

2017

ANNUAL REPORT

For the fiscal year ended March 31, 2017



WEBSITE

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

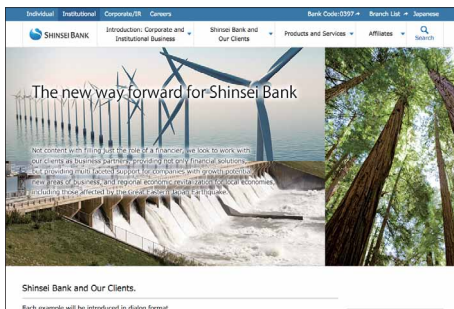
INDIVIDUAL



<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

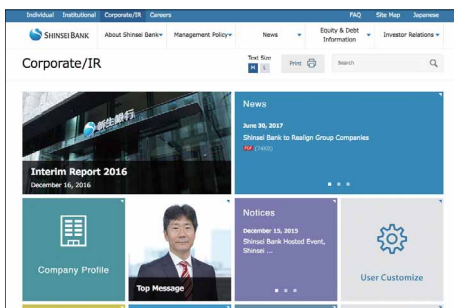


<http://www.shinseibank.com/institutional/en/>

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.

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

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

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

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

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)

Fiscal years ended March 31	2017			2016		
	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)

Fiscal years ended March 31	Billions of yen		
	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)

Fiscal years ended March 31	Billions of yen		
	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)

Fiscal years ended March 31	Billions of yen		
	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)

Fiscal years ended March 31	Billions of yen		
	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)

¹ the former SHINKI

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

NET CREDIT COSTS

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

TABLE 6. NET CREDIT COSTS (CONSOLIDATED)

Fiscal years ended March 31	Billions of yen		
	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)

Fiscal years ended March 31	Billions of yen		
	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)

Fiscal years ended March 31	Billions of yen		
	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)

Fiscal years ended March 31	Billions of yen					
	2017			2016		
	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)

Fiscal years ended March 31	Billions of yen		
	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/Other¹:			
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

Fiscal years ended March 31	Billions of yen		
	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 Leasing³:			
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

Fiscal years ended March 31	Billions of yen		
	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 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)

Fiscal years ended March 31	Billions of yen		
	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
Others¹:			
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)

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

Fiscal years ended March 31	Billions of yen (except percentages)			
	2017		2016	
	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 (<i>gyomu sorieki</i>):		
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 (<i>jishitsu gyomu jun-eki</i>)	33.5	33.9
Net credit costs (recoveries)	3.9	(20.1)
Other, net ³	3.2	(4.7)
Net operating income (<i>keijo rieki</i>)	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 pre-defined 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 non-contributory 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							Total
	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	
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

	As of March 31, 2016							Total
	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	
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)

As of March 31	Billions of yen (except percentages)			
	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 non-consolidated 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)

As of March 31	Billions of yen	
	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:	Other	Total loans and bills discounted:
			4,536.4	180.7	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%)		Loans to bankrupt obligors 0.7
Virtually bankrupt	9D	100.0% for unsecured portion	*Amount of reserve for loan losses is 0.2, collateral and guarantees is 2.7		
Possibly bankrupt	9C	58.2% for unsecured portion	Doubtful claims 3.6 (Amount of coverage, coverage ratio) (2.0*, 58.2%)		Non accrual delinquent loans 5.7
			*Amount of reserve for loan losses is 2.0, collateral and guarantees is —		
Need caution	Substandard	52.3% for unsecured portion	Substandard claims (loan account only) 3.8 (Amount of coverage, coverage ratio) (2.6*, 69.4%)		Loans past due for three months or more Restructured loans 3.8
	Other need caution	3.7% for total claims	*Amount of reserve for loan losses is 1.0, collateral and guarantees is 1.5		
Normal	0A–6C	0.4% for total claims	Normal claims 4,706.7		Normal 4,526.0
			Total nonperforming claims and ratio to total claims 10.3, 0.2% (Total amount of coverage, coverage ratio) (7.7*, 74.2%)		Total risk-monitored loans and ratio to total loans and bills discounted 10.3, 0.2%
			*Total amount of reserve for loan losses is 3.3, collateral and guarantees is 4.3		

