894,344
Segment Liabilities	$ 43,661,719	$ 401,801	$ 2,279,650	$ 2,416	$ —	$ 0	$ 57,488,833
Includes:							
1. Equity in net income (loss) of affiliates	$ —	$ —	$ —	$ 3,585	$ —	$ —	$ 25,229
2. Investment in affiliates	—	—	—	3,825	—	—	470,554
Other:							
Goodwill (Negative Goodwill):							
Amortization	$ —	$ 11,489	$ —	$ (5)	$ —	$ —	$ 31,836
Unamortized balance	—	(22,217)	—	(30)	—	—	131,317
Intangible assets acquired in business combinations:							
Amortization	$ —	$ 12,379	$ —	$ —	$ —	$ —	$ 15,060
Unamortized balance	—	11,708	—	—	—	—	22,400
Impairment losses on long-lived assets	$ 175	$ 152	$ 1,213	$ —	$ —	$ 875	$ 4,024

Notes: (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 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.

36. SEGMENT INFORMATION (CONTINUED)

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, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
Fiscal Year ended March 31	**2017**	2016	**2017**
Total segment profit	**¥ 54,151**	¥ 72,304	**$ 484,273**
Amortization of goodwill acquired in business combinations	**(3,559)**	(5,127)	**(31,836)**
Amortization of intangible assets acquired in business combinations	**(1,684)**	(2,161)	**(15,060)**
Lump-sum payments	**(1,769)**	(934)	**(15,821)**
Other gains (losses), net	**4,617**	(1,264)	**41,293**
Income (loss) before income taxes	**¥ 51,755**	¥ 62,817	**$ 462,849**

(ii) A reconciliation between total segment assets and total assets on the consolidated balance sheets as of March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2017**	2016	**2017**
Total segment assets	**¥ 7,480,125**	¥ 7,493,952	**$ 66,894,344**
Cash and due from banks	**1,398,691**	1,129,213	**12,508,424**
Call loans	**4,472**	—	**40,000**
Receivables under securities borrowing transactions	**1,625**	4,243	**14,536**
Foreign exchanges	**19,617**	17,024	**175,440**
Other assets excluding installment receivables	**353,756**	283,083	**3,163,629**
Premises and equipment excluding tangible leased assets	**25,547**	27,660	**228,473**
Intangible assets excluding intangible leased assets	**52,020**	48,895	**465,215**
Assets for retirement benefits	**7,075**	2,394	**63,279**
Deferred issuance expenses for debentures	**0**	3	**7**
Deferred tax assets	**15,542**	14,050	**139,000**
Reserve for credit losses	**(100,154)**	(91,732)	**(895,674)**
Total assets	**¥ 9,258,324**	¥ 8,928,789	**$ 82,796,673**

(iii) A reconciliation between total segment liabilities and total liabilities on the consolidated balance sheets as of March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2017**	2016	**2017**
Total segment liabilities	**¥ 6,428,401**	¥ 6,392,682	**$ 57,488,833**
Call money	**53,600**	40,000	**479,342**
Payables under repurchase agreements	**36,467**	23,779	**326,130**
Payables under securities lending transactions	**337,952**	118,139	**3,022,286**
Borrowed money	**789,670**	801,742	**7,061,981**
Foreign exchanges	**102**	75	**917**
Short-term corporate bonds	**168,000**	129,400	**1,502,415**
Corporate bonds	**112,600**	95,121	**1,006,975**
Other liabilities	**388,307**	380,458	**3,472,609**
Accrued employees' bonuses	**8,519**	8,419	**76,192**
Accrued directors' bonuses	**75**	77	**678**
Liabilities for retirement benefits	**8,256**	8,791	**73,840**
Reserve for reimbursement of debentures	**3,737**	2,903	**33,420**
Reserve for losses on interest repayments	**101,846**	133,695	**910,806**
Deferred tax liabilities	**—**	378	**—**
Total liabilities	**¥ 8,437,537**	¥ 8,135,665	**$ 75,456,424**

36. SEGMENT INFORMATION (CONTINUED) CONSOLIDATED

(B) RELATED INFORMATION

(a) INFORMATION BY SERVICES

Income regarding major services for the fiscal years ended March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
Fiscal Year ended March 31	**2017**	2016	**2017**
Loan Businesses	**¥ 132,825**	¥ 133,154	**$ 1,187,854**
Lease Businesses	**7,833**	8,750	**70,051**
Securities Investment Businesses	**22,233**	15,307	**198,830**
Installment Sales and Guarantee Businesses	**46,975**	46,486	**420,099**

(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, 2017 and 2016, therefore geographical revenue information is not presented.

(ii) PREMISES AND EQUIPMENT

The balance of domestic premises and equipment exceeded 90% of total balance of premises and equipment on the consolidated balance sheets as of March 31, 2017 and 2016, 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, 2017 and 2016, therefore major customer information is not presented.

37. RELATED PARTY TRANSACTIONS CONSOLIDATED

Related party transactions for the fiscal years ended March 31, 2017 and 2016 were as follows:

		Amount of the transaction			Balance at the end of fiscal year			
		Millions of yen		Thousands of U.S. dollars		Millions of yen		Thousands of U.S. dollars
Related party	Description of the transaction	**2017**	2016	**2017**	Account name	**2017**	2016	**2017**
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]	**¥ 23**	¥ 198	**$ 209**	—	**¥ —**	¥ —	**$ —**
	Dividend	**195**	1,837	**1,752**	—	**—**	—	**—**
J.C. Flowers III L.P.[1]	Investment[3]	**717**	1,134	**6,419**	—	**—**	—	**—**
	Dividend	**573**	1,697	**5,129**	—	**—**	—	**—**

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.

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES CONSOLIDATED

(A) GROUP POLICY FOR FINANCIAL INSTRUMENTS

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

For conducting these businesses, the Bank obtains retail customer deposits as a long-term and stable source of funding. In addition, the Bank 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 conditions will be badly affected if earnings from these assets are less than expected. These investments are exposed to risk of fluctuation in market size and price of these assets.

Lease receivables and leased investment assets,
Installment receivables

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

(b) Financial liabilities

Financial liabilities of the Group are mainly deposits. In addition to risk of fluctuation in interest rates, the Group has funding liquidity risk that sufficient funding would become difficult or more expensive in case of deterioration in 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 "Accounting Standard for Financial Instruments."

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED)

CONSOLIDATED

(C) RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS

(a) Credit risk management

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

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

As for credit risk management for individual transactions, approval authority level is determined in accordance with transaction amount, aggregate credit exposure to obligor's group companies, credit rating, and so on. The Group has an approval system in which the 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 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 valuation of derivatives transactions.

As for credit risk management of the consumer finance business, risk management divisions of each subsidiary 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, Individual Banking Risk Management Division in the Bank holds monthly performance review, analyzes and monitors these leading indicators and advises the persons in charge of risk management of each subsidiary on their policies and strategies. 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 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 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 Executive Committee based on "Trading Business Risk Management Policy." The Market Business Management Committee meets monthly to review reports from the 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 ALM Committee based on "Asset Liability Management Policy for Banking Account."

The 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 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 Treasury Division.

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

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) CONSOLIDATED

Quantitative information on market risk is as follows:

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

The VaR in the Group's trading business as of March 31, 2017 and 2016 were ¥1,835 million (U.S.$16,413 thousand) and ¥1,492 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 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 current 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 ¥51,429 million (U.S.$459,928 thousand) and ¥46,811 million in case of an increase of the index interest rates by 100 basis points (1%), and would increase by ¥41,131 million (U.S.$367,833 thousand) and ¥59,519 million in case of a decrease by 100 basis points (1%), as of March 31, 2017 and 2016, 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 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 derivatives transactions.

(D) CONCENTRATION OF CREDIT RISK
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.

As of March 31, 2016, 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 13%, slightly less than 40% of which are nonrecourse loans for real estate.

(E) FAIR VALUES OF FINANCIAL INSTRUMENTS
Fair values of financial instruments include the values 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.

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED)

CONSOLIDATED

Fair values of financial instruments as of March 31, 2017 and 2016 were as follows:

	Millions of yen					
	2017			2016		
	Carrying amount	**Fair value**	**Unrealized gain (loss)**	Carrying amount	Fair value	Unrealized gain (loss)
Assets:						
(1) Cash and due from banks	**¥ 1,398,691**	**¥ 1,398,691**	**¥ —**	¥ 1,129,213	¥ 1,129,213	¥ —
(2) Call loans	**4,472**	**4,472**	**—**	—	—	—
(3) Receivables under securities borrowing transactions	**1,625**	**1,625**	**—**	4,243	4,243	—
(4) Other monetary claims purchased						
Trading purposes	**4,213**	**4,213**	**—**	17,076	17,076	—
Other[1]	**39,731**	**40,547**	**815**	63,221	65,071	1,849
(5) Trading assets						
Securities held for trading purposes	**15,479**	**15,479**	**—**	23,262	23,262	—
(6) Monetary assets held in trust[1]	**240,911**	**246,403**	**5,492**	255,255	263,084	7,828
(7) Securities						
Trading securities	**0**	**0**	**—**	7	7	—
Securities being held to maturity	**496,268**	**502,026**	**5,758**	559,567	568,664	9,097
Securities available for sale	**424,032**	**424,032**	**—**	574,738	574,738	—
Equity securities of affiliates	**49,375**	**33,160**	**(16,215)**	46,581	29,941	(16,639)
(8) Loans and bills discounted[2]	**4,833,452**			4,562,923		
Reserve for credit losses	**(60,484)**			(53,995)		
Net	**4,772,968**	**4,934,474**	**161,505**	4,508,928	4,661,069	152,140
(9) Lease receivables and leased investment assets[1]	**189,434**	**187,559**	**(1,874)**	208,289	207,318	(970)
(10) Other assets						
Installment receivables	**541,401**			516,336		
Deferred gains on installment receivables	**(14,205)**			(15,338)		
Reserve for credit losses	**(10,446)**			(11,122)		
Net	**516,750**	**556,047**	**39,297**	489,874	523,629	33,754
Total	**¥ 8,153,955**	**¥ 8,348,735**	**¥ 194,779**	¥ 7,880,261	¥ 8,067,321	¥ 187,059
Liabilities:						
(1) Deposits, including negotiable certificates of deposit	**¥ 5,862,922**	**¥ 5,864,410**	**¥ (1,487)**	¥ 5,800,994	¥ 5,804,839	¥ (3,844)
(2) Debentures	**6,561**	**6,564**	**(2)**	16,740	16,748	(8)
(3) Call money	**53,600**	**53,600**	**—**	40,000	40,000	—
(4) Payables under repurchase agreements	**36,467**	**36,467**	**—**	23,779	23,779	—
(5) Payables under securities lending transactions	**337,952**	**337,952**	**—**	118,139	118,139	—
(6) Trading liabilities						
Trading securities sold for short sales	**1,621**	**1,621**	**—**	2,511	2,511	—
(7) Borrowed money	**789,670**	**791,278**	**(1,607)**	801,742	805,121	(3,379)
(8) Short-term corporate bonds	**168,000**	**167,946**	**53**	129,400	129,374	25
(9) Corporate bonds	**112,600**	**113,252**	**(652)**	95,121	96,780	(1,658)
Total	**¥ 7,369,396**	**¥ 7,373,093**	**¥ (3,696)**	¥ 7,028,429	¥ 7,037,294	¥ (8,865)
Derivative instruments[3]:						
Hedge accounting is not applied	**¥ 20,095**	**¥ 20,095**	**¥ —**	¥ 33,841	¥ 33,841	¥ —
Hedge accounting is applied	**4,758**	**4,758**	**—**	(625)	(625)	—
Total	**¥ 24,853**	**¥ 24,853**	**¥ —**	¥ 33,216	¥ 33,216	¥ —

	Contract amount	**Fair value**	Contract amount	Fair value
Other:				
Guarantee contracts[4]	**¥ 346,675**	**¥ (122)**	¥ 280,620	¥ 4,722

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED)

CONSOLIDATED

	Thousands of U.S. dollars		
	2017		
	Carrying amount	Fair value	Unrealized gain (loss)
Assets:			
(1) Cash and due from banks	$ 12,508,424	$ 12,508,424	$ —
(2) Call loans	40,000	40,000	—
(3) Receivables under securities borrowing transactions	14,536	14,536	—
(4) Other monetary claims purchased			
Trading purposes	37,681	37,681	—
Other[1]	355,315	362,610	7,295
(5) Trading assets			
Securities held for trading purposes	138,434	138,434	—
(6) Monetary assets held in trust[1]	2,154,455	2,203,571	49,116
(7) Securities			
Trading securities	0	0	—
Securities being held to maturity	4,438,101	4,489,598	51,497
Securities available for sale	3,792,101	3,792,101	—
Equity securities of affiliates	441,566	296,554	(145,012)
(8) Loans and bills discounted[2]	43,225,297		
Reserve for credit losses	(540,908)		
Net	42,684,389	44,128,728	1,444,339
(9) Lease receivables and leased investment assets[1]	1,694,098	1,677,333	(16,765)
(10) Other assets			
Installment receivables	4,841,727		
Deferred gains on installment receivables	(127,038)		
Reserve for credit losses	(93,419)		
Net	4,621,270	4,972,701	351,431
Total	$ 72,920,370	$ 74,662,271	$ 1,741,901
Liabilities:			
(1) Deposits, including negotiable certificates of deposit	$ 52,431,789	$ 52,445,095	$ (13,306)
(2) Debentures	58,682	58,706	(24)
(3) Call money	479,342	479,342	—
(4) Payables under repurchase agreements	326,130	326,130	—
(5) Payables under securities lending transactions	3,022,286	3,022,286	—
(6) Trading liabilities			
Trading securities sold for short sales	14,501	14,501	—
(7) Borrowed money	7,061,981	7,076,356	(14,375)
(8) Short-term corporate bonds	1,502,415	1,501,940	475
(9) Corporate bonds	1,006,975	1,012,807	(5,832)
Total	$ 65,904,101	$ 65,937,163	$ (33,062)
Derivative instruments[3]:			
Hedge accounting is not applied	$ 179,710	$ 179,710	$ —
Hedge accounting is applied	42,557	42,557	—
Total	$ 222,267	$ 222,267	$ —

	Contract amount	Fair value
Other:		
Guarantee contracts[4]	$ 3,100,300	$ (1,094)

1 Carrying amounts of Other monetary claims purchased, Monetary assets held in trust, and Lease receivables and leased investment assets 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 ¥101,846 million (U.S.$910,806 thousand) and ¥133,695 million was recognized for estimated losses on reimbursements of excess interest payments as of March 31, 2017 and 2016, respectively, which included the reserve for losses on interest repayments that have a possibility of being appropriated for loan principal in the future.
3 Derivative instruments include derivative transactions both in trading assets and liabilities, and in other assets and liabilities. Derivative instruments are presented as net of assets and liabilities and presented with ( ) when a liability stands on net basis.
4 Contract amount for guarantee contracts presents the amount of "Acceptances and guarantees" on the consolidated balance sheets. Unearned guarantee fees of ¥21,889 million (U.S.$195,755 thousand) and ¥21,898 million were recognized as "Other liabilities" as of March 31, 2017 and 2016, respectively.

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED)

CONSOLIDATED

(Note 1) Valuation methodologies for financial instruments

Assets:

(1) Cash and due from banks
The fair values are measured at carrying amounts because the fair values of due from banks with no maturity are approximate to carrying amounts. Likewise, for due from banks with maturity, the fair values are measured at carrying amounts because most of them are with short maturity of six months or less, therefore the fair values are approximate to 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 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 fixed interest rate are determined by discounting contractual cash flows, and the fair values of loans and bills discounted with floating interest rate are determined by discounting expected cash flows based on the forward rates, using the risk-free rate adjusted to account for credit risk (after consideration of collateral) with CDS spreads etc. corresponding to internal credit rating of each borrower. The fair values of housing loans are determined by discounting expected cash flows at the rates that consists of the risk free rate and spreads 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 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. 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 not included in the fair values.

(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.

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) CONSOLIDATED

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.

(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 six months or less.

Derivative instruments:
The fair values are primarily measured at closing prices on exchanges or determined using the DCF method or option-pricing models.

Other:
Guarantee contracts
The fair values are determined by discounting the amount of difference between the original contractual cash flows and the expected cash flows that would be applied for the new contracts with the same terms at the risk-free rate.

(Note 2) Carrying amount of the financial instruments whose fair value cannot be reliably determined

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2017**	2016	**2017**
Equity securities without readily available market price[1,2]	**¥ 9,641**	¥ 8,206	**$ 86,226**
Investment in partnerships and others[1,2]	**35,316**	38,758	**315,831**
Total	**¥ 44,958**	¥ 46,964	**$ 402,057**

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, 2017 and 2016, impairment losses on equity securities without readily available market price of ¥102 million (U.S.$918 thousand) and ¥167 million, and on investment in partnerships and others of ¥67 million (U.S.$602 thousand) and ¥235 million were recognized, respectively.