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

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

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

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)

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

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

As of March 31	Percentages	
	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)

As of March 31	Billions of yen (except percentages)	
	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	Billions of yen (except percentages)	
	2017	2016
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	Billions of yen	
	2017	2016
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					Total
	Shinsei	Shinsei Financial	APLUS FINANCIAL	Shinsei Personal Loan	Other subsidiaries	
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				Total
	Shinsei Financial	APLUS FINANCIAL	Showa Leasing	Other subsidiaries	
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 continue 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)

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

Payments due by period as of March 31, 2016	Billions of yen		
	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

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

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

The Goal for Shinsei Bank Group

Strategies to Increase Value for Stakeholders

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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

The Goal for Shinsei Bank Group

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Millions of yen

	Accumulated other comprehensive income										Total	Noncontrolling interests	Total equity
	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				
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										Total	Noncontrolling interests	Total equity
	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				
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 noncontrolling 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 grant date and recognizes compensation expense over the vesting period as consideration for receiving goods or services. In the consolidated balance sheet, stock options are presented as "Stock acquisition rights" in a component of equity 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 as-

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

sets 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).

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		Thousands of U.S. dollars
					2017	2016	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		Thousands of U.S. dollars
	2017	2016	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		Thousands of U.S. dollars
	2017	2016	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		Thousands of U.S. dollars
					2017	2016	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		Thousands of U.S. dollars
							2017	2016	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:

Fiscal year ended March 31	Amount		Date of expiry
	Millions of yen	Thousands of U.S. dollars	
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

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

Fiscal year ended March 31, 2017	Millions of yen					
	Institutional Business				Global Markets Business	
	Corporate Business	Structured Finance	Principal Transactions	Showa Leasing	Markets	Other Global Markets
Revenue:	¥ 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

Fiscal year ended March 31, 2017	Millions of yen						
	Individual Business				Corporate/Other		
	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		
	Retail Banking	Consumer Finance			Treasury	Other	Total
Shinsei Financial		APLUS FINANCIAL	Other				
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

Fiscal year ended March 31, 2017	Thousands of U.S. dollars					
	Institutional Business				Global Markets Business	
	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

Fiscal year ended March 31, 2017	Thousands of U.S. dollars						
	Individual Business				Corporate/Other		
	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:

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

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

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

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

Related party	Description of the transaction	Amount of the transaction			Balance at the end of fiscal year			
		Millions of yen		Thousands of U.S. dollars	Account name	Millions of yen		Thousands of U.S. dollars
		2017	2016	2017		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 nonre-course 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 nonre-course 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.

(Note 2) Carrying amount of the financial instruments whose fair value cannot be reliably determined

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

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
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

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.

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)

(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)

(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						Total equity
	Common stock	Additional paid-in capital	Other capital surplus	Stock acquisition rights	Legal reserve	Unappropriated retained earnings	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Treasury stock, at cost		
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						Total equity
	Common stock	Additional paid-in capital	Other capital surplus	Stock acquisition rights	Legal reserve	Unappropriated retained earnings	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Treasury stock, at cost		
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) SUBJECT TO CALCULATION OF THE CONSOLIDATED CAPITAL RATIOS BASED ON THE ACCORD'S ARTICLE 26 AND COMPANIES INCLUDED IN THE SCOPE OF ACCOUNTING CONSOLIDATION AND REASONS FOR DIFFERENCES

- There are no differences.

(2) NUMBER OF CONSOLIDATED SUBSIDIARIES AND NAMES AND BUSINESS OF MAJOR CONSOLIDATED SUBSIDIARIES

- Number of consolidated subsidiaries
124 consolidated subsidiaries.
- Major consolidated subsidiaries
 - Shinsei Trust & Banking Co., Ltd. (trust banking)
 - Shinsei Securities Co., Ltd. (securities)
 - APLUS FINANCIAL Co., Ltd. (installment credit)
 - Showa Leasing Co., Ltd. (leasing)
 - Shinsei Personal Loan Co., Ltd. (consumer finance)
 - SHINSEI FINANCIAL Co., Ltd. (consumer finance)
 - Shinsei 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 through FY	¥ 1,231	¥ 1,155
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 through FY	¥ 3,171	¥ 2,992
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	<p>A obligor rating system benchmarked against external ratings (R&I) which reflects credit status of obligor is in place.</p> <p>Obligor rating is derived from quantitative score calculated from model prepared by using external ratings etc. as a benchmark based on the financial data of a customer, and determined taking into account of influence from group companies and future financial projection.</p> <p>Obligor ratings for Sovereign/Bank exposures are assigned based on specific rules.</p>	<p>A facility rating system based on degree of expected loss ratio according to the transaction type is in place for specialized lending assets whose interest payments and principal repayments are heavily dependent on the profit of assets and the business.</p> <p>Ratings are assessed according to facility type as follows.</p> <ul style="list-style-type: none"> • Real estate nonrecourse loans are decided by adding qualitative adjustments to quantitative index based on the LTV. • Ratings for project finance or non-recourse shipping finance are decided by comprehensively considering financial indices such as DSCR and the assessment of each risk factor that has an impact on the operation of the project. Regarding nonrecourse shipping finance, evaluation of ship is also considered in the risk assessment.
Usage of Various Estimated Value (Use Test)	Obligor rating and facility rating are used in the standards of credit approval authority procedures, pricing, portfolio management, and allocating Risk Capital.	
Management of Internal Rating System, and Rating Assignment Procedures	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	<p>Definition of Default Obligor categorization under self assessment falls to sub-standard (9B) or lower, etc.</p> <p>PD Long-term averages are calculated based on internal data, and margin for estimation error is added to derive estimates.</p> <p>LGD/EAD Parameters are not estimated as a bank using Fundamental Internal Ratings-Based Approach.</p>	Internal ratings are allocated to slotting criteria, and parameters are not estimated.

QUALITATIVE DISCLOSURE (CONTINUED)

EXHIBIT: SUMMARY OF INTERNAL RATING SYSTEM

Type of Exposures	Retail Exposures (Shinsei Bank)		Retail Exposures (APLUS FINANCIAL, APLUS, APLUS PERSONAL LOAN, Zen-Nichi Shinpan, Shinsei Financial, Shinsei Personal Loan and Showa Leasing)
	(f) Residential Mortgage Exposures	(g) Qualifying Revolving Retail Exposures	(h) Qualifying Revolving Retail Exposures, (i) Other Retail Exposures
Structure of Internal Rating System	<p>Assignment of Pool Category to each exposure shall be conducted so that risk is appropriately categorized, taking into account the obligor's risk characteristics, transaction's risk characteristics and the delinquency status of the exposure.</p> <p>(In addition to housing loans described above, housing loans originated by lenders other than the Bank and purchased as portfolios by the Bank are managed as purchased receivables.)</p>	<p>Portfolios which the bank originated are classified as qualifying revolving retail exposures. Pools are classified quantitatively by obligor risk characteristics and etc.</p>	<p>Portfolios of the Bank's subsidiaries are classified as qualifying revolving retail exposures (such as unsecured personal loans, credit cards) or other retail exposures (such as installment sales credit receivables, small-lot lease receivables) according to credit facility types. (Housing loan portfolios of APLUS and Zen-Nichi Shinpan are classified as residential mortgage exposures).</p> <p>Exposures are assigned to appropriate pools established for each subsidiary, considering obligor risk characteristics, transaction risk characteristics, and delinquency status.</p>
Usage of Various Estimated Value (Use Test)	Pool classification and PD/LGD/EAD estimates are used for calculating and allocating Risk Capital.	Pool classification and PD/LGD/EAD estimates are used for calculating and allocating Risk Capital.	Pool classification and PD/LGD/EAD estimates are used for calculating and allocating Risk Capital.
Management of Internal Rating System, and Rating Assignment Procedures	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	<p>Key methodologies of validation are as follows:</p> <ul style="list-style-type: none"> • PD: Validation whether GAP between PD estimates/theoretical PD values by age of exposures based on the PD seasoning curve and historical PD. • LGD: Validation whether gap between LGD estimates and historical LGD remain within a certain confidence level, and validation whether estimated collateral sale price is conservative. 	<p>Key methodologies of validation are as follows:</p> <ul style="list-style-type: none"> • PD: Validation of accordance between PD estimates and historical PD, and validation of PD and rating goodness of fit • LGD: Validation if gap between LGD estimates and historical LGD remain within a certain confidence level • Pool classification: Validation on default predictive power 	<p>Key methodologies of validation are as follows:</p> <ul style="list-style-type: none"> • PD: Validation of accordance between PD estimates and historical PD, and validation of PD and rating goodness of fit • LGD: Validation if gap between LGD estimates and historical LGD remain within a certain confidence level • Pool classification: Validation on default predictive power
Estimation of Parameters	<p>Definition of Default Any of the following: i) past due three months or more, ii) relaxation of terms and conditions, iii) legal bankruptcy</p> <p>PD/LGD PD/LGD are estimated using the Bank's historical data and the margin for estimation error is added to derive estimates. The seasoning characteristics of default for PD and collection from collateral sale value for LGD are taken into consideration.</p>	<p>Definition of Default Subrogated for late payment and etc.</p> <p>PD/LGD/EAD PD/LGD/EAD are estimated on pool by pool basis, using the historical data. Long-term averages are calculated based on these data, and margin for estimation error is added to derive estimates.</p>	<p>Definition of Default Any of the following: i) past due three months or more, ii) relaxation of terms and conditions, iii) legal bankruptcy, etc.</p> <p>PD/LGD/EAD PD/LGD/EAD are estimated on pool by pool basis, using the Bank's subsidiaries' historical data. Long-term averages are calculated based on these data, and margin for estimation error is added to derive estimates.</p>