(Note 3) Maturity analysis for financial assets with contractual maturities

	Millions 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
Due from banks	**¥ 1,393,162**	**¥ —**	**¥ —**	**¥ —**
Call loans	**4,472**	**—**	**—**	**—**
Receivables under securities borrowing transactions	**1,625**	**—**	**—**	**—**
Other monetary claims purchased				
Other than trading purposes	**14,384**	**—**	**2,000**	**23,632**
Securities				
Held-to-maturity	**10,000**	**240,397**	**231,883**	**5,597**
Available-for-sale	**36,416**	**46,396**	**117,872**	**184,455**
Loans and bills discounted	**1,128,437**	**1,308,702**	**1,009,036**	**1,353,861**
Lease receivables and leased investment assets	**58,109**	**77,332**	**34,887**	**21,157**
Installment receivables	**169,746**	**175,977**	**64,790**	**110,154**
Total	**¥ 2,816,355**	**¥ 1,848,807**	**¥ 1,460,470**	**¥ 1,698,859**

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED)

CONSOLIDATED

As of March 31, 2017	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	$ 12,458,973	$ —	$ —	$ —
Call loans	40,000	—	—	—
Receivables under securities borrowing transactions	14,536	—	—	—
Other monetary claims purchased				
Other than trading purposes	128,637	—	17,886	211,344
Securities				
Held-to-maturity	89,429	2,149,865	2,073,719	50,060
Available-for-sale	325,670	414,923	1,054,126	1,649,575
Loans and bills discounted	10,091,558	11,703,655	9,023,757	12,107,506
Lease receivables and leased investment assets	519,674	691,582	311,996	189,214
Installment receivables	1,518,029	1,573,760	579,421	985,108
Total	$ 25,186,506	$ 16,533,785	$ 13,060,905	$ 15,192,807

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, 2017	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	¥ 5,072,878	¥ 620,369	¥ 105,772	¥ 63,901
Debentures	6,107	454	—	—
Call money	53,600	—	—	—
Payables under repurchase agreements	36,467	—	—	—
Payables under securities lending transactions	337,952	—	—	—
Borrowed money	431,686	169,556	86,379	102,048
Short-term corporate bonds	168,000	—	—	—
Corporate bonds	21,000	35,000	25,000	31,600
Total	¥ 6,127,691	¥ 825,380	¥ 217,152	¥ 197,550

As of March 31, 2017	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	$ 45,366,465	$ 5,547,933	$ 945,920	$ 571,471
Debentures	54,615	4,067	—	—
Call money	479,342	—	—	—
Payables under repurchase agreements	326,130	—	—	—
Payables under securities lending transactions	3,022,286	—	—	—
Borrowed money	3,860,551	1,516,332	772,486	912,612
Short-term corporate bonds	1,502,415	—	—	—
Corporate bonds	187,802	313,003	223,574	282,596
Total	$ 54,799,606	$ 7,381,335	$ 1,941,980	$ 1,766,679

Note: The cash flow of demand deposits is included in "1 year or less."

39. DERIVATIVE FINANCIAL INSTRUMENTS

CONSOLIDATED

(A) DERIVATIVE TRANSACTIONS TO WHICH HEDGE ACCOUNTING WAS NOT APPLIED

The fair values of derivatives on the consolidated balance sheets as of March 31, 2017 and 2016 are adjusted for credit risk by a reduction of ¥1,070 million (U.S.$9,574 thousand) and ¥1,446 million, respectively, and also adjusted for liquidity risk by a reduction of ¥1,523 million (U.S.$13,623 thousand) and ¥1,074 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, 2017 and 2016 were as follows:

	Millions of yen							
	2017				2016			
	Contract/Notional principal				Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Futures contracts (listed):								
Sold	**¥ 825**	**¥ 274**	**¥ 0**	**¥ 0**	¥ 19,199	¥ —	¥ (39)	¥ (39)
Bought	**551**	**—**	**(2)**	**(2)**	17,813	554	31	31
Interest rate options (listed):								
Sold	**—**	**—**	**—**	**—**	16,682	—	(0)	2
Bought	**—**	**—**	**—**	**—**	16,703	—	0	(0)
Interest rate swaps (over-the-counter):								
Receive fixed and pay floating	**4,739,594**	**4,024,229**	**168,475**	**168,475**	5,283,601	4,286,735	252,179	252,179
Receive floating and pay fixed	**4,330,906**	**3,604,461**	**(150,731)**	**(150,731)**	4,775,777	3,989,116	(225,844)	(225,844)
Receive floating and pay floating	**1,529,661**	**1,284,881**	**1,983**	**1,983**	1,743,851	1,411,617	4,042	4,042
Interest rate swaptions (over-the-counter):								
Sold	**1,022,114**	**728,914**	**(6,836)**	**9,943**	732,182	567,182	(13,709)	(1,617)
Bought	**963,096**	**850,332**	**3,354**	**(2,800)**	1,132,932	1,019,372	2,948	(4,555)
Interest rate options (over-the-counter):								
Sold	**21,745**	**17,745**	**(227)**	**200**	30,783	20,783	(156)	178
Bought	**29,131**	**14,245**	**165**	**(46)**	53,873	25,283	102	(190)
Total			**¥ 16,182**	**¥ 27,024**			¥ 19,554	¥ 24,185

	Thousands of U.S. dollars			
	2017			
	Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**
Futures contracts (listed):				
Sold	**$ 7,385**	**$ 2,457**	**$ 1**	**$ 1**
Bought	**4,935**	**—**	**(19)**	**(19)**
Interest rate options (listed):				
Sold	**—**	**—**	**—**	**—**
Bought	**—**	**—**	**—**	**—**
Interest rate swaps (over-the-counter):				
Receive fixed and pay floating	**42,385,925**	**35,988,458**	**1,506,666**	**1,506,666**
Receive floating and pay fixed	**38,731,057**	**32,234,495**	**(1,347,979)**	**(1,347,979)**
Receive floating and pay floating	**13,679,675**	**11,490,621**	**17,741**	**17,741**
Interest rate swaptions (over-the-counter):				
Sold	**9,140,710**	**6,518,638**	**(61,134)**	**88,927**
Bought	**8,612,914**	**7,604,472**	**30,000**	**(25,042)**
Interest rate options (over-the-counter):				
Sold	**194,468**	**158,696**	**(2,036)**	**1,793**
Bought	**260,523**	**127,396**	**1,478**	**(412)**
Total			**$ 144,718**	**$ 241,676**

Notes:

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.

(2) The fair values of listed transactions represent the closing price on the Tokyo Financial Exchange and other exchanges. The fair values of over-the-counter transactions are calculated primarily by using the DCF method or option pricing models.

39. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED) CONSOLIDATED

(b) CURRENCY-RELATED TRANSACTIONS

Currency-related transactions as of March 31, 2017 and 2016 were as follows:

	Millions of yen							
	2017				2016			
	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)	¥ 427,099	¥ 349,441	¥ (2,654)	¥ (2,654)	¥ 588,346	¥ 360,570	¥ 75	¥ 75
Forward foreign exchange contracts (over-the-counter):								
Sold	919,175	28,599	(3,899)	(3,899)	1,221,670	55,050	9,554	9,554
Bought	832,739	56,322	10,976	10,976	770,482	81,742	4,461	4,461
Currency options (over-the-counter):								
Sold	796,993	339,162	(12,770)	2,381	874,594	351,676	(13,723)	1,728
Bought	777,127	305,919	8,651	2,294	868,799	342,816	14,052	1,076
Total			¥ 303	¥ 9,098			¥ 14,420	¥ 16,897

	Thousands of U.S. dollars			
	2017			
	Contract/Notional principal			
	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Currency swaps (over-the-counter)	$ 3,819,523	$ 3,125,039	$ (23,736)	$ (23,736)
Forward foreign exchange contracts (over-the-counter):				
Sold	8,220,138	255,761	(34,873)	(34,873)
Bought	7,447,140	503,686	98,160	98,160
Currency options (over-the-counter):				
Sold	7,127,469	3,033,113	(114,203)	21,299
Bought	6,949,807	2,735,821	77,370	20,520
Total			$ 2,718	$ 81,370

Notes:

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.

(2) The fair values are calculated primarily by using the DCF method or option pricing models.

39. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

CONSOLIDATED

(c) EQUITY-RELATED TRANSACTIONS

Equity-related transactions as of March 31, 2017 and 2016 were as follows:

	Millions of yen							
	2017				2016			
	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	¥ 21,982	¥ 7,898	¥ (913)	¥ (913)	¥ 6,764	¥ 6,579	¥ 234	¥ 234
Bought	1,609	—	(21)	(21)	7,866	2,514	(676)	(676)
Equity index options (listed):								
Sold	173,792	62,516	(10,573)	1,301	194,385	78,697	(15,335)	(4,005)
Bought	176,781	52,081	12,245	(590)	185,787	71,462	14,555	1,872
Equity options (over-the-counter):								
Sold	16,260	10,836	(5,500)	(3,610)	27,585	16,260	(6,922)	(2,233)
Bought	21,151	14,377	10,866	7,199	30,851	21,151	10,783	5,069
Other (over-the-counter):								
Sold	1,200	1,200	113	113	1,200	1,200	142	142
Bought	2,670	2,300	(194)	(194)	3,177	2,670	(253)	(253)
Total			¥ 6,023	¥ 3,285			¥ 2,528	¥ 151

	Thousands of U.S. dollars			
	2017			
	Contract/Notional principal			
	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Equity index futures (listed):				
Sold	$ 196,591	$ 70,636	$ (8,166)	$ (8,166)
Bought	14,393	—	(188)	(188)
Equity index options (listed):				
Sold	1,554,217	559,079	(94,555)	11,641
Bought	1,580,945	465,760	109,515	(5,285)
Equity options (over-the-counter):				
Sold	145,418	96,912	(49,188)	(32,285)
Bought	189,160	128,581	97,175	64,389
Other (over-the-counter):				
Sold	10,732	10,732	1,015	1,015
Bought	23,880	20,569	(1,742)	(1,742)
Total			$ 53,866	$ 29,379

Notes:

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.

(2) The fair values of listed transactions represent the closing price on the Osaka Exchange and other exchanges. The fair values of over-the-counter transactions are calculated primarily by using the DCF method or option pricing model.

39. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

CONSOLIDATED

(d) BOND-RELATED TRANSACTIONS

Bond-related transactions as of March 31, 2017 and 2016 were as follows:

	Millions of yen							
	2017				2016			
	Contract/Notional principal				Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Bond futures (listed):								
Sold	**¥ 19,012**	**¥ —**	**¥ (22)**	**¥ (22)**	¥ 35,136	¥ —	¥ (49)	¥ (49)
Bought	**17,289**	**—**	**34**	**34**	9,130	—	(4)	(4)
Bond options (listed):								
Bought	**—**	**—**	**—**	**—**	1,432	—	3	(4)
Total			**¥ 12**	**¥ 12**			¥ (50)	¥ (58)

	Thousands of U.S. dollars			
	2017			
	Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**
Bond futures (listed):				
Sold	**$ 170,023**	**$ —**	**$ (198)**	**$ (198)**
Bought	**154,617**	**—**	**313**	**313**
Bond options (listed):				
Bought	**—**	**—**	**—**	**—**
Total			**$ 115**	**$ 115**

Notes:

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.

(2) The fair values of listed transactions represent the closing price on the Osaka Exchange and other exchanges.

(e) CREDIT DERIVATIVES TRANSACTIONS

Credit derivatives transactions as of March 31, 2017 and 2016 were as follows:

	Millions of yen							
	2017				2016			
	Contract/Notional principal				Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Credit default option (over-the-counter):								
Sold	**¥ 127,466**	**¥ 68,050**	**¥ 1,049**	**¥ 1,049**	¥ 188,681	¥ 123,776	¥ 1,870	¥ 1,870
Bought	**129,386**	**67,750**	**(882)**	**(882)**	204,254	123,196	(1,961)	(1,961)
Total			**¥ 166**	**¥ 166**			¥ (90)	¥ (90)

	Thousands of U.S. dollars			
	2017			
	Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**
Credit default option (over-the-counter):				
Sold	**$ 1,139,925**	**$ 608,567**	**$ 9,385**	**$ 9,385**
Bought	**1,157,095**	**605,884**	**(7,895)**	**(7,895)**
Total			**$ 1,490**	**$ 1,490**

Notes:

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.

(2) The fair values are calculated primarily by using the DCF method.

(3) "Sold" stands for accepting credit risk and "Bought" stands for transferring credit risk.

39. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED) CONSOLIDATED

(B) DERIVATIVE TRANSACTIONS TO WHICH HEDGE ACCOUNTING WAS APPLIED

(a) INTEREST RATE-RELATED TRANSACTIONS

Interest rate-related transactions which are accounted for using the deferral method as of March 31, 2017 and 2016 were as follows:

	Millions of yen					
	2017			2016		
	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	**¥ 492,400**	**¥ 406,000**	**¥ 3,714**	¥ 466,400	¥ 456,400	¥ 7,833
Receive floating and pay fixed	**243,943**	**233,370**	**(15,426)**	238,183	216,085	(20,698)
Total			**¥ (11,711)**			¥ (12,864)

	Thousands of U.S. dollars		
	2017		
	Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**
Interest rate swaps:			
Receive fixed and pay floating	**$ 4,403,506**	**$ 3,630,835**	**$ 33,221**
Receive floating and pay fixed	**2,181,569**	**2,087,023**	**(137,960)**
Total			**$ (104,739)**

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 deferral method in accordance with Industry Audit Committee Report No.24 of the JICPA.

(3) The fair values are calculated primarily by using the DCF method.

39. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

CONSOLIDATED

Interest rate swaps which meet specific matching criteria as of March 31, 2017 and 2016 were as follows:

	Millions of yen					
	2017			2016		
	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	**¥ 23,874**	**¥ 10,528**	**¥ —**	¥ 22,275	¥ 18,150	¥ —

	Thousands of U.S. dollars		
	2017		
	Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**
Interest rate swaps:			
Receive floating and pay fixed	**$ 213,509**	**$ 94,157**	**$ —**

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, 2017 and 2016 were as follows:

	Millions of yen					
	2017			2016		
	Contract/Notional principal			Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**	Total	Maturity over 1 year	Fair value
Currency swaps	**¥ 292,449**	**¥ 240,752**	**¥ 16,470**	¥ 158,314	¥ 130,418	¥ 12,238

	Thousands of U.S. dollars		
	2017		
	Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**
Currency swaps	**$ 2,615,359**	**$ 2,153,036**	**$ 147,296**

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 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, 2017 was approved at the meeting of the Board of Directors held on May 10, 2017:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, common stock, ¥1.00 (U.S.$0.01) per share	**¥ 2,588**	**$ 23,148**

41. ADDITIONAL INFORMATION CONSOLIDATED

(A) REVERSE STOCK SPLIT AND CHANGE IN THE NUMBER OF SHARES CONSTITUTING A MINIMUM TRADING UNIT

At the Board of Directors Meeting held on March 22, 2017, the Bank resolved to recommend a reverse stock split and a change in the number of shares constituting a minimum trading unit at the 17th Annual General Meeting of Shareholders scheduled for June 21, 2017.

(1) Reverse stock split

(a) Reason for reverse stock split

All domestic stock exchanges in Japan including the Tokyo Stock Exchange are engaged in initiatives for issuing companies to reduce the number of shares constituting a minimum trading unit from 1,000 shares to 100 shares by October 2018, in its "Action Plan for Consolidating Trading Units."

Following this initiative, as the Bank is a company listed on the Tokyo Stock Exchange, it will reduce the number of the Bank's shares constituting a minimum trading unit from 1,000 shares to 100 shares. The Tokyo Stock Exchange defines the ideal price range per investment unit as equal to or greater than 50,000 yen and less than 500,000 yen. In order to achieve this appropriate price level per a minimum trading unit of the Bank's shares, the Bank will also undertake a 1-for-10 reverse stock split.

(b) Details of reverse stock split

(i) Class of shares to be reversed: Common shares

(ii) Reversal ratio: the Bank will undertake a 1-for-10 reverse stock split on October 1, 2017 based on the number of shares held by shareholders recorded in the Register of Shareholders as of the end of the day on September 30, 2017.

(iii) Decrease in number of shares due to reverse stock split

Number of outstanding shares before reverse stock split (as of March 31, 2017)	2,750,346,891 shares
Decrease in number of shares caused by reverse stock split	2,475,312,202 shares
Number of outstanding shares caused by reverse stock split	275,034,689 shares

Note: "Decrease in number of shares caused by reverse stock split" and "Number of outstanding shares after reverse stock split" are theoretical figures calculated based on the number of outstanding shares before reverse stock split and the reverse stock split ratio.

(c) Treatment when there is less than one share

If fractional shares of less than one share arise as a result of the reverse stock split, such shares shall be subject to a bulk sale in accordance with the Companies Act. The proceeds from the sale will be distributed to the shareholders in proportion to their respective fractional shares.

(d) Aggregate number of authorized shares on the effective date

In accordance with a decrease in the number of outstanding shares caused by reverse stock split, the aggregate number of authorized shares will be decreased at the same rate (one-tenth) as that of reverse stock split as of October 1, 2017.

Aggregate number of authorized shares before change	4 billion shares
Aggregate number of authorized shares after change (as of October 1, 2017)	400 million shares

(2) Change in the number of shares constituting a minimum trading unit

(a) Reason for change

The Bank will implement this change in order to follow the action plan by all domestic stock exchanges as above mentioned in, "(1) (a) Reason for reverse stock split."

(b) Details of change

The Bank will reduce the number of the Bank's shares constituting a minimum trading unit from 1,000 shares to 100 shares.

(c) Date of change

October 1, 2017.

41. ADDITIONAL INFORMATION (CONTINUED)

CONSOLIDATED

(3) Schedule for a reverse stock split and change in the number of shares constituting a minimum trading unit

Resolution at the Board of Directors meeting	March 22, 2017
Resolution at the Annual General Meeting of Shareholders	June 21, 2017
Effective date of the reverse stock split	October 1, 2017 (provisional)
Effective date of change in the number of shares constituting a minimum trading unit	October 1, 2017 (provisional)
Effective date of change in aggregate number of authorized shares	October 1, 2017 (provisional)

(4) Effect on per share information

Assuming that the reverse stock split had taken place on the beginning of the fiscal year ended March 31, 2017, per share information would be as follows:

Fiscal year ended March 31, 2017	Yen	U.S. dollars
EPS	¥ 194.65	$ 1.74
Diluted EPS	¥ 194.64	$ 1.74

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, 2017, 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, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 15, 2017

Member of
Deloitte Touche Tohmatsu Limited

NONCONSOLIDATED BALANCE SHEET (UNAUDITED)

Shinsei Bank, Limited
As of March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note)
	2017	2016	**2017**
ASSETS			
Cash and due from banks	**¥ 1,313,376**	¥ 1,049,396	**$ 11,745,450**
Call loans	**4,472**	—	**40,000**
Other monetary claims purchased	**133,245**	192,146	**1,191,603**
Trading assets	**227,608**	311,832	**2,035,489**
Monetary assets held in trust	**118,872**	151,647	**1,063,074**
Securities	**1,369,326**	1,603,809	**12,245,807**
Loans and bills discounted	**4,536,434**	4,300,152	**40,569,081**
Foreign exchanges	**19,617**	17,024	**175,440**
Other assets	**270,648**	205,762	**2,420,398**
Premises and equipment	**16,550**	17,813	**148,007**
Intangible assets	**17,414**	13,572	**155,735**
Prepaid pension cost	**3,887**	1,073	**34,766**
Deferred issuance expenses for debentures	**0**	3	**7**
Deferred tax assets	**1,134**	—	**10,149**
Customers' liabilities for acceptances and guarantees	**48,526**	21,730	**433,972**
Reserve for credit losses	**(29,335)**	(28,282)	**(262,343)**
Total assets	**¥ 8,051,781**	¥ 7,857,682	**$ 72,006,635**
LIABILITIES AND EQUITY			
Liabilities:			
Deposits, including negotiable certificates of deposit	**¥ 5,992,609**	¥ 5,965,769	**$ 53,591,567**
Debentures	**6,561**	16,740	**58,682**
Call money	**53,600**	40,000	**479,342**
Payables under repurchase agreements	**36,467**	23,779	**326,130**
Payables under securities lending transactions	**337,952**	116,409	**3,022,286**
Trading liabilities	**210,031**	291,356	**1,878,303**
Borrowed money	**336,519**	374,827	**3,009,478**
Foreign exchanges	**102**	75	**917**
Corporate bonds	**57,600**	57,619	**515,114**
Other liabilities	**155,454**	162,635	**1,390,223**
Accrued employees' bonuses	**4,674**	4,511	**41,800**
Reserve for reimbursement of debentures	**3,737**	2,903	**33,420**
Deferred tax liabilities	**—**	2,873	**—**
Acceptances and guarantees	**48,526**	21,730	**433,972**
Total liabilities	**7,243,837**	7,081,231	**64,781,234**
Equity:			
Common stock	**512,204**	512,204	**4,580,617**
Capital surplus	**79,465**	79,465	**710,659**
Stock acquisition rights	**534**	512	**4,778**
Retained earnings:			
Legal reserve	**14,220**	13,689	**127,173**
Unappropriated retained earnings	**287,508**	250,526	**2,571,176**
Unrealized gain (loss) on available-for-sale securities	**9,444**	10,777	**84,463**
Deferred gain (loss) on derivatives under hedge accounting	**(15,894)**	(18,166)	**(142,147)**
Treasury stock, at cost	**(79,539)**	(72,559)	**(711,318)**
Total equity	**807,944**	776,450	**7,225,401**
Total liabilities and equity	**¥ 8,051,781**	¥ 7,857,682	**$ 72,006,635**

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥111.82=U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2017.

NONCONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

Shinsei Bank, Limited
For the fiscal year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note)
	2017	2016	**2017**
Interest income:			
Interest on loans and bills discounted	**¥ 85,346**	¥ 80,443	**$ 763,246**
Interest and dividends on securities	**16,352**	25,952	**146,237**
Interest on deposits with banks	**1,023**	1,049	**9,152**
Other interest income	**1,080**	1,704	**9,664**
Total interest income	**103,802**	109,149	**928,299**
Interest expenses:			
Interest on deposits, including negotiable certificates of deposit	**7,818**	8,449	**69,918**
Interest and discounts on debentures	**10**	24	**91**
Interest on other borrowings	**649**	2,209	**5,805**
Interest on corporate bonds	**1,028**	3,403	**9,197**
Other interest expenses	**3,514**	1,691	**31,430**
Total interest expenses	**13,020**	15,778	**116,441**
Net interest income	**90,781**	93,371	**811,858**
Fees and commissions income	**18,944**	19,285	**169,423**
Fees and commissions expenses	**26,417**	24,103	**236,247**
Net fees and commissions	**(7,472)**	(4,818)	**(66,824)**
Net trading income	**4,070**	4,833	**36,399**
Other business income (loss), net:			
Net gain (loss) on monetary assets held in trust	**4,473**	4,491	**40,008**
Net gain (loss) on foreign exchanges	**9,895**	5,596	**88,496**
Net gain (loss) on securities	**12,095**	2,117	**108,171**
Net gain (loss) on other monetary claims purchased	**15**	19	**141**
Other, net	**(932)**	555	**(8,336)**
Net other business income (loss)	**25,548**	12,780	**228,480**
Total revenue	**112,928**	106,166	**1,009,913**
General and administrative expenses:			
Personnel expenses	**26,924**	27,463	**240,786**
Premises expenses	**13,960**	12,153	**124,850**
Technology and data processing expenses	**9,511**	8,636	**85,057**
Advertising expenses	**6,841**	6,950	**61,183**
Consumption and property taxes	**5,837**	5,088	**52,206**
Deposit insurance premium	**2,052**	2,077	**18,360**
Other general and administrative expenses	**13,907**	13,802	**124,374**
Total general and administrative expenses	**79,036**	76,173	**706,816**
Net business profit	**33,892**	29,993	**303,097**
Net credit costs (recoveries)	**3,932**	(20,125)	**35,166**
Other gains (losses), net	**10,885**	(7,284)	**97,352**
Income (loss) before income taxes	**40,845**	42,834	**365,283**
Income taxes (benefit):			
Current	**(1)**	(618)	**(13)**
Deferred	**(2,578)**	1,886	**(23,058)**
Net income (loss)	**¥ 43,425**	¥ 41,566	**$ 388,354**

	Yen		U.S. dollars (Note)
Basic earnings per share	**¥ 16.65**	¥ 15.66	**$ 0.15**
Diluted earnings per share	**¥ 16.65**	¥ 15.66	**$ 0.15**

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥111.82=U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2017.

NONCONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Shinsei Bank, Limited
For the fiscal year ended March 31, 2017

	Millions of yen									
		Capital surplus			Retained earnings					
	Common stock	Additional paid-in capital	Other capital surplus	Stock acquisition rights	Legal reserve	Unappropriated retained earnings	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Treasury stock, at cost	Total equity
BALANCE, April 1, 2015	¥ 512,204	¥ 79,465	¥ —	¥ 1,211	¥ 13,158	¥ 212,144	¥ 8,502	¥ (17,395)	¥ (72,558)	¥ 736,733
Dividends					530	(3,184)				(2,653)
Net income (loss)						41,566				41,566
Purchase of treasury stock									(0)	(0)
Disposal of treasury stock			—						—	—
Transfer to capital surplus from retained earnings			—			—				—
Net change during the year				(698)			2,275	(771)		804
BALANCE, March 31, 2016	**512,204**	**79,465**	**—**	**512**	**13,689**	**250,526**	**10,777**	**(18,166)**	**(72,559)**	**776,450**
Dividends					**530**	**(3,184)**				**(2,653)**
Net income (loss)						**43,425**				**43,425**
Purchase of treasury stock									**(12,096)**	**(12,096)**
Disposal of treasury stock			**(3,258)**						**5,115**	**1,856**
Transfer to capital surplus from retained earnings			**3,258**			**(3,258)**				**—**
Net change during the year				**21**			**(1,332)**	**2,271**		**960**
BALANCE, March 31, 2017	**¥ 512,204**	**¥ 79,465**	**¥ —**	**¥ 534**	**¥ 14,220**	**¥ 287,508**	**¥ 9,444**	**¥ (15,894)**	**¥ (79,539)**	**¥ 807,944**

	Thousands of U.S. dollars (Note)									
		Capital surplus			Retained earnings					
	Common stock	Additional paid-in capital	Other capital surplus	Stock acquisition rights	Legal reserve	Unappropriated retained earnings	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Treasury stock, at cost	Total equity
BALANCE, March 31, 2016	**$ 4,580,617**	**$ 710,659**	**$ —**	**$ 4,584**	**$ 122,426**	**$ 2,240,445**	**$ 96,382**	**$ (162,465)**	**$ (648,893)**	**$ 6,943,755**
Dividends					**4,747**	**(28,481)**				**(23,734)**
Net income (loss)						**388,354**				**388,354**
Purchase of treasury stock									**(108,174)**	**(108,174)**
Disposal of treasury stock			**(29,142)**						**45,749**	**16,607**
Transfer to capital surplus from retained earnings			**29,142**			**(29,142)**				**—**
Net change during the year				**194**			**(11,919)**	**20,318**		**8,593**
BALANCE, March 31, 2017	**$ 4,580,617**	**$ 710,659**	**$ —**	**$ 4,778**	**$ 127,173**	**$ 2,571,176**	**$ 84,463**	**$ (142,147)**	**$ (711,318)**	**$ 7,225,401**

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥111.82=U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2017.

CAPITAL ADEQUACY REQUIREMENT (BASEL ACCORD) PILLAR III (MARKET DISCIPLINE) DISCLOSURE

This chapter describes information that needs to be disclosed in disclosure documents related to the reported business year pursuant to the Financial Services Agency Notice No. 7 of 2014 (Basel Accord - Pillar III: Market Discipline) as the "matters concerning the status of capital adequacy separately prescribed by the Commissioner of the Financial Services Agency" as provided in Article 19-2 (1) (v) (d) of the Ordinance for Enforcement of the Banking Act (Ministry of Finance Ordinance No. 10 of 1982).

"Accord" in this chapter refers to the Financial Services Agency Notice No. 19 of 2006 (Basel Accord - Pillar I: Minimum Capital Ratio).

QUALITATIVE DISCLOSURE

1. RANGE OF CONSOLIDATION

(1) DIFFERENCES BETWEEN COMPANIES WHICH BELONG TO THE GROUP OF COMPANIES (CONSOLIDATED GROUP) SUBJECTED TO CALCULATION OF THE CONSOLIDATED CAPITAL RATIOS BASED ON THE ACCORD'S ARTICLE 26 AND COMPANIES INCLUDED IN THE SCOPE OF ACCOUNTING CONSOLIDATION AND REASONS FOR DIFFERENCES

- There are no differences.

(2) NUMBER OF CONSOLIDATED SUBSIDIARIES AND NAMES AND BUSINESS OF MAJOR CONSOLIDATED SUBSIDIARIES

i) Number of consolidated subsidiaries
124 consolidated subsidiaries.

ii) Major consolidated subsidiaries
- Shinsei Trust & Banking Co., Ltd. (trust banking)
- Shinsei Securities Co., Ltd. (securities)
- APLUS FINANCIAL Co., Ltd. (installment credit)
- Showa Leasing Co., Ltd. (leasing)
- Shinsei Personal Loan Co., Ltd. (consumer finance)
- SHINSEI FINANCIAL Co., Ltd. (consumer finance)
- Shinsei Principal Investments Ltd. (financial investment)

(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 existing Integrated Risk Management Division and the Portfolio Risk Management Division remain the supervisors in the risk management at the bank.

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 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 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)

Current source of capital is maintained at a sufficient level. Going forward, while the Bank expects an increase in risk assets, the Bank pays careful attention to capital adequacy and looks to strengthen its financial basis by improving profitability through the consideration and enactment of appropriate measures that take into account the market environment.

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 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 and Head of Integrated Risk Management on a monthly as well as on an ad hoc basis.

QUALITATIVE DISCLOSURE (CONTINUED)

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."

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

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 Division of 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, need-caution 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

QUALITATIVE DISCLOSURE (CONTINUED)

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.

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.

Fitch was added to our list of eligible rating agencies as rating information became available.

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.

QUALITATIVE DISCLOSURE (CONTINUED)

(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.

As risk embedded in market transactions changes with market movement, the Bank strictly manages its exposures using estimation of future market volatilities.

(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 Executive Committee, and investment business related transactions, which are approved by the Transaction Committee (TC).

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 profit-earning 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.

QUALITATIVE DISCLOSURE (CONTINUED)

(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.

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.

QUALITATIVE DISCLOSURE (CONTINUED)

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.

Fitch was added to our list of eligible rating agencies as rating information became available.

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.

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

QUALITATIVE DISCLOSURE (CONTINUED)

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		¥ 1,231	¥ 1,155
through FY	High	2,444	1,998
	Mean	1,627	1,367
	Low	1,042	919

		Millions of yen	
		Consolidated	Nonconsolidated
Stressed VaR at the end of year		¥ 3,171	¥ 2,992
through FY	High	4,248	3,604
	Mean	2,923	2,485
	Low	2,050	1,843

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 2016 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.

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 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.

QUALITATIVE DISCLOSURE (CONTINUED)

3) Interest rate shock range
Internal control: up 1%; outlier criteria: up down 2%

4) Calculation frequency
Bank: daily; consolidated subsidiaries: 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	¥ (94.0)	¥ (53.2)
USD	(4.3)	(4.3)
Other	(6.2)	(6.2)
Total	¥ (104.6)	¥ (63.8)
Outlier Ratio	12.9%	7.7%

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 firm-wide management division of operational risk (hereinafter "firm-wide management division")
- Verification by 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.