QUALITATIVE DISCLOSURE (CONTINUED)

SHINSEI BANK CORPORATE OBLIGOR RATING SYSTEM

Obligor Rating Categories	Corresponding Rating Assigned by R & I	Summary
0A	/	1. Japanese Government, BOJ. 2. Government-affiliated agencies, expected high certainty from strong backup by the Government.
1A	AAA	Highest capability to meet its financial commitments on the obligations and many other positive factors.
2A	AA+	
2B	AA	Very high capability to meet its financial commitment on the obligation and other positive factors.
2C	AA-	
3A	A+	
3B	A	High capability to meet its financial commitments on the obligations and some good factors.
3C	A-	
4A	BBB+	
4B	BBB	There is adequate certainty of the fulfillment of obligations, but there are also some factors requiring attention in the event of serious adverse economic conditions in the future.
4C	BBB-	
5A	BB+	
5B	BB	No problem regarding the certainty of the fulfillment of obligations for the time being, but some factors need to be closely watched in the event of adverse economic conditions in the future.
5C	BB-	
6A	B+	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 that rely on future profitability excluding those 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
	Required capital amount	Required capital amount
As of March 31		
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
	Required capital amount	Required capital amount
As of March 31		
The Standardized Approach	¥ 29,985	¥ 29,271

(6) TOTAL REQUIRED CAPITAL (DOMESTIC STANDARD)

	Millions of yen	
	2017	2016
	Required capital amount	Required capital amount
As of March 31		
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			
	Total	Loans, etc. ¹	Securities ²	Derivatives ³	Total	Loans, etc. ¹	Securities ²	Derivatives ³
As of March 31								
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

As of March 31	Millions of yen	
	2017	2016
	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

As of March 31	Millions of yen					
	2017			2016		
	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

As of March 31	Millions of yen							
	2017				2016			
	Reserve Amount				Reserve Amount			
	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	Millions of yen	
	2017	2016
As of March 31	Reserve Amount	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	FY2015
	Amount of write-off	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)

As of March 31	Millions of yen			
	2017		2016	
	Rated	Unrated	Rated	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

As of March 31	Millions of yen	
	2017	2016
Risk weight ratio	Amount of Exposure	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

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%	¥ 6,851	¥ 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				
	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
Credit Rating										
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				
	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
Credit Rating										
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				
	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
Credit Rating										
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			
	PD	LGD	Risk Weight	Amount	PD	LGD	Risk Weight	Amount
Credit Rating								
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

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					
	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					
	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					
	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

As of March 31	2017		2016	
	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
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
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	
	Protection-buy	Protection-sell	Protection-buy	Protection-sell
Notional amount				
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

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	—	—
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

As of March 31	Millions of yen	
	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

As of March 31	Millions of yen	
	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%

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

SECURITIZATION EXPOSURE IN WHICH THE BANK GROUP INVESTS

(1) Amount of securitization exposure the Bank Group has by type of original asset

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	12,646	19,794
Total	¥ 109,564	¥ 105,425

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

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(2) Amount of securitization exposure and required capital for the Bank Group has by risk weight ratio

Excluding resecritization exposure

Millions of yen

As of March 31	2017		2016	
	Amount	Required capital amount	Amount	Required capital amount
Band of risk weight ratio				
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

Resecritization exposure

Millions of yen

As of March 31	2017		2016	
	Amount	Required capital amount	Amount	Required capital amount
Band of risk weight ratio				
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%

Millions of yen

As of March 31	2017	2016
	Amount	Amount
Type of original assets		
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 resecritization exposure

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

SECURITIZATION EXPOSURE IN WHICH THE BANK GROUP INVESTS (MARKET RISK)

(1) Amount of securitization exposure the Bank Group has by type of original asset

Excluding resecuritization exposure

As of March 31	Millions of yen	
	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

As of March 31	Millions of yen	
	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

As of March 31	Millions of yen			
	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

As of March 31	Millions of yen			
	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

As of March 31	Millions of yen	
	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

As of March 31	Millions of yen	
	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

As of March 31	Millions of yen	
	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
	Required capital amount	Required capital amount
As of March 31		
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
	Required capital amount	Required capital amount
As of March 31		
The Standardized Approach	¥ 15,390	¥ 15,401

(6) TOTAL REQUIRED CAPITAL (DOMESTIC STANDARD)

	Millions of yen	
	2017	2016
	Required capital amount	Required capital amount
As of March 31		
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
	Default Exposure	Default Exposure
As of March 31		
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		
	Start Amount	Change Amount	End Amount	Start Amount	Change Amount	End Amount
As of March 31						
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			
	Total	General	Specific	Country	Total	General	Specific	Country
As of March 31								
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)

As of March 31	Millions of yen			
	2017		2016	
	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

As of March 31	Millions of yen			
	2017		2016	
	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

As of March 31	Millions of yen	
	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	Millions of yen	
	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 during the period, even though the Bank had no exposure to these particular assets.

(3) Amount of securitization exposure the Bank has by type of original assets

Securitization by transfer of assets

Excluding resecuritization

As of March 31	Millions of yen	
	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	100,000	131,368
Total	¥ 100,000	¥ 177,235

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	—	—
Corporate loans	—	—
Others	—	—
Total	¥ —	¥ —

(4) Amount of securitization exposure and required capital the Bank has by risk weight ratio

Securitization by transfer of assets

Excluding resecuritization exposure

As of March 31	Millions of yen			
	2017		2016	
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 res securitization 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%

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

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

As of March 31	Millions of yen	
	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

As of March 31	Millions of yen	
	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.

PLUS 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				Total amount of variable remuneration				Retirement allowance	Other
			Total amount of fixed remuneration	Basic remuneration	Stock option	Other	Basic remuneration	Bonus	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."