QUALITATIVE DISCLOSURE (CONTINUED)

(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 2016:

	Millions of yen	
	Required capital amount (Consolidated)	Required capital amount (Nonconsolidated)
The Standardized Approach	¥ 29,985	¥ 15,390

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	A obligor rating system benchmarked against external ratings (R&I) which reflects credit status of obligor is in place. Obligor rating is derived from quantitative score calculated from model prepared by using external ratings etc. as a benchmark based on the financial data of a customer, and determined taking into account of influence from group companies and future financial projection. Obligor ratings for Sovereign/Bank exposures are assigned based on specific rules.	A facility rating system based on degree of expected loss ratio according to the transaction type is in place for specialized lending assets whose interest payments and principal repayments are heavily dependent on the profit of assets and the business. Ratings are assessed according to facility type as follows. • Real estate nonrecourse loans are decided by adding qualitative adjustments to quantitative index based on the LTV. • Ratings for project finance or non-recourse shipping finance are decided by comprehensively considering financial indices such as DSCR and the assessment of each risk factor that has an impact on the operation of the project. Regarding nonrecourse shipping finance, evaluation of ship is also considered in the risk assessment.
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	Portfolio Risk Management Division (PRMD) 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	Definition of Default Obligor categorization under self assessment falls to sub-standard (9B) or lower, etc. PD Long-term averages are calculated based on internal data, and margin for estimation error is added to derive estimates. LGD/EAD Parameters are not estimated as a bank using Fundamental Internal Ratings-Based Approach.	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 PERSONAL LOAN, Zen-Nichi Shinpan, Shinsei Financial, Shinsei Personal Loan and Showa Leasing)
	(f) Residential Mortgage Exposures	(g) Qualifying Revolving Retail Exposures	(h) Qualifying Revolving Retail Exposures, (i) Other Retail Exposures
Structure of Internal Rating System	Assignment of Pool Category to each exposure shall be conducted so that risk is appropriately categorized, taking into account the obligor's risk characteristics, transaction's risk characteristics and the delinquency status of the exposure. (In addition to housing loans described above, housing loans originated by lenders other than the Bank and purchased as portfolios by the Bank are managed as purchased receivables.)	Portfolios which the bank originated are classified as qualifying revolving retail exposures. Pools are classified quantitatively by obligor risk characteristics and etc.	Portfolios of the Bank's subsidiaries are classified as qualifying revolving retail exposures (such as unsecured personal loans, credit cards) or other retail exposures (such as installment sales credit receivables, small-lot lease receivables) according to credit facility types. (Housing loan portfolios of APLUS and Zen-Nichi Shinpan are classified as residential mortgage exposures). Exposures are assigned to appropriate pools established for each subsidiary, considering obligor risk characteristics, transaction risk characteristics, and delinquency status.
Usage of Various Estimated Value (Use Test)	Pool classification and PD/LGD/EAD estimates are used for calculating and allocating Risk Capital.	Pool classification and PD/LGD/EAD estimates are used for calculating and allocating Risk Capital.	Pool classification and PD/LGD/EAD estimates are used for calculating and allocating Risk Capital.
Management of Internal Rating System, and Rating Assignment Procedures	Portfolio Risk Management Division (PRMD) of the Bank is in charge of internal rating system design, pool assignment and also estimates/validates parameters.	Portfolio Risk Management Division (PRMD) 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.	Portfolio Risk Management Division (PRMD) of the Bank is in charge of internal rating system design, pool assignment and also estimates/validates parameters with subsidiaries.
Validation Procedures	Key methodologies of validation are as follows: • PD: Validation whether GAP between PD estimates/theoretical PD values by age of exposures based on the PD seasoning curve and historical PD • LGD: Validation whether gap between LGD estimates and historical LGD remain within a certain confidence level, and validation whether estimated collateral sale price is conservative.	Key methodologies of validation are as follows: • PD: Validation of accordance between PD estimates and historical PD, and validation of PD and rating goodness of fit • LGD: Validation if gap between LGD estimates and historical LGD remain within a certain confidence level • Pool classification: Validation on default predictive power	Key methodologies of validation are as follows: • PD: Validation of accordance between PD estimates and historical PD, and validation of PD and rating goodness of fit • LGD: Validation if gap between LGD estimates and historical LGD remain within a certain confidence level • Pool classification: Validation on default predictive power
Estimation of Parameters	Definition of Default Any of the following: i) past due three months or more, ii) relaxation of terms and conditions, iii) legal bankruptcy PD/LGD PD/LGD are estimated using the Bank's historical data and the margin for estimation error is added to derive estimates. The seasoning characteristics of default for PD and collection from collateral sale value for LGD are taken into consideration.	Definition of Default Subrogated for late payment and etc. PD/LGD/EAD PD/LGD/EAD are estimated on pool by pool basis, using the historical data. Long-term averages are calculated based on these data, and margin for estimation error is added to derive estimates.	Definition of Default Any of the following: i) past due three months or more, ii) relaxation of terms and conditions, iii) legal bankruptcy, etc. PD/LGD/EAD PD/LGD/EAD are estimated on pool by pool basis, using the Bank's subsidiaries' historical data. Long-term averages are calculated based on these data, and margin for estimation error is added to derive estimates.

QUALITATIVE DISCLOSURE (CONTINUED)

SHINSEI BANK CORPORATE OBLIGOR RATING SYSTEM

Obligor Rating Categories	Corresponding Rating Assigned by R & I	Summary
0A		1. Japanese Government, BOJ. 2. Government-affiliated agencies, expected high certainty from strong backup by the Government.
1A	AAA	Highest capability to meet its financial commitments on the obligations and many other positive factors.
2A	AA+	Very high capability to meet its financial commitment on the obligation and other positive factors.
2B	AA	
2C	AA-	
3A	A+	High capability to meet its financial commitments on the obligations and some good factors.
3B	A	
3C	A-	
4A	BBB+	There is adequate certainty of the fulfillment of obligations, but there are also some factors requiring attention in the event of serious adverse economic conditions in the future.
4B	BBB	
4C	BBB-	
5A	BB+	No problem regarding the certainty of the fulfillment of obligations for the time being, but some factors need to be closely watched in the event of adverse economic conditions in the future.
5B	BB	
5C	BB-	
6A	B+	No problem regarding the certainty of the fulfillment of obligations in the present situation, but special supervision is needed to monitor the trends in business performance and the protection of credit exposure.
6B	B	
6C	B-	
9A		Classified as "Other Need Caution" in the self-assessment.
9B		Classified as "Sub-Standard" in the self-assessment.
9C		Classified as "Possibly Bankrupt" in the self-assessment.
9D		Classified as "Virtually Bankrupt" in the self-assessment.
9E		Classified as "Bankrupt" in the self-assessment.

With regard to the internal controls related to the calculation of the capital adequacy ratio, 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	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 (CONSOLIDATED) (continued)

Shinsei Bank and subsidiaries

As of March 31 Items	Millions of yen (except percentages) 2016 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	¥ 784,169	
of which: capital and capital surplus	591,666	
of which: retained earnings	267,716	
of which: treasury stock (–)	72,559	
of which: earning to be distributed (–)	2,653	
of which: other than above	—	
Accumulated other comprehensive income (amount allowed to be included in Core capital)	(825)	¥ (1,782)
of which: foreign currency translation adjustment	362	
of which: amount related defined benefit	(1,188)	(1,782)
Stock acquisition right to common shares and preferred shares with a compulsory conversion clause	512	
Adjusted noncontrolling interests (amount allowed to be included in Core capital)	15	
Total of reserves included in Core capital: instruments and reserves	1,004	
of which: general reserve for loan losses included in Core capital	1,004	
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)	67,691	
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)	3,429	
Core capital: instruments and reserves (A)	¥ 855,998	
Core capital: regulatory adjustments (2)		
Total amount of intangible assets (excluding those relating to mortgage servicing rights)	¥ 28,365	¥ 11,032
of which: goodwill (including those equivalent)	18,114	—
of which: other intangibles other than goodwill and mortgage servicing rights	10,251	11,032
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	2,607	3,910
Shortfall of eligible provisions to expected losses	6,552	—
Gain on sale of securitization	8,289	—
Gains and losses due to changes in own credit risk on fair valued liabilities	—	—
Net defined benefit asset	662	993
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)	¥ 46,478	
Capital (consolidated)		
Capital (consolidated)((A)–(B))(C)	¥ 809,520	
Risk-weighted assets, etc.		
Total amount of credit risk-weighted assets	¥5,132,237	
of which: total amount included in risk-weighted assets by transitional arrangements	6,168	
of which: intangible assets (excluding those relating to goodwill and mortgage servicing rights)	11,032	
of which: deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	3,910	
of which: net defined benefit asset	993	
of which: significant investments in the common stock of Other Financial Institutions (net of eligible short positions)	(9,768)	
of which: other than above	—	
Market risk (derived by multiplying the capital requirement by 12.5)	200,054	
Operational risk (derived by multiplying the capital requirement by 12.5)	365,887	
Credit risk adjustments	—	
Operational risk adjustments	—	
Total amount of Risk-weighted assets (D)	¥5,698,179	
Capital ratio (consolidated)		
Capital ratio (consolidated)((C)/(D))	14.20%	

COMPOSITION OF CAPITAL DISCLOSURE (NONCONSOLIDATED)

Shinsei Bank

Millions of yen (except percentages)

As of March 31 Items	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%	

COMPOSITION OF CAPITAL DISCLOSURE (NONCONSOLIDATED) (continued)

Shinsei Bank

As of March 31 Items	Millions of yen (except percentages) 2016 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	¥ 780,673	
of which: capital and capital surplus	591,670	
of which: retained earnings	264,216	
of which: treasury stock (–)	72,559	
of which: earning to be distributed (–)	2,653	
of which: other than above	—	
Stock acquisition right to common shares and preferred shares with a compulsory conversion clause	512	
Total of reserves included in Core capital: instruments and reserves	222	
of which: general reserve for loan losses included in Core capital	222	
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)	67,691	
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)	¥ 849,100	
Core capital: regulatory adjustments (2)		
Total amount of intangible assets (excluding those relating to mortgage servicing rights)	¥ 4,916	¥ 4,838
of which: goodwill (including those equivalent)	1,200	—
of which: other intangibles other than goodwill and mortgage servicing rights	3,715	4,838
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	649	973
Shortfall of eligible provisions to expected losses	8,897	—
Gain on sale of securitization	8,289	—
Gains and losses due to changes in own credit risk on fair valued liabilities	—	—
Prepaid pension cost	296	445
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)	¥ 23,050	
Capital (nonconsolidated)		
Capital (nonconsolidated)((A)–(B))(C)	¥ 826,050	
Risk-weighted assets, etc.		
Total amount of credit risk-weighted assets	¥4,869,145	
of which: total amount included in risk-weighted assets by transitional arrangements	(3,510)	
of which: intangible assets (excluding those relating to goodwill and mortgage servicing rights)	4,838	
of which: deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	973	
of which: prepaid pension cost	445	
of which: significant investments in the common stock of Other Financial Institutions (net of eligible short positions)	(9,768)	
of which: other than above	—	
Market risk (derived by multiplying the capital requirement by 12.5)	146,913	
Operational risk (derived by multiplying the capital requirement by 12.5)	192,514	
Credit risk adjustments	—	
Operational risk adjustments	—	
Total amount of Risk-weighted assets (D)	¥5,208,573	
Capital ratio (nonconsolidated)		
Capital ratio (nonconsolidated)((C)/(D))	15.85%	

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	
	2017	2016
As of March 31	**Required capital amount**	Required capital amount
Shinsei Bank	**¥ 467**	¥ 12,841
Subsidiaries	**3,783**	5,493

"The Shinsei Bank Lake Business" had shifted to the F-IRB approach since March 31, 2017. The total amount of required capital under the standardized approach was ¥13,276 million as of March 31, 2016.

Portfolios under the Internal Ratings-Based Approach (IRB)

	Millions of yen	
	2017	2016
As of March 31	**Required capital amount**	Required capital amount
Corporate (Excluding Specialized Lending)[1]	**¥ 163,922**	¥ 162,181
Specialized Lending[2]	**69,840**	73,682
Sovereign	**5,398**	4,896
Bank	**11,264**	11,539
Residential mortgages	**15,607**	15,777
Qualified revolving retails	**139,586**	74,524
Other retails	**150,849**	142,801
Equity	**19,409**	17,118
Regarded (Fund)	**20,140**	20,287
Securitization	**28,567**	27,199
Purchase receivables	**23,698**	26,262
Other assets	**4,991**	5,160
CVA risk	**7,534**	9,352
CCP risk	**95**	61
Total	**¥ 660,906**	¥ 590,846

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	
	2017	2016
As of March 31	**Required capital amount**	Required capital amount
Market-Based Approach Simplified Method	**¥ 4,055**	¥ 2,541
PD/LGD Method	**4,753**	4,588
RW100% Applied	**4**	0
RW250% Applied	**10,596**	9,988
Total	**¥ 19,409**	¥ 17,118

(3) AMOUNT OF REQUIRED CAPITAL FOR REGARDED-METHOD EXPOSURE UNDER IRB

	Millions of yen	
	2017	2016
As of March 31	**Required capital amount**	Required capital amount
Look Through	**¥ 2,047**	¥ 2,299
Revised Naivete Majority	**13,002**	12,851
Simplified [400%]	**730**	993
Simplified [1,250%]	**4,359**	4,143
Total	**¥ 20,140**	¥ 20,287

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(4) AMOUNT OF REQUIRED CAPITAL FOR MARKET RISK

	Millions of yen	
	2017	2016
As of March 31	**Required capital amount**	Required capital amount
The Standardized Approach	**¥ 539**	¥ 1,067
Interest rate risk	**70**	241
Equity position risk	**9**	2
FX risk	**182**	60
Securitization risk	**277**	762
The Internal Models Approach (IMA) (General Market Risk)	**12,173**	14,937

(5) AMOUNT OF REQUIRED CAPITAL FOR OPERATIONAL RISK

	Millions of yen	
	2017	2016
As of March 31	**Required capital amount**	Required capital amount
The Standardized Approach	**¥ 29,985**	¥ 29,271

(6) TOTAL REQUIRED CAPITAL (DOMESTIC STANDARD)

	Millions of yen	
As of March 31	**2017**	2016
Total Required Capital (Risk-weighted Assets x 4%)	**¥ 248,799**	¥ 227,927

3. CREDIT RISK EXPOSURE (EXCLUDING SECURITIZATION AND REGARDED EXPOSURE)

(1) AMOUNT OF CREDIT RISK EXPOSURE

Geographic, Industries or Maturity

	Millions of yen							
	2017				2016			
	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	**¥ 354,882**	**¥ 343,335**	**¥ 60**	**¥ 11,487**	¥ 334,548	¥ 324,684	¥ 70	¥ 9,794
Agriculture	**341**	**341**	**—**	**—**	627	627	—	—
Mining	**899**	**896**	**—**	**3**	915	911	—	4
Construction	**45,570**	**45,569**	**—**	**0**	49,473	49,436	36	—
Electric power, gas, water supply	**304,250**	**293,404**	**—**	**10,846**	269,638	258,405	—	11,232
Information and communication	**57,284**	**57,275**	**—**	**9**	55,866	55,846	—	19
Transportation	**216,162**	**213,090**	**1,999**	**1,072**	207,921	203,786	1,999	2,135
Wholesale and retail	**214,890**	**195,967**	**8,633**	**10,288**	194,848	186,504	—	8,343
Finance and insurance	**2,047,538**	**1,960,257**	**59,590**	**27,690**	1,698,515	1,583,295	81,149	34,070
Real estate	**674,887**	**591,922**	**79,285**	**3,678**	664,683	597,654	60,694	6,334
Services	**520,449**	**514,318**	**5,894**	**236**	496,940	490,529	5,910	501
Government	**568,553**	**74,991**	**493,562**	**—**	821,146	75,435	745,710	—
Individuals	**3,150,418**	**3,150,418**	**—**	**—**	2,783,998	2,783,993	—	5
Others	**8,026**	**7,981**	**0**	**45**	50,836	50,836	0	—
Domestic Total	**8,164,155**	**7,449,770**	**649,026**	**65,358**	7,629,960	6,661,949	895,570	72,440
Foreign	**924,297**	**622,438**	**219,508**	**82,349**	857,605	520,780	228,027	108,797
Total	**¥ 9,088,452**	**¥ 8,072,209**	**¥ 868,535**	**¥147,708**	¥ 8,487,565	¥ 7,182,729	¥ 1,123,597	¥ 181,238
To 1 year	**1,518,631**	**1,452,850**	**46,812**	**18,968**	1,383,175	1,259,780	97,231	26,163
1 to 3 years	**1,750,877**	**1,426,815**	**289,715**	**34,347**	1,591,680	1,332,226	218,828	40,625
3 to 5 years	**1,359,662**	**983,307**	**359,241**	**17,113**	1,335,271	937,858	376,842	20,570
Over 5 years	**2,751,034**	**2,502,145**	**171,610**	**77,278**	2,754,249	2,229,711	430,659	93,878
Undated	**1,708,246**	**1,707,091**	**1,154**	**—**	1,423,189	1,423,153	36	—
Total	**¥ 9,088,452**	**¥ 8,072,209**	**¥ 868,535**	**¥147,708**	¥ 8,487,565	¥ 7,182,729	¥ 1,123,597	¥ 181,238

1 Excluding purchased receivables.
2 Excluding equity exposures.
3 Credit equivalent amount basis.

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(2) AMOUNT OF DEFAULT EXPOSURE BEFORE PARTIAL WRITE-OFF

Geographic, Industries

	Millions of yen	
	2017	2016
As of March 31	**Default Exposure**	Default Exposure
Manufacturing	**¥ 4,857**	¥ 2,305
Agriculture	**—**	25
Mining	**—**	—
Construction	**1,061**	1,399
Electric power, gas, water supply	**—**	—
Information and communication	**93**	37
Transportation	**1,692**	2,042
Wholesale and retail	**2,538**	2,728
Finance and insurance	**268**	2,274
Real estate	**1,739**	30,824
Services	**2,962**	2,589
Government	**—**	—
Individuals	**148,780**	137,414
Others	**5,816**	6,109
Domestic Total	**169,811**	187,751
Foreign	**35,414**	33,841
Total	**¥ 205,226**	¥ 221,593

(3) AMOUNT OF LOAN LOSS RESERVES (GENERAL, SPECIFIC AND COUNTRY RISK) BEFORE PARTIAL WRITE-OFF

	Millions of yen					
	2017			2016		
As of March 31	**Start Amount**	**Change Amount**	**End Amount**	Start Amount	Change Amount	End Amount
General	**¥ 66,779**	**¥ 4,197**	**¥ 70,977**	¥ 65,204	¥ 1,575	¥ 66,779
Specific	**144,324**	**(8,611)**	**135,712**	184,559	(40,235)	144,324
Country	**0**	**(0)**	**0**	0	(0)	0
Total	**¥ 211,104**	**¥ (4,414)**	**¥ 206,690**	¥ 249,764	¥ (38,659)	¥ 211,104

Geographic

	Millions of yen							
	2017				2016			
	Reserve Amount				Reserve Amount			
As of March 31	**Total**	**General**	**Specific**	**Country**	Total	General	Specific	Country
Domestic	**¥ 168,851**	**¥ 61,291**	**¥ 107,560**	**¥ —**	¥ 175,328	¥ 59,074	¥ 116,253	¥ —
Foreign	**37,839**	**9,686**	**28,152**	**0**	35,776	7,704	28,071	0
Total	**¥ 206,690**	**¥ 70,977**	**¥ 135,712**	**¥ 0**	¥ 211,104	¥ 66,779	¥ 144,324	¥ 0

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

Industries

As of March 31	Millions of yen 2017 Reserve Amount	2016 Reserve Amount
Manufacturing	**¥ 4,907**	¥ 4,844
Agriculture	**11**	26
Mining	**6**	5
Construction	**806**	984
Electric power, gas, water supply	**638**	514
Information and communication	**322**	252
Transportation	**2,850**	2,798
Wholesale and retail	**3,025**	3,642
Finance and insurance	**1,648**	1,658
Real estate	**4,533**	5,330
Services	**5,237**	5,869
Government	**30**	41
Individuals	**142,101**	146,530
Others	**731**	862
Foreign	**37,839**	35,776
Non-classified	**1,998**	1,965
Total	**¥ 206,690**	¥ 211,104

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 FY2016 Amount of write-off	FY2015 Amount of write-off
Manufacturing	**¥ 44**	¥ 152
Agriculture	**—**	1
Mining	**—**	—
Construction	**4**	30
Electric power, gas, water supply	**—**	—
Information and communication	**8**	0
Transportation	**323**	52
Wholesale and retail	**270**	102
Finance and insurance	**0**	—
Real estate	**0**	21,566
Services	**209**	110
Government	**—**	—
Individuals	**40,580**	27,081
Others	**—**	2
Foreign	**1,527**	1,530
Non-classified	**—**	—
Total	**¥ 42,970**	¥ 50,630

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(5) AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)

Millions of yen

As of March 31	2017 Rated	2017 Unrated	2016 Rated	2016 Unrated
0%	¥ 87	¥ 11,516	¥ 346	¥ 8,878
10%	—	—	—	—
20%	22,677	29	30,650	29
35%	—	2,991	—	5,028
50%	35	247	93	3,321
75%	—	32,640	—	250,718
100%	419	20,309	444	29,457
150%	—	1,467	—	1,095
350%	—	—	—	—
1,250%	—	—	—	—
Total	¥ 23,219	¥ 69,203	¥ 31,535	¥ 298,530

(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 Risk weight ratio	2017 Amount of Exposure	2016 Amount of Exposure
50%	¥ 82,979	¥ 54,025
70%	360,178	393,794
90%	130,701	72,602
115%	86,510	48,199
250%	29,624	35,081
0% (Default)	—	36,295
Total	¥ 689,994	¥ 639,998

Specialized lending for high-volatility commercial real estate

Millions of yen

As of March 31 Risk weight ratio	2017 Amount of Exposure	2016 Amount of Exposure
70%	¥ 11,000	¥ 4,646
95%	26,086	3,300
120%	22,426	5,276
140%	22,957	14,328
250%	14,821	9,055
0% (Default)	—	—
Total	¥ 97,292	¥ 36,606

Equity exposure under Market-Based Simplified Method

Millions of yen

As of March 31 Risk weight ratio	2017 Amount of Exposure	2016 Amount of Exposure
300%	¥ 6,851	¥ 2,192
400%	6,817	5,848
Total	¥ 13,669	¥ 8,040

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	2017					2016				
Credit Rating	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
0–4	**0.16%**	**45.02%**	**41.03%**	**¥ 1,604,126**	**¥ 210,340**	0.17%	44.90%	42.67%	¥ 1,603,018	¥ 178,243
5–6	**1.72%**	**44.03%**	**97.02%**	**638,991**	**50,823**	1.87%	44.06%	98.25%	594,394	51,808
9A	**9.87%**	**44.77%**	**193.19%**	**108,114**	**2,302**	10.10%	45.48%	196.10%	113,644	2,058
Default	**100.00%**	**47.46%**	**—**	**30,434**	**10**	100.00%	44.13%	—	27,560	1,022

Sovereign

Millions of yen (except percentages)

As of March 31	2017					2016				
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%**	**2.95%**	**¥ 2,050,362**	**¥ 2,404**	0.00%	45.00%	2.76%	¥ 2,057,660	¥ 2,542
5–6	**0.59%**	**45.00%**	**56.95%**	**3,588**	**—**	—	—	—	—	—
9A	**—**	**—**	**—**	**—**	**—**	10.10%	45.00%	176.47%	31	—
Default	**100.00%**	**45.00%**	**—**	**11**	**—**	100.00%	45.00%	—	13	—

Bank

Millions of yen (except percentages)

As of March 31	2017					2016				
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%**	**31.52%**	**¥ 221,205**	**¥ 108,870**	0.10%	45.00%	39.55%	¥ 180,231	¥ 137,956
5–6	**0.89%**	**45.00%**	**87.88%**	**15,848**	**4,743**	1.00%	45.00%	75.50%	5,388	524
9A	**9.87%**	**45.00%**	**189.40%**	**3,421**	**—**	10.10%	45.00%	192.87%	994	510
Default	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—

• 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	2017				2016			
Credit Rating	**PD**	**LGD**	**Risk Weight**	**Amount**	PD	LGD	Risk Weight	Amount
0–4	**0.13%**	**90.00%**	**235.12%**	**¥ 16,234**	0.12%	90.00%	239.14%	¥ 16,279
5–6	**1.25%**	**90.00%**	**322.09%**	**4,105**	1.07%	90.00%	313.04%	4,352
9A	**9.87%**	**90.00%**	**753.50%**	**618**	10.10%	90.00%	584.17%	264
Default	**100.00%**	**90.00%**	**1,125.00%**	**0**	100.00%	90.00%	1,125.00%	0

The Goal for Shinsei Bank Group
Strategies to Increase Value for Stakeholders
Sources of Corporate Value
ESG as Foundation Increasing Corporate Value
Data Section

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	2017							2016						
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	**0.29%**	**18.64%**	**10.68%**	**¥ 1,337,682**	**¥ 4,258**	**¥ —**	**—**	0.29%	20.13%	11.63%	¥ 1,211,686	¥ 5,118	¥ —	—
Need caution	**66.53%**	**23.66%**	**83.11%**	**1,702**	**110**	**—**	**—**	67.55%	26.34%	90.52%	1,865	118	—	—
Default	**100.00%**	**47.36%**	**43.30%**	**4,069**	**77**	**—**	**—**	100.00%	45.69%	48.95%	4,584	142	—	—

Qualified revolving retail exposure

Millions of yen (except percentages)

As of March 31	2017							2016						
Pool	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)	Undrawn Amount	Commitment CCF	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)	Undrawn Amount	Commitment CCF
Normal	**5.96%**	**78.94%**	**94.15%**	**¥526,565**	**¥132,325**	**¥ 2,719,440**	**4.86%**	4.46%	70.60%	69.31%	¥ 293,495	¥ 108,367	¥ 2,308,344	4.69%
Need caution	**83.30%**	**83.13%**	**107.70%**	**2,680**	**39**	**3,274**	**1.21%**	81.78%	77.26%	106.03%	1,800	1	2,517	0.06%
Default	**100.00%**	**76.29%**	**—**	**67,562**	**—**	**—**	**—**	100.00%	74.67%	—	48,739	—	—	—

Other retail exposure

Millions of yen (except percentages)

As of March 31	2017							2016						
Pool	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)	Undrawn Amount	Commitment CCF	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)	Undrawn Amount	Commitment CCF
Normal	**3.18%**	**63.07%**	**83.22%**	**¥ 502,158**	**¥ 598,528**	**¥ 99,359**	**1.91%**	2.81%	61.34%	79.24%	¥441,961	¥571,619	¥ 59,827	1.18%
Need caution	**69.49%**	**51.70%**	**99.75%**	**5,956**	**1,763**	**1**	**0.00%**	73.96%	51.08%	89.90%	6,477	2,012	3	0.49%
Default	**100.00%**	**58.29%**	**0.88%**	**79,510**	**536**	**—**	**—**	100.00%	56.91%	0.84%	92,218	537	—	—

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

	FY2016	FY2015	FY2014
Results of actual losses (a)	**¥ 3,328**	¥ 2,300	¥ 1,838
Expected losses (b)	**9,649**	10,399	11,666
Differences ((b) - (a))	**6,320**	8,098	9,827

Retail

Millions of yen

	FY2016	FY2015	FY2014
Results of actual losses (a)	**¥ 29,134**	¥ 16,089	¥ 17,128
Expected losses (b)	**53,034**	33,658	41,380
Differences ((b) - (a))	**23,899**	17,569	24,252

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, 2015, 2016 and 2017 for the Bank Group's non-default exposures at the start of the twelve-month period, with expected losses. The exposures for the Shinsei Bank Lake business are calculated through the F-IRB approach starting from March 31, 2017.

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

4. CREDIT RISK MITIGATION (CRM)

(1) COVERED AMOUNT OF CRM BY COLLATERAL

FIRB

	Millions of yen			
	2017		2016	
As of March 31	**Eligible financial collateral**	**Other eligible FIRB collateral**	Eligible financial collateral	Other eligible FIRB collateral
Corporate	**¥ 4,947**	**¥ 179,278**	¥ 2,729	¥ 173,649
Sovereign	**—**	**—**	—	—
Bank	**—**	**1,565**	—	—
Total	**¥ 4,947**	**¥ 180,844**	¥ 2,729	¥ 173,649

(2) COVERED AMOUNT OF CRM BY GUARANTEE OR CREDIT DERIVATIVES

IRB

	Millions of yen	
As of March 31	**2017**	2016
Corporate	**¥ 1,743**	¥ 1,572
Sovereign	**25,217**	23,917
Bank	**—**	—
Residential mortgages	**—**	—
Qualified revolving retail	**—**	—
Other retail	**—**	—
Total	**¥ 26,961**	¥ 25,490

5. COUNTERPARTY CREDIT RISK OF DERIVATIVES

	Millions of yen	
As of March 31	**2017**	2016
Total amount of gross positive fair value	**¥ 332,264**	¥ 448,188
Amount of gross add-on	**105,353**	124,394
EAD before CRM	**437,617**	572,583
FX-related	**110,417**	183,669
Interest-related	**205,237**	340,378
Equity-related	**6,771**	28,441
Commodity-related	**—**	—
Credit derivatives	**9,781**	20,044
Others	**55**	49
Amount of net	**289,909**	391,381
EAD after net	**147,708**	181,201
Amount covered collateral	**—**	—
EAD after CRM	**147,708**	181,201

Note: Current Exposure Method

• Notional amount of credit derivatives which have counterparty risk

	Millions of yen			
As of March 31	**2017**		2016	
Notional amount	**Protection-buy**	**Protection-sell**	Protection-buy	Protection-sell
Single name	**¥ 107,316**	**¥ 89,536**	¥ 165,094	¥ 133,041
Multi name	**31,500**	**27,500**	49,500	43,500

Not applicable for the following items;

• Amount covered collateral

• Notional amount of credit derivatives which cover exposures by CRM

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

6. SECURITIZATION

SECURITIZATION EXPOSURE ORIGINATED BY THE BANK GROUP (CREDIT RISK)

(1) Amount of original assets

Securitization by transfer of assets

Millions of yen

As of March 31	2017	2016
Type of original assets	**Amount of original assets**	Amount of original assets
Residential mortgages	**¥ 8,208**	¥ 81,632
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥ 8,208**	¥ 81,632

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

Millions of yen

As of March 31	2017	2016
Type of original assets	**Amount of Default**	Amount of Default
Residential mortgages	**¥ 244**	¥ 470
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥ 244**	¥ 470

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

Millions of yen

As of March 31	2017	2016
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ —**	¥ 45,866
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥ —**	¥ 45,866

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

Resecuritization

As of March 31	Millions of yen	
	2017	2016
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			
	2017		2016	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 12%	**¥ —**	**¥ —**	¥ 27,406	¥ 124
Over 12% to 20%	**—**	**—**	13,309	196
Over 20% to 50%	**—**	**—**	4,934	162
Over 50% to 75%	**—**	**—**	—	—
Over 75% to 100%	**—**	**—**	—	—
Over 100% to 250%	**—**	**—**	—	—
Over 250% to 425%	**—**	**—**	216	62
Over 425% under 1,250%	**—**	**—**	—	—
Total	**¥ —**	**¥ —**	¥ 45,866	¥ 545

Resecuritization exposure

As of March 31	Millions of yen			
	2017		2016	
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	
	2017	2016
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 5,442**	¥ 8,289
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥ 5,442**	¥ 8,289

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(6) Amount of securitization exposure applied risk weight 1,250%

Millions of yen

As of March 31	2017	2016
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 1,384**	¥ 1,934
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥ 1,384**	¥ 1,934

Not applicable for the following items;

- Amount of assets held for securitization trade
- Summary of current year's securitization activities
- Amount of recognized gain/loss by original asset type during FY2017
- Securitization exposure subject to early amortization
- Credit risk mitigation for resecuritization exposure

SECURITIZATION EXPOSURE IN WHICH THE BANK GROUP INVESTS

(1) Amount of securitization exposure the Bank Group has by type of original asset

Excluding resecuritization exposure

Millions of yen

As of March 31	2017	2016
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 14,371**	¥ —
Consumer loans	**—**	—
Commercial real estate loans	**61,332**	66,929
Corporate loans	**21,213**	18,701
Others	**12,646**	19,794
Total	**¥ 109,564**	¥ 105,425

Resecuritization exposure

Millions of yen

As of March 31	2017	2016
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ —**	¥ —
Consumer loans	**—**	—
Commercial real estate loans	**—**	20,000
Corporate loans	**1,765**	6,361
Others	**—**	—
Total	**¥ 1,765**	¥ 26,361

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 2017		2016	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 12%	**¥ 46,784**	**¥ 302**	¥ 38,495	¥ 240
Over 12% to 20%	**—**	**—**	—	—
Over 20% to 50%	**229**	**4**	20,351	771
Over 50% to 75%	**—**	**—**	—	—
Over 75% to 100%	**1,395**	**111**	—	—
Over 100% to 250%	**16,686**	**2,451**	24,996	3,977
Over 250% to 425%	**11,578**	**3,537**	6,081	1,804
Over 425% under 1,250%	**32,890**	**14,555**	15,500	7,047
Total	**¥ 109,564**	**¥ 20,962**	¥ 105,425	¥ 13,841

Resecuritization exposure

As of March 31	Millions of yen 2017		2016	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 30%	**¥ 1,765**	**¥ 29**	¥ 6,361	¥ 107
Over 30% to 50%	**—**	**—**	—	—
Over 50% to 100%	**—**	**—**	20,000	1,023
Over 100% to 225%	**—**	**—**	—	—
Over 225% to 500%	**—**	**—**	—	—
Over 500% under 1,250%	**—**	**—**	—	—
Total	**¥ 1,765**	**¥ 29**	¥ 26,361	¥ 1,131

(3) Amount of securitization exposure applied risk weight 1,250%

As of March 31	Millions of yen 2017	2016
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 627**	¥ 1,258
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**0**	6
Others	**—**	—
Total	**¥ 627**	¥ 1,264

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

Millions of yen

As of March 31	2017	2016
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 747**	¥ 16,932
Consumer loans	**568**	5,603
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**13,736**	—
Total	**¥ 15,052**	¥ 22,536

Resecuritization exposure

Millions of yen

As of March 31	2017	2016
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 1**	¥ 1,319
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥ 1**	¥ 1,319

(2) Amount of securitization exposure and required capital for the Bank Group has by risk weight ratio

Excluding resecuritization exposure

Millions of yen

As of March 31	2017		2016	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
1.6%	**¥ 14,484**	**¥ 231**	¥ 16,932	¥ 270
4%	**—**	**—**	—	—
8%	**568**	**45**	5,603	448
28%	**—**	**—**	—	—
Total	**¥ 15,052**	**¥ 277**	¥ 22,536	¥ 719

Resecuritization exposure

Millions of yen

As of March 31	2017		2016	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
3.2%	**¥ 1**	**¥ 0**	¥ 1,291	¥ 41
8%	**—**	**—**	28	2
18%	**—**	**—**	—	—
52%	**—**	**—**	—	—
Total	**¥ 1**	**¥ 0**	¥ 1,319	¥ 43

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 2017 AND MARCH 2016 AND THE HIGH, MEAN AND LOW VAR

	Millions of yen	
As of March 31	**2017**	2016
VaR at term end	**¥ 1,231**	¥ 1,214
VaR through this term		
High	**2,444**	2,346
Mean	**1,627**	1,626
Low	**1,042**	1,017