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

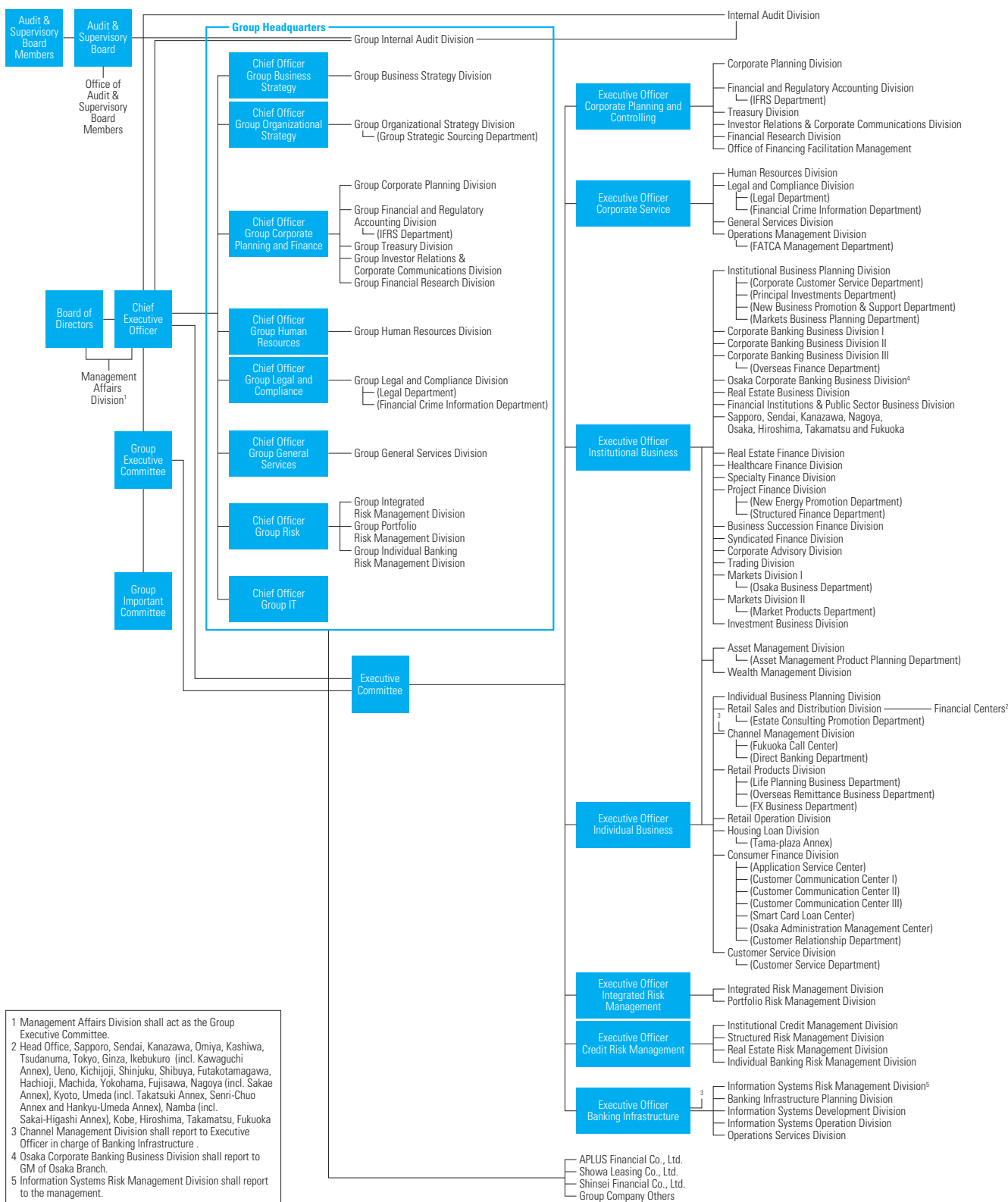
"Average monthly salary" includes overtime wages but excludes annual bonus.

AS OF MARCH 31, 2017

Equity stake held by Shinsei Bank and consolidated subsidiaries (%)

Capital (in millions)	Established	Acquired		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
Division

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

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

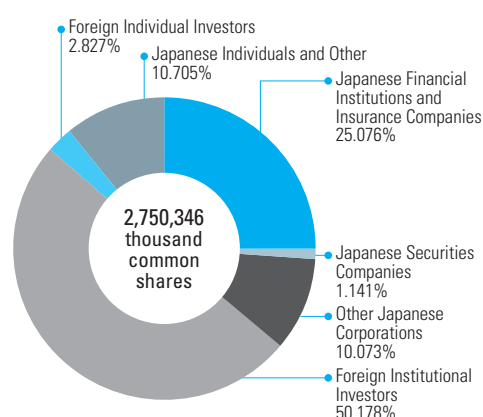
Largest Shareholders

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