(2) STRESSED VAR AT THE END OF MARCH 2017 AND MARCH 2016 AND THE HIGH, MEAN AND LOW VAR

	Millions of yen	
As of March 31	**2017**	2016
VaR at term end	**¥ 3,171**	¥ 2,587
VaR through this term		
High	**4,248**	5,219
Mean	**2,923**	3,859
Low	**2,050**	2,393

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 BANKING BOOK

(1) BOOK VALUE AND FAIR VALUE

	Millions of yen	
As of March 31	**2017**	2016
Market-based approach		
Listed equity exposure	**¥ 6,851**	¥ 2,192
Unlisted equity exposure	**6,817**	5,848
PD/LGD method		
Listed equity exposure	**12,442**	12,001
Unlisted equity exposure	**8,515**	8,894

(2) GAIN OR LOSS ON SALE OR DEPRECIATION OF EQUITY EXPOSURE

	Millions of yen	
	FY2016	FY2015
Gain (loss) on sale	**¥ 4,787**	¥ 2,351
Loss of depreciation	**126**	840

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(3) UNREALIZED GAIN OR LOSS WHICH IS RECOGNIZED ON BALANCE SHEET AND NOT RECOGNIZED ON PROFIT AND LOSS STATEMENT

	Millions of yen	
As of March 31	**2017**	2016
Unrealized gain (loss)	**¥ 15,547**	¥ 9,777

(4) AMOUNT FOR EACH PORTFOLIO CLASSIFICATION OF EQUITY EXPOSURE

	Millions of yen	
As of March 31	**2017**	2016
Market-based approach	**¥ 13,669**	¥ 8,040
PD/LGD Method	**20,958**	20,896
RW100% Applied	**51**	1
RW250% Applied	**49,982**	47,115

Not applicable for the following items;

• UNREALIZED GAIN OR LOSS WHICH IS NOT RECOGNIZED BOTH ON BALANCE SHEET AND ON PROFIT AND LOSS STATEMENT

9. AMOUNT OF REGARDED EXPOSURE UNDER THE ACCORD ARTICLE 167

	Millions of yen	
As of March 31	**2017**	2016
Regarded exposure (fund)	**¥ 50,989**	¥ 51,638

10. INTEREST RATE RISK IN THE BANKING BOOK (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 on the banking book:

	Billions of yen	
As of March 31	**2017**	2016
JPY	**¥ (94.0)**	¥ (98.1)
USD	**(4.3)**	(3.1)
Others	**(6.2)**	(3.3)
Total	**¥ (104.6)**	¥ (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	
	2017	2016
As of March 31	**Required capital amount**	Required capital amount
Shinsei Bank	**¥ 467**	¥ 12,841
Shinsei Bank Card Loan Lake[1]	**—**	12,346
Others	**467**	495

1 "Shinsei Bank Card Loan Lake" had shifted to the F-IRB approach since March 31, 2017.

Portfolios under the Internal Ratings-Based Approach (IRB)

	Millions of yen	
	2017	2016
As of March 31	**Required capital amount**	Required capital amount
Corporate (Excluding Specialized Lending)[1]	**¥ 137,868**	¥ 136,558
Specialized Lending[2]	**64,009**	70,605
Sovereign	**5,373**	4,874
Bank	**10,210**	11,177
Residential mortgages	**14,819**	14,713
Qualified revolving retails	**55,246**	—
Other retails	**4**	3
Equity	**123,648**	124,761
Regarded (Fund)	**15,110**	14,643
Securitization	**29,630**	28,545
Purchase receivables	**23,674**	26,206
Other assets	**2,091**	2,106
CVA risk	**7,359**	9,176
CCP risk	**95**	61
Total	**¥ 489,144**	¥ 443,434

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	
	2017	2016
As of March 31	**Required capital amount**	Required capital amount
Market-Based Approach Simplified Method	**¥ 4,889**	¥ 5,215
PD/LGD Method	**118,749**	119,545
RW100% Applied	**4**	0
RW250% Applied	**5**	—
Total	**¥ 123,648**	¥ 124,761

(3) AMOUNT OF REQUIRED CAPITAL FOR REGARDED-METHOD EXPOSURE UNDER IRB

	Millions of yen	
	2017	2016
As of March 31	**Required capital amount**	Required capital amount
Look Through	**¥ 2,216**	¥ 2,299
Revised Naivete Majority	**7,381**	6,589
Simplified [400%]	**1,153**	1,611
Simplified [1,250%]	**4,359**	4,142
Total	**¥ 15,110**	¥ 14,643

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

(4) AMOUNT OF REQUIRED CAPITAL FOR MARKET RISK

	Millions of yen	
	2017	2016
As of March 31	**Required capital amount**	Required capital amount
The Standardized Approach	**¥ 236**	¥ 207
Interest rate risk	**57**	170
Equity position risk	**9**	2
FX risk	**168**	34
Securitization risk	**—**	—
The Internal Models Approach (IMA) (General Market Risk)	**11,285**	11,546

(5) AMOUNT OF REQUIRED CAPITAL FOR OPERATIONAL RISK

	Millions of yen	
	2017	2016
As of March 31	**Required capital amount**	Required capital amount
The Standardized Approach	**¥ 15,390**	¥ 15,401

(6) TOTAL REQUIRED CAPITAL (DOMESTIC STANDARD)

	Millions of yen	
As of March 31	**2017**	2016
Total Required Capital (Risk-weighted Assets x 4%)	**¥ 225,201**	¥ 208,342

2. CREDIT RISK EXPOSURE (EXCLUDING SECURITIZATION AND REGARDED EXPOSURE)

(1) AMOUNT OF CREDIT RISK EXPOSURE

Geographic, Industries or Maturity

	Millions of yen							
	2017				2016			
	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	**¥ 292,595**	**¥ 281,048**	**¥ 60**	**¥ 11,487**	¥ 267,959	¥ 258,095	¥ 70	¥ 9,794
Agriculture	**55**	**55**	**—**	**—**	169	169	—	—
Mining	**534**	**531**	**—**	**3**	428	423	—	4
Construction	**8,541**	**8,540**	**—**	**0**	9,678	9,678	—	—
Electric power, gas, water supply	**297,287**	**286,441**	**—**	**10,846**	266,378	255,145	—	11,232
Information and communication	**40,614**	**40,605**	**—**	**9**	38,496	38,476	—	19
Transportation	**175,581**	**172,538**	**1,999**	**1,043**	176,640	172,505	1,999	2,135
Wholesale and retail	**136,328**	**117,406**	**8,633**	**10,288**	117,520	109,176	—	8,343
Finance and insurance	**2,078,560**	**1,990,477**	**61,273**	**26,809**	1,804,912	1,688,060	83,771	33,081
Real estate	**663,503**	**580,539**	**79,285**	**3,678**	657,934	590,906	60,694	6,334
Services	**403,460**	**397,329**	**5,894**	**236**	389,204	382,775	5,802	627
Government	**559,856**	**66,294**	**493,562**	**—**	811,881	66,170	745,710	—
Individuals	**1,606,034**	**1,606,034**	**—**	**—**	1,435,257	1,435,252	—	5
Others	**1,294**	**1,248**	**—**	**45**	26	26	—	—
Domestic Total	**6,264,249**	**5,549,092**	**650,708**	**64,447**	5,976,488	5,006,863	898,047	71,577
Foreign	**899,965**	**583,178**	**236,111**	**80,675**	835,645	484,084	245,706	105,854
Total	**¥ 7,164,214**	**¥ 6,132,270**	**¥ 886,819**	**¥ 145,123**	¥ 6,812,134	¥ 5,490,948	¥ 1,143,754	¥ 177,431
To 1 year	**1,310,180**	**1,242,828**	**46,812**	**20,538**	1,229,383	1,103,067	99,853	26,462
1 to 3 years	**1,298,293**	**959,563**	**306,317**	**32,412**	1,198,876	923,724	236,507	38,644
3 to 5 years	**1,096,440**	**720,533**	**359,241**	**16,665**	1,071,351	674,389	376,734	20,228
Over 5 years	**2,128,787**	**1,881,670**	**171,610**	**75,507**	2,230,994	1,708,238	430,659	92,096
Undated	**1,330,512**	**1,327,674**	**2,837**	**—**	1,081,527	1,081,527	—	—
Total	**¥ 7,164,214**	**¥ 6,132,270**	**¥ 886,819**	**¥ 145,123**	¥ 6,812,134	¥ 5,490,948	¥ 1,143,754	¥ 177,431

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	
	2017	2016
As of March 31	**Default Exposure**	Default Exposure
Manufacturing	**¥ 4,088**	¥ 1,271
Agriculture	**—**	—
Mining	**—**	—
Construction	**19**	—
Electric power, gas, water supply	**—**	—
Information and communication	**82**	33
Transportation	**1,471**	1,483
Wholesale and retail	**1,107**	1,362
Finance and insurance	**268**	2,260
Real estate	**1,542**	30,619
Services	**1,239**	1,387
Government	**—**	—
Individuals	**4,440**	4,993
Others	**—**	—
Domestic Total	**14,261**	43,412
Foreign	**30,935**	30,481
Total	**¥ 45,196**	¥ 73,893

(3) AMOUNT OF LOAN LOSS RESERVES (GENERAL, SPECIFIC AND COUNTRY RISK) BEFORE PARTIAL WRITE-OFF

	Millions of yen					
	2017			2016		
As of March 31	**Start Amount**	**Change Amount**	**End Amount**	Start Amount	Change Amount	End Amount
General	**¥ 21,643**	**¥ 1,253**	**¥ 22,896**	¥ 22,672	¥ (1,028)	¥ 21,643
Specific	**34,388**	**320**	**34,709**	76,868	(42,479)	34,388
Country	**0**	**(0)**	**0**	0	(0)	0
Total	**¥ 56,032**	**¥ 1,573**	**¥ 57,605**	¥ 99,540	¥ (43,508)	¥ 56,032

Geographic

	Millions of yen							
	2017				2016			
As of March 31	**Total**	**General**	**Specific**	**Country**	Total	General	Specific	Country
Domestic	**¥ 20,834**	**¥ 13,592**	**¥ 7,241**	**¥ —**	¥ 21,419	¥ 14,597	¥ 6,822	¥ —
Foreign	**36,771**	**9,303**	**27,467**	**0**	34,612	7,046	27,565	0
Total	**¥ 57,605**	**¥ 22,896**	**¥ 34,709**	**¥ 0**	¥ 56,032	¥ 21,643	¥ 34,388	¥ 0

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

Industries

	Millions of yen	
	2017	2016
As of March 31	**Reserve Amount**	Reserve Amount
Manufacturing	**¥ 3,435**	¥ 2,754
Agriculture	**0**	1
Mining	**3**	2
Construction	**53**	47
Electric power, gas, water supply	**612**	499
Information and communication	**223**	136
Transportation	**2,049**	1,864
Wholesale and retail	**1,687**	1,864
Finance and insurance	**2,311**	2,375
Real estate	**4,478**	5,258
Services	**2,607**	3,112
Government	**—**	—
Individuals	**3,369**	3,500
Others	**0**	0
Foreign	**36,771**	34,612
Non-classified	**—**	—
Total	**¥ 57,605**	¥ 56,032

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	
	FY2016	FY2015
	Amount of write-off	Amount of write-off
Manufacturing	**¥ —**	¥ —
Agriculture	**—**	—
Mining	**—**	—
Construction	**—**	—
Electric power, gas, water supply	**—**	—
Information and communication	**—**	—
Transportation	**322**	3
Wholesale and retail	**86**	0
Finance and insurance	**—**	—
Real estate	**—**	21,488
Services	**78**	0
Government	**—**	—
Individuals	**126**	377
Others	**—**	—
Foreign	**1,527**	481
Non-classified	**—**	—
Total	**¥ 2,141**	¥ 22,349

(5) AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)

	Millions of yen			
	2017		2016	
As of March 31	**Rated**	**Unrated**	Rated	Unrated
0%	**¥ —**	**¥ —**	¥ —	¥ —
10%	**—**	**—**	—	—
20%	**—**	**—**	—	—
35%	**—**	**2,991**	—	5,028
50%	**—**	**—**	—	—
75%	**—**	**6,323**	—	211,645
100%	**—**	**57**	—	28
150%	**—**	**—**	—	—
350%	**—**	**—**	—	—
1,250%	**—**	**—**	—	—
Total	**¥ —**	**¥ 9,373**	¥ —	¥ 216,703

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	
	2017	2016
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
50%	**¥ 80,590**	¥ 54,025
70%	**360,178**	391,250
90%	**130,701**	72,602
115%	**86,510**	48,199
250%	**10,003**	25,093
0% (Default)	**—**	36,295
Total	**¥ 667,984**	¥ 627,467

Specialized lending for high-volatility commercial real estate

As of March 31	Millions of yen	
	2017	2016
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
70%	**¥ 11,000**	¥ 4,646
95%	**26,086**	3,300
120%	**22,426**	5,276
140%	**22,957**	14,328
250%	**14,821**	9,055
0% (Default)	**—**	—
Total	**¥ 97,292**	¥ 36,606

Equity exposure under Market-Based Simplified Method

As of March 31	Millions of yen	
	2017	2016
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
300%	**¥ 6,123**	¥ 165
400%	**9,821**	15,252
Total	**¥ 15,944**	¥ 15,418

(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)									
	2017					2016				
Credit Rating	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
0–4	**0.17%**	**45.02%**	**42.14%**	**¥ 1,592,262**	**¥ 214,502**	0.17%	44.90%	43.78%	¥ 1,586,663	¥ 179,914
5–6	**1.63%**	**43.87%**	**96.63%**	**540,056**	**50,609**	1.64%	43.92%	95.97%	512,664	53,621
9A	**9.87%**	**44.56%**	**189.32%**	**54,052**	**2,273**	10.10%	45.90%	191.83%	59,743	2,058
Default	**100.00%**	**49.82%**	**—**	**15,567**	**—**	100.00%	43.35%	—	13,968	1,022

Sovereign

As of March 31	Millions of yen (except percentages)									
	2017					2016				
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%**	**2.95%**	**¥ 2,043,993**	**¥ 2,404**	0.00%	45.00%	2.76%	¥ 2,045,666	¥ 2,542
5–6	**0.59%**	**45.00%**	**56.95%**	**3,588**	**—**	—	—	—	—	—
9A	**—**	**—**	**—**	**—**	**—**	10.10%	45.00%	176.47%	31	—
Default	**100.00%**	**45.00%**	**—**	**11**	**—**	100.00%	45.00%	—	13	—

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

Bank

Millions of yen (except percentages)

As of March 31	2017					2016				
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%**	**34.35%**	**¥ 154,529**	**¥ 113,065**	0.11%	45.00%	42.98%	¥ 145,136	¥ 142,620
5–6	**0.89%**	**45.00%**	**88.07%**	**15,646**	**4,743**	0.81%	45.00%	71.78%	3,055	524
9A	**9.87%**	**45.00%**	**189.51%**	**3,427**	**—**	10.10%	45.00%	192.98%	989	510
Default	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—

• 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	2017				2016			
Credit Rating	**PD**	**LGD**	**Risk Weight**	**Amount**	PD	LGD	Risk Weight	Amount
0–4	**0.28%**	**90.00%**	**300.94%**	**¥ 396,356**	0.30%	90.00%	301.54%	¥ 399,615
5–6	**1.09%**	**90.00%**	**327.91%**	**8,287**	0.96%	90.00%	321.99%	8,553
9A	**9.87%**	**90.00%**	**886.27%**	**20,347**	10.10%	90.00%	893.75%	19,819
Default	**100.00%**	**90.00%**	**1,125.00%**	**0**	100.00%	90.00%	1,125.00%	4

• 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	2017							2016						
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	**0.28%**	**18.36%**	**10.23%**	**¥ 1,334,019**	**¥ —**	**¥ —**	**—**	0.28%	19.75%	10.98%	¥ 1,206,978	¥ —	¥ —	—
Need caution	**64.97%**	**22.10%**	**84.86%**	**1,699**	**—**	**—**	**—**	65.95%	24.92%	93.44%	1,862	—	—	—
Default	**100.00%**	**47.35%**	**45.19%**	**3,974**	**—**	**—**	**—**	100.00%	44.96%	52.12%	4,439	—	—	—

Qualified revolving retail exposure

Millions of yen (except percentages)

As of March 31	2017							2016						
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	**9.01%**	**90.80%**	**138.73%**	**¥248,452**	**¥ 22,833**	**¥419,825**	**5.43%**	—	—	—	¥ —	¥ —	¥ —	—
Need caution	**87.67%**	**90.80%**	**100.34%**	**1,129**	**38**	**1,185**	**3.25%**	—	—	—	—	—	—	—
Default	**100.00%**	**90.80%**	**—**	**101**	**—**	**—**	**—**	—	—	—	—	—	—	—

Other retail exposure

Millions of yen (except percentages)

As of March 31	2017							2016						
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	**0.46%**	**18.11%**	**12.63%**	**¥ 417**	**¥ —**	**¥ —**	**—**	0.37%	17.99%	11.14%	¥ 365	¥ —	¥ —	—
Need caution	**—**	**—**	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—	—	—
Default	**—**	**—**	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—	—	—

Note: LGD is shown after credit risk mitigation

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

(8) COMPARATIVE RESULTS OF ACTUAL LOSSES AND EXPECTED LOSSES FOR THE LAST THREE YEARS UNDER F-IRB APPROACH

Corporate, Sovereign & Bank

	Millions of yen		
	FY2016	FY2015	FY2014
Results of actual losses (a)	**¥ 2,812**	¥ 1,367	¥ 1,568
Expected losses (b)	**6,910**	7,914	10,565
Differences ((b) - (a))	**4,098**	6,547	8,997

Retail

	Millions of yen		
	FY2016	FY2015	FY2014
Results of actual losses (a)	**¥ 11,853**	¥ 169	¥ 245
Expected losses (b)	**19,146**	1,111	1,291
Differences ((b) - (a))	**7,292**	942	1,046

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, 2015, 2016 and 2017 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			
	2017		2016	
As of March 31	**Eligible financial collateral**	**Other eligible FIRB collateral**	Eligible financial collateral	Other eligible FIRB collateral
Corporate	**¥ 4,947**	**¥ 180,309**	¥ 2,729	¥ 173,649
Sovereign	**—**	**—**	—	—
Bank	**—**	**1,565**	—	—
Total	**¥ 4,947**	**¥ 181,875**	¥ 2,729	¥ 173,649

(2) COVERED AMOUNT OF CRM BY GUARANTEE OR CREDIT DERIVATIVES

IRB

	Millions of yen	
As of March 31	**2017**	2016
Corporate	**¥ 1,743**	¥ 1,572
Sovereign	**25,217**	23,917
Bank	**—**	—
Residential mortgages	**—**	—
Qualified revolving retail	**—**	—
Other retail	**—**	—
Total	**¥ 26,961**	¥ 25,490

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

4. COUNTERPARTY CREDIT RISK OF DERIVATIVES

As of March 31	Millions of yen 2017	2016
Total amount of gross positive fair value	**¥ 336,040**	¥ 455,326
Amount of gross add-on	**103,900**	123,403
EAD before CRM	**439,940**	578,730
FX-related	**111,977**	184,705
Interest-related	**204,392**	338,632
Equity-related	**5,374**	28,379
Commodity-related	**—**	—
Credit derivatives	**14,240**	26,963
Others	**55**	49
Amount of net	**294,816**	401,298
EAD after net	**145,123**	177,431
Amount covered collateral	**—**	—
EAD after CRM	**145,123**	177,431

Note: Current Exposure Method

• Notional amount of credit derivatives which have counterparty risk

As of March 31	Millions of yen 2017		2016	
Notional amount	**Protection-buy**	**Protection-sell**	Protection-buy	Protection-sell
Single name	**¥ 95,386**	**¥ 93,466**	¥ 155,354	¥ 139,781
Multi name	**29,500**	**29,500**	46,500	46,500

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 2017	2016
Type of original assets	**Amount of original assets**	Amount of original assets
Residential mortgages	**¥ 8,208**	¥ 81,632
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**114,656**	155,600
Total	**¥ 122,865**	¥ 237,232

Note: Includes originally securitized assets originated by the Bank during the period, even though the Bank had no exposure to these particular assets.

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	2017	2016
	Millions of yen	
Type of original assets	**Amount of Default**	Amount of Default
Residential mortgages	**¥ 244**	¥ 470
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥ 244**	¥ 470

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	2017	2016
	Millions of yen	
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ —**	¥ 45,866
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**100,000**	131,368
Total	**¥ 100,000**	¥ 177,235

Resecuritization exposure

As of March 31	2017	2016
	Millions of yen	
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	2017		2016	
	Millions of yen			
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 12%	**¥ 100,000**	**¥ 1,017**	¥ 157,406	¥ 1,447
Over 12% to 20%	**—**	**—**	14,678	219
Over 20% to 50%	**—**	**—**	4,934	162
Over 50% to 75%	**—**	**—**	—	—
Over 75% to 100%	**—**	**—**	—	—
Over 100% to 250%	**—**	**—**	—	—
Over 250% to 425%	**—**	**—**	216	62
Over 425% under 1,250%	**—**	**—**	—	—
Total	**¥ 100,000**	**¥ 1,017**	¥ 177,235	¥ 1,891

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

Resecuritization exposure

As of March 31	Millions of yen			
	2017		2016	
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	
	2017	2016
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 5,442**	¥ 8,289
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥ 5,442**	¥ 8,289

(6) Amount of securitization exposure applied risk weight 1,250%

As of March 31	Millions of yen	
	2017	2016
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 1,384**	¥ 1,934
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥ 1,384**	¥ 1,934

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

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

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	
	2017	2016
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 14,371**	¥ —
Consumer loans	**—**	—
Commercial real estate loans	**61,332**	66,929
Corporate loans	**21,213**	18,701
Others	**20,246**	19,794
Total	**¥ 117,164**	¥105,425

Resecuritization exposure

As of March 31	Millions of yen	
	2017	2016
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ —**	¥ —
Consumer loans	**—**	—
Commercial real estate loans	**—**	20,000
Corporate loans	**1,765**	6,361
Others	**—**	—
Total	**¥ 1,765**	¥ 26,361

(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			
	2017		2016	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 12%	**¥ 54,384**	**¥ 347**	¥ 38,495	¥ 240
Over 12% to 20%	**—**	**—**	—	—
Over 20% to 50%	**229**	**4**	20,351	771
Over 50% to 75%	**—**	**—**	—	—
Over 75% to 100%	**1,395**	**111**	—	—
Over 100% to 250%	**16,686**	**2,451**	24,996	3,977
Over 250% to 425%	**11,578**	**3,537**	6,081	1,804
Over 425% under 1,250%	**32,890**	**14,555**	15,500	7,047
Total	**¥ 117,164**	**¥ 21,007**	¥ 105,425	¥ 13,841

Resecuritization exposure

As of March 31	Millions of yen			
	2017		2016	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 30%	**¥ 1,765**	**¥ 29**	¥ 6,361	¥ 107
Over 30% to 50%	**—**	**—**	—	—
Over 50% to 100%	**—**	**—**	20,000	1,023
Over 100% to 225%	**—**	**—**	—	—
Over 225% to 500%	**—**	**—**	—	—
Over 500% under 1,250%	**—**	**—**	—	—
Total	**¥ 1,765**	**¥ 29**	¥ 26,361	¥ 1,131

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

(3) Amount of securitization exposure applied risk weight 1,250%

Millions of yen

As of March 31	2017	2016
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 627**	¥ 1,258
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**0**	6
Others	**—**	—
Total	**¥ 627**	¥ 1,264

Not applicable for the following items;

• Credit risk mitigation for resecuritization exposure

6. MARKET RISK (UNDER INTERNAL MODEL APPROACH)

(1) VAR AT THE END OF MARCH 2017 AND MARCH 2016 AND THE HIGH, MEAN AND LOW VAR

Millions of yen

As of March 31	2017	2016
VaR at term end	**¥ 1,155**	¥ 788
VaR through this term		
High	**1,998**	1,761
Mean	**1,367**	1,128
Low	**919**	623

(2) STRESSED VAR AT THE END OF MARCH 2017 AND MARCH 2016 AND THE HIGH, MEAN AND LOW VAR

Millions of yen

As of March 31	2017	2016
VaR at term end	**¥ 2,992**	¥ 1,916
VaR through this term		
High	**3,604**	4,286
Mean	**2,485**	2,975
Low	**1,843**	1,694

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

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

7. EQUITY EXPOSURE IN BANKING BOOK

(1) BOOK VALUE AND FAIR VALUE

As of March 31	Millions of yen 2017	2016
Market-based approach		
Listed equity exposure	¥ 6,123	¥ 165
Unlisted equity exposure	9,821	15,252
PD/LGD method		
Listed equity exposure	10,321	10,254
Unlisted equity exposure	414,670	417,739

(2) GAIN OR LOSS ON SALE OR DEPRECIATION OF EQUITY EXPOSURE

	Millions of yen FY2016	FY2015
Gain (loss) on sale	¥ 2,754	¥ (2,312)
Loss of depreciation	—	638

(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 2017	2016
Unrealized gain (loss)	¥ 12,562	¥ 6,948

(4) AMOUNT FOR EACH PORTFOLIO CLASSIFICATION OF EQUITY EXPOSURE

As of March 31	Millions of yen 2017	2016
Market-based approach	¥ 15,944	¥ 15,418
PD/LGD Method	424,991	427,993
RW100% Applied	51	1
RW250% Applied	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 2017	2016
Regarded exposure (fund)	¥ 36,162	¥ 35,001

9. INTEREST RATE RISK IN THE BANKING BOOK (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 on the banking book:

As of March 31	Billions of yen 2017	2016
JPY	¥ (53.2)	¥ (56.2)
USD	(4.3)	(3.1)
Others	(6.2)	(3.3)
Total	¥ (63.8)	¥ (62.7)

DISCLOSURE ITEMS CONCERNING REMUNERATION, ETC.

1. MATTERS CONCERNING THE SITUATION OF SETTING UP AN ORGANIZATIONAL STRUCTURE REGARDING REMUNERATION, ETC. FOR APPLICABLE OFFICERS AND EMPLOYEES OF SHINSEI BANK (GROUP)

(1) Scope of "Applicable Officers and Employees"
The scopes of "Applicable Officers" and "Applicable Employees, etc." (collectively, "Applicable Officers and Employees") prescribed in the announcement on remuneration subject to disclosure are as shown below.

1) Scope of "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) Scope of "Applicable Employees, etc."
At Shinsei Bank, "Applicable Employees, etc." who are subject to disclosure refer to the "persons who receive a large amount of remuneration, etc." and who have a material impact on business operation 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.

(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 operation 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 Principal Investments Ltd.

(b) Scope of the "persons who receive a large amount of remuneration, etc."
The "persons who receive a large amount 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 38 million yen in the fiscal year reported)." In the fiscal year reported, there was no Applicable Employee who receive 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 making judgment as to whether the said person is a "persons who receive a large amount 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 operation 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.

(2) Determination of remuneration, etc. for Applicable Officers and Employees

1) Determination of remuneration, etc. of Applicable Officers
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) Determination of remuneration, etc. of Applicable Employees, etc.
Remuneration, etc. paid to employees of the Shinsei Bank Group is determined and paid under the remuneration system designed based on the management policy and human resources policy of Shinsei Bank and its major consolidated subsidiaries, etc. Such remuneration system is designed and documented by the Human Resources Divisions, etc. of Shinsei Bank and its major consolidated subsidiaries, etc., which are independent from business promotion groups. Furthermore, policies regarding salaries, etc. of Shinsei Bank's major consolidated subsidiaries, etc. are reported to the Human Resources Division of the Bank on a periodical basis for the said Division to check their contents.

DISCLOSURE ITEMS CONCERNING REMUNERATION, ETC. (CONTINUED)

2. MATTERS CONCERNING THE 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.

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) Policy on remuneration, etc. for "Applicable Employees, etc."
Remuneration for Applicable Employees, etc. of the Shinsei Bank Group is determined based on performance evaluation against individual targets which are broken down under the quantitative and qualitative business plan prepared with a medium- to long-term viewpoint. With its emphasis on both medium- and long-term quantitative targets and achievement against qualitative targets, our system enables evaluations that do not excessively rely on short-term results.

3. MATTERS CONCERNING 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. 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. Furthermore, remuneration, etc. of Applicable Employees, etc. is determined taking into account the financial conditions, etc. of each member company of the Shinsei Bank Group.

While business results are taken into account in determining remuneration, etc. of Applicable Officers and Employees of the Shinsei Bank Group, the portion of performance-based remuneration, etc. paid to Applicable Officers and Employees is very small. Accordingly, we cannot say that our remuneration system is linked to performance. Also, our remuneration system will not have a negative impact on risk management.

4. MATTERS CONCERNING TYPES, TOTAL AMOUNT PAYABLE, AND PAYMENT METHOD OF REMUNERATION, ETC. FOR APPLICABLE OFFICERS AND EMPLOYEES OF SHINSEI BANK (GROUP)

Total amount of remuneration, etc. for Applicable Officers and Employees (from April 1, 2016 to March 31, 2017)
(For both consolidated/and non-consolidated bases)

Category	Number of people	Total amount of remuneration, etc. (in million yen)	Total amount of fixed remuneration	Basic remuneration	Stock option	Other	Total amount of variable remuneration	Basic remuneration	Bonus	Other	Retirement allowance	Other
Applicable Officers (excl. outside officers)	3	116	116	95	21	0	0	0	0	0	0	0
Applicable Employees, etc.	0	0	0	0	0	0	0	0	0	0	0	0

Notes: (1) Because Applicable Employees, etc. only include employees of Shinsei Bank, the figures on consolidated and non-consolidated bases are the same.
(2) Applicable Officers include three people in total consisting of two fulltime Directors and one Audit & Supervisory Board Member (Full-Time).
(3) The total amount of remuneration paid to fulltime officers (fulltime Directors and Audit & Supervisory Board Member (Full-Time)), excluding remuneration paid when they were employees, was 116 million yen. The average number of the payees during the year was three and the average amount of remuneration paid to fulltime officers was 38 million yen.
(4) Specific comments on the breakdown of remuneration are as below.
1) Fixed remuneration
• Stock option
This refers to the amount posted as expenses during the fiscal year reported with respect to stock options granted in previous years.
• Other
This refers to the amount posted as the reserve during the fiscal year reported with respect to deferred remuneration based on contracts concluded in previous years and bonuses which payment is guaranteed.
2) Variable remuneration
• Bonuses
This refers to the bonuses paid during the fiscal year reported.
3) Retirement allowance
This refers to the amount posted as actual payment, account payable and retirement benefit expenses (service cost) for applicable persons during the fiscal year reported.
(5) The exercise periods of stock options granted are as shown below.

	Exercise period
Shinsei Bank, Ltd. 1st Warrant (The Equity Remuneration Type)	From May 27, 2016 to May 26, 2046

5. OTHER MATTERS THAT SHOULD BE REFERRED TO CONCERNING THE SYSTEM OF REMUNERATION, ETC. FOR APPLICABLE OFFICERS AND EMPLOYEES OF SHINSEI BANK (GROUP)

There is no applicable matter.

CORPORATE INFORMATION

SHINSEI BANK GROUP

AS OF MARCH 31, 2017

As of March 31, 2017, the Shinsei Bank Group consisted of Shinsei Bank, Limited, 221 subsidiaries (comprising 124 consolidated companies including APLUS FINANCIAL Co., Ltd., Showa Leasing Co., Ltd., Shinsei Financial Co., Ltd. and Shinsei Principal Investments Ltd. and 97 unconsolidated subsidiaries) and 20 affiliated companies (20 affiliated companies accounted for using the equity method, such as Jih Sun Financial Holding Co., Ltd.). The Shinsei Bank Group provides a wide variety of financial products and services to domestic institutional and individual customers through the "Institutional Business," the "Global Markets Business," and the "Individual Business."

Shinsei Bank, Limited

- Institutional Business
  - Head Office and domestic branch offices
  - Major subsidiaries: •Showa Leasing Co., Ltd. •Shinsei Trust & Banking Co., Ltd. •Shinsei Principal Investments Ltd.
- Global Markets Business
  - Head Office and domestic branch offices
  - Major subsidiaries: •Shinsei Securities Co., Ltd. •Shinsei Investment Management Co., Ltd.
- Individual Business
  - Head Office and domestic branches
  - Major subsidiaries: •Shinsei Financial Co., Ltd. •Shinsei Personal Loan Co., Ltd. •APLUS FINANCIAL Co., Ltd.

MAJOR SUBSIDIARIES AND AFFILIATES

Name	Location	Main business
Major Domestic Subsidiaries		
Showa Leasing Co., Ltd.	Tokyo, Japan	Leasing[1]
Shinsei Trust & Banking Co., Ltd.	Tokyo, Japan	Trust banking[1]
Shinsei Securities Co., Ltd.	Tokyo, Japan	Securities[2]
Shinsei Investment Management Co., Ltd.	Tokyo, Japan	Investment trust and discretionary investment advising[2]
Shinsei Principal Investments Ltd.	Tokyo, Japan	Financial instruments business[1]
Shinsei Corporate Investment Limited	Tokyo, Japan	Investment[1]
Shinsei Investment & Finance Limited	Tokyo, Japan	Investment and finance[1]
Shinsei Servicing & Consulting Limited	Tokyo, Japan	Servicing business[1]
Shinsei Property Finance Co., Ltd.	Tokyo, Japan	Real estate collateral finance[3]
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]
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]
GE Nissen Credit Co., Ltd.[5]	Kyoto, Japan	Credit card[3]

1 Institutional Business 2 Global Markets Business 3 Individual Business 4 Corporate/Other
5 GE Nissen Credit Co., Ltd. changed its company name to Nissen Credit Service Co., Ltd. on June 1, 2017.

EMPLOYEES

	2015	2016	**2017**
Consolidated			
Number of Employees	5,300	5,356	**5,360**
Nonconsolidated			
Number of Employees	2,186	2,210	**2,207**
Male	1,249	1,272	**1,272**
Female	937	938	**935**
Average age	40 years 4 months	40 years 7 months	**40 years 11 months**
Average years of service	11 years 2 months	11 years 7 months	**11 years 11 months**
Average monthly salary	¥494 thousand	¥489 thousand	**¥482 thousand**

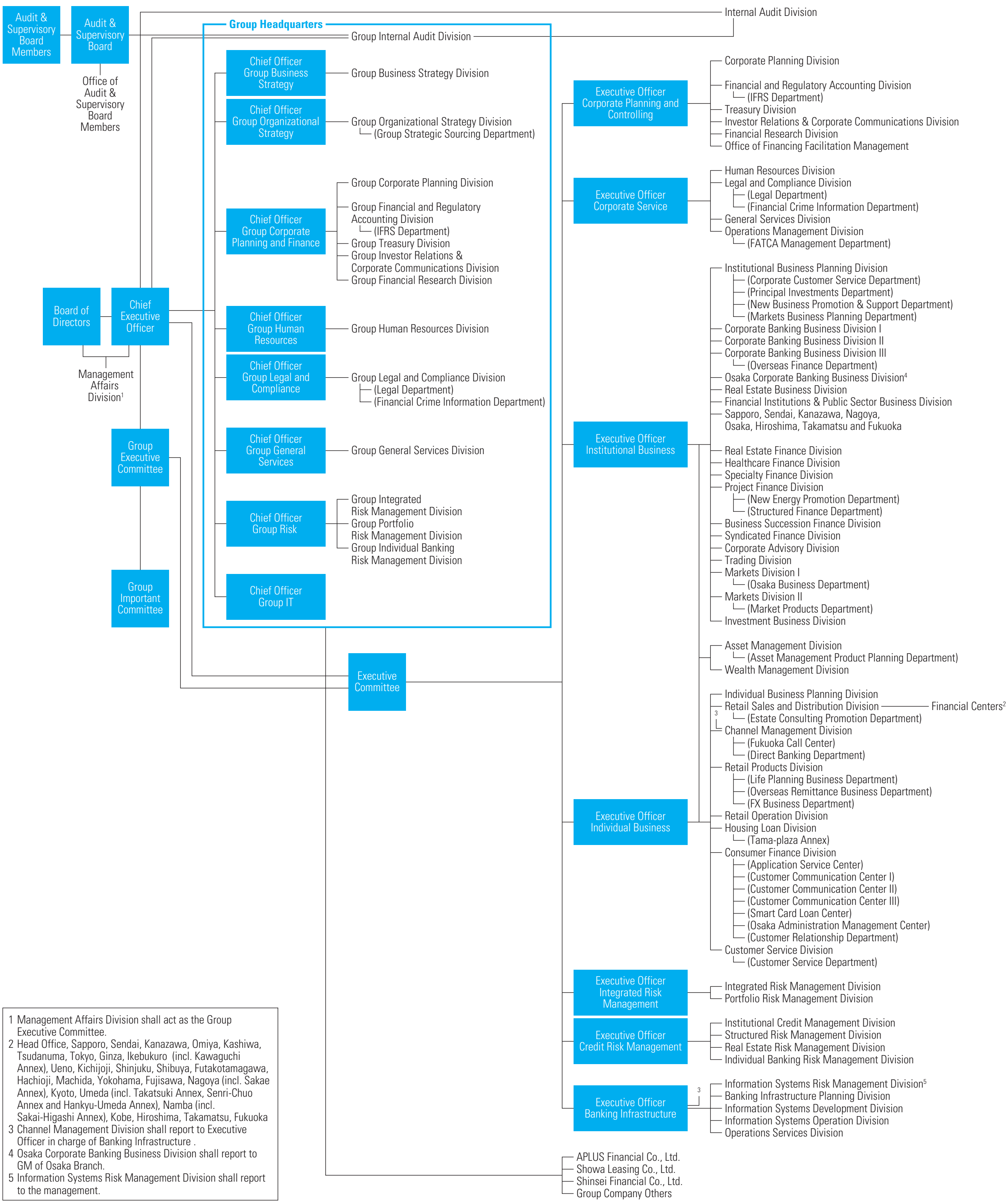
"Average monthly salary" includes overtime wages but excludes annual bonus.

AS OF MARCH 31, 2017

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
100	1993.1	2000.9	100.0	—	100.0
500	2001.10	—	100.0	—	100.0
100	1959.5	2002.3	100.0	100.0	—
15,000	1956.10	2004.9	95.0	2.9	92.0
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
£ 3	2004.9	—	100.0%	100.0%	—%
$ 36	2013.6	—	50.0	50.0	—
HK$ 286	2013.8	—	100.0	—	100.0
NT$ 35,423	2002.2	2006.7	35.4%	—%	35.4%
¥ 4,050	1997.12	2016.12	50.0	50.0	—

ORGANIZATION

AS OF JULY 1, 2017



1 Management Affairs Division shall act as the Group Executive Committee.
2 Head Office, Sapporo, Sendai, Kanazawa, Omiya, Kashiwa, Tsudanuma, Tokyo, Ginza, Ikebukuro (incl. Kawaguchi Annex), Ueno, Kichijoji, Shinjuku, Shibuya, Futakotamagawa, Hachioji, Machida, Yokohama, Fujisawa, Nagoya (incl. Sakae Annex), Kyoto, Umeda (incl. Takatsuki Annex, Senri-Chuo Annex and Hankyu-Umeda Annex), Namba (incl. Sakai-Higashi Annex), Kobe, Hiroshima, Takamatsu, Fukuoka
3 Channel Management Division shall report to Executive Officer in charge of Banking Infrastructure .
4 Osaka Corporate Banking Business Division shall report to GM of Osaka Branch.
5 Information Systems Risk Management Division shall report to the management.

GROUP HEADQUARTERS CHIEF OFFICERS AND SENIOR OFFICERS (18)

Akira Hirasawa
Chief Officer
Group Organizational Strategy,
Group Human Resources

Yoshiaki Kozano
Chief Officer
Group Business Strategy

Kyohei Matsumoto
Chief Officer
Group Legal and Compliance

Masayuki Nankouin
Chief Officer
Group Corporate Planning and Finance

Michiyuki Okano
Chief Officer
Group IT

Toichiro Shiomi
Chief Officer
Group Risk, GM,
Group Portfolio Risk Management Division

Masaharu Watanabe
Chief Officer
Group General Services

Shouichi Hirano
Senior Officer
Group Corporate Planning and Finance, GM,
Group Financial Research Division

Hirohisa Kazami
Senior Officer
Group Legal and Compliance, GM,
Group Legal Compliance Division in charge of Compliance

Soichiro Komori
Senior Officer
Group IT

Sawaji Kouichi
Senior Officer
Group Human Resources, GM,
Group Human Resources Division in charge of APLUS

Tetsuro Shimizu
Senior Officer
Group Business Strategy

Riku Sugie
Senior Officer
Group Business Strategy, Group Organizational Strategy

Noboru Takemura
Senior Officer
Group Corporate Planning and Finance

Hiroyuki Torigoe
Senior Officer
Group Risk

Tatsurou Unemori
Senior Officer
Group IT

Takahiro Yoshida
Senior Officer
Group Corporate Planning and Finance, GM, Group Treasury Divison

Takashi Yoshikawa
Senior Officer
Group Business Strategy

SHINSEI BANK EXECUTIVE OFFICERS (32)

Hideyuki Kudo
Representative Director
President and Chief Executive Officer

Yukio Nakamura
Representative Director
Deputy President

Sanjeev Gupta
Senior Managing Executive Officer
Advisor to President and Chief Executive Officer

Michiyuki Okano
Senior Managing Executive Officer
Group Chief Information Officer,
Head of Banking Infrastructure

Shinichirou Seto
Senior Managing Executive Officer
Head of Institutional Business

Akira Hirasawa
Managing Executive Officer
Head of Corporate Service

Kiyohiro Kiyotani
Managing Executive Officer
Executive Officer in charge of Institutional Business, President & CEO,
Showa Leasing Co., Ltd.

Yoshiaki Kozano
Managing Executive Officer
Special Assignment

Nozomi Moue
Managing Executive Officer
Executive Officer in charge of Institutional Business

Masayuki Nankouin
Managing Executive Officer
Head of Corporate Planning and Controlling

Tetsuro Shimizu
Managing Executive Officer
Head of Individual Business

Riku Sugie
Managing Executive Officer
Executive Officer in charge of Individual Business,
President and CEO,
Shinsei Financial Co., Ltd.

Akira Watanabe
Managing Executive Officer
Executive Officer in charge of Individual Business,
Representative Director and President and CEO,
APLUS FINANCIAL Co., Ltd.

Shigeto Yanase
Managing Executive Officer
Executive Officer in charge of Institutional Business,
General Manager, Osaka Branch

Shouichi Hirano
Executive Officer
General Manager,
Corporate Planning Division,
General Manager,
Financial Research Division,
General Manager,
Office of Financing Facilitation Management

Taichi Kawai
Executive Officer
General Manager, Syndicated Finance Division

Takahisa Komoda
Executive Officer
Executive Officer in charge of Institutional Business

Hirofumi Kusakabe
Executive Officer
Executive Officer in charge of Institutional Business,
Representative Director and President,
Shinsei Trust & Banking Co., Ltd.

Tsukasa Makizumi
Executive Officer
Head of Credit Risk Management

Masanori Matsubara
Executive Officer
General Manager,
Information Systems Development Division

Yuji Matsuura
Executive Officer
Executive Officer in charge of Institutional Business

Shinichirou Nagai
Executive Officer
Executive Officer in charge of Institutional Business and Individual 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

Eiji Shibazaki
Executive Officer
Executive Officer in charge of Institutional Business

Toichiro Shiomi
Executive Officer
Head of Integrated Risk Management,
General Manager,
Portfolio Risk Management Division

Satoshi Suzuki
Executive Officer
Executive Officer in charge of Banking Infrastructure
General Manager,
Information Systems Risk Management Division

Kazumi Tanegashima
Executive Officer
General Manager,
Housing Loan Division

Masayoshi Tomita
Executive Officer
Executive Officer in charge of Individual Business,
General Manager,
Individual Business Planning Division

Hiroyuki Torigoe
Executive Officer
General Manager,
Individual Banking Risk Management Division

Takahiro Yoshida
Executive Officer
General Manager, Treasury Division

Takashi Yoshikawa
Executive Officer
Special Assignment

SENIOR ADVISOR

David Morgan Supervisory Board Member, HSH Nordbank AG, and Managing Director, Europe and Asia-Pacific, J.C. Flowers & Co. UK LLP

ADVISOR

Yuji Tsushima

EXECUTIVE ADVISOR

Yasufumi Shimada

NETWORK

AS OF JUNE 30, 2017

DOMESTIC OUTLETS:

AS OF JUNE 30, 2017

35 outlets (28 branches including head office, 7 annexes)

Hokkaido

- Sapporo Branch

Tohoku

- Sendai Branch

Kanto (Excluding Tokyo)

- Omiya Branch
- Ikebukuro Branch—Kawaguchi Annex
- 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

Hokuriku

- Kanazawa Branch

Tokai

- Nagoya Branch
- Sakae Financial Center

Kinki

- Kyoto Branch
- Osaka Branch
- Umeda Branch
- Umeda Branch—Hankyu Umeda Annex
- Umeda Branch—Senri Chuo Annex
- Umeda Branch—Takatsuki Annex
- Namba Branch
- Namba Branch—Sakai Higashi Annex
- Kobe Branch

Chugoku

- Hiroshima Branch

Shikoku

- Takamatsu Branch

Kyushu

- Fukuoka Branch

SHINSEI BANK CARD LOAN—LAKE UNSTAFFED BRANCHES:

AS OF JUNE 30, 2017

Shinsei Bank Card Loan—Lake unstaffed branches	770 locations

PARTNER TRAIN STATION, CONVENIENCE STORE AND SUPERMARKET ATMS:

AS OF JUNE 30, 2017

Seven Bank, Ltd. ATMs	21,885 locations
E-net ATMs	13,412 locations
Lawson ATM Networks ATMs	12,010 locations
AEON Bank ATMs	5,104 locations
VIEW ALTTE ATMs	311 locations
Patsat ATMs	107 locations

STOCK INFORMATION
AS OF MARCH 31, 2017

Shares Outstanding and Capital

1,000 shares, millions of yen

Date	Shares outstanding		Capital		Capital surplus		Notes
	Change	Balance	Change	Balance	Change	Balance	
July 29, 2003	(1,358,537)	2,033,065[1]	—	451,296	—	18,558	2-for-1 reverse share split for common shares Post reverse split common shares outstanding 1,358,537 thousand shares
July 31, 2006	(99,966)	1,933,098[1]	—	451,296	—	18,558	Use of call feature for Series 3 Class-B preferred shares Issuance of 200,033 thousand common shares Retirement of Series 3 Class-B preferred shares -300,000 thousand shares
November 16, 2006	(85,000)	1,848,098[1]	—	451,296	—	18,558	Cancellation of treasury shares (common) -85,000 thousand shares
August 1, 2007	(100,000)	1,748,098[1]	—	451,296	—	18,558	Mandatory acquisition of Series 3 Class-B preferred shares Issuance of 200,000 thousand common shares Retirement of Series 3 Class-B preferred shares -300,000 thousand shares
February 4, 2008	117,647	1,865,746[1]	25,000	476,296	25,000	43,558	Third party allocation of shares (common shares) Subscription price ¥425, par value ¥212.5
March 31, 2008	194,600	2,060,346	—	476,296	—	43,558	Use of call feature for Series 2 Class-A preferred shares Issuance of 269,128 thousand common shares Retirement of Series 2 Class-A preferred shares -74,528 thousand shares
March 15, 2011	690,000	2,750,346	35,907	512,204	35,907	79,465	New shares issued through International Offering (common shares) Subscription price ¥108, par value ¥52.04

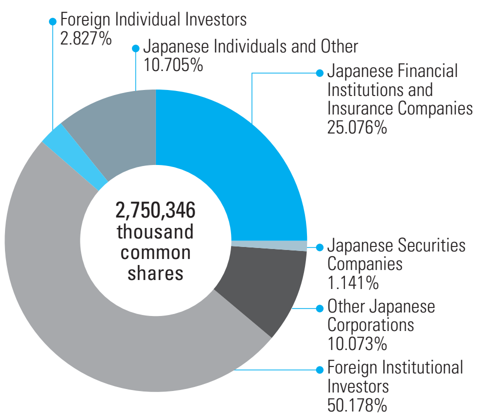
1 Figures include number of preferred shares outstanding

Largest Shareholders

Rank	Shareholders	Thousands of Common Shares	%
1	SATURN IV SUB LP (JPMCB 380111)	323,680	11.76
2	Deposit Insurance Corporation of Japan	269,128	9.78
3	THE RESOLUTION AND COLLECTION CORPORATION	200,000	7.27
4	SHINSEI BANK, LIMITED	161,955	5.88
5	THE MASTER TRUST BANK OF JAPAN, LTD. (TRUST ACCOUNT)	132,535	4.81
6	SATURN JAPAN III SUB C.V. (JPMCB 380113)	110,449	4.01
7	JAPAN TRUSTEE SERVICE BANK, LTD. (TRUST ACCOUNT)	95,012	3.45
8	J. CHRISTOPHER FLOWERS	76,753	2.79
9	STATE STREET BANK AND TRUST COMPANY	67,372	2.44
10	JAPAN TRUSTEE SERVICE BANK, LTD. (TRUST ACCOUNT 9)	54,583	1.98
11	ANBANG INVESTMENT HOLDINGS CO. LIMITED	42,898	1.55
	Total (includes treasury shares)	2,750,346	100.00

Notes: 1 As of March 31, 2017, a group of investors, including affiliates of J.C. Flowers & Co. LLC., holds 553,663,517 common shares or 21.39% of Shinsei Bank's outstanding common shares, excluding treasury shares.
2 As of March 31, 2017, in total, the Deposit Insurance Corporation and the Resolution and Collection Corporation hold 469,128,888 common shares or 18.12% of Shinsei Bank's outstanding common shares, excluding treasury shares.

Largest Shareholders



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, 2017

	Long-Term (Outlook)	Short-Term
Moody's	Baa2 (Stable)	Prime-2
Standard and Poor's (S&P)	BBB+ (Positive)	A-2
Japan Credit Rating Agency (JCR)	BBB+ (Positive)	J-2
Rating and Investment Information, Inc. (R&I)	A- (Stable)	a-1

For further information, please contact:
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