SHINSEI BANK

2016

ANNUAL REPORT

For the fiscal year ended March 31, 2016

MANAGEMENT PRINCIPLES

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

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Data Section

Forward-Looking Statements

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

COMPANY HISTORY: TIMELINE OF SHINSEI BANK

2000–2001

2000
- Shinsei Bank Founded
- Name changed from The Long-Term Credit Bank of Japan, Limited (LTCB) to Shinsei Bank, Limited

SHINSEI BANK

2001
- Shinsei Securities Co., Ltd. commences operations

SHINSEI SECURITIES

2002–2004

2003
- Shinsei Investment Management Co., Ltd. commences operations

SHINSEI INVESTMENT MANAGEMENT

2004
- The Bank's common shares listed on the First Section of the Tokyo Stock Exchange

- Converted the Bank's long-term credit bank charter to an ordinary bank charter
- Controlling interest in APLUS Co., Ltd. (Predecessor of APLUS FINANCIAL Co., Ltd.) acquired

APLUS FINANCIAL

2005–2007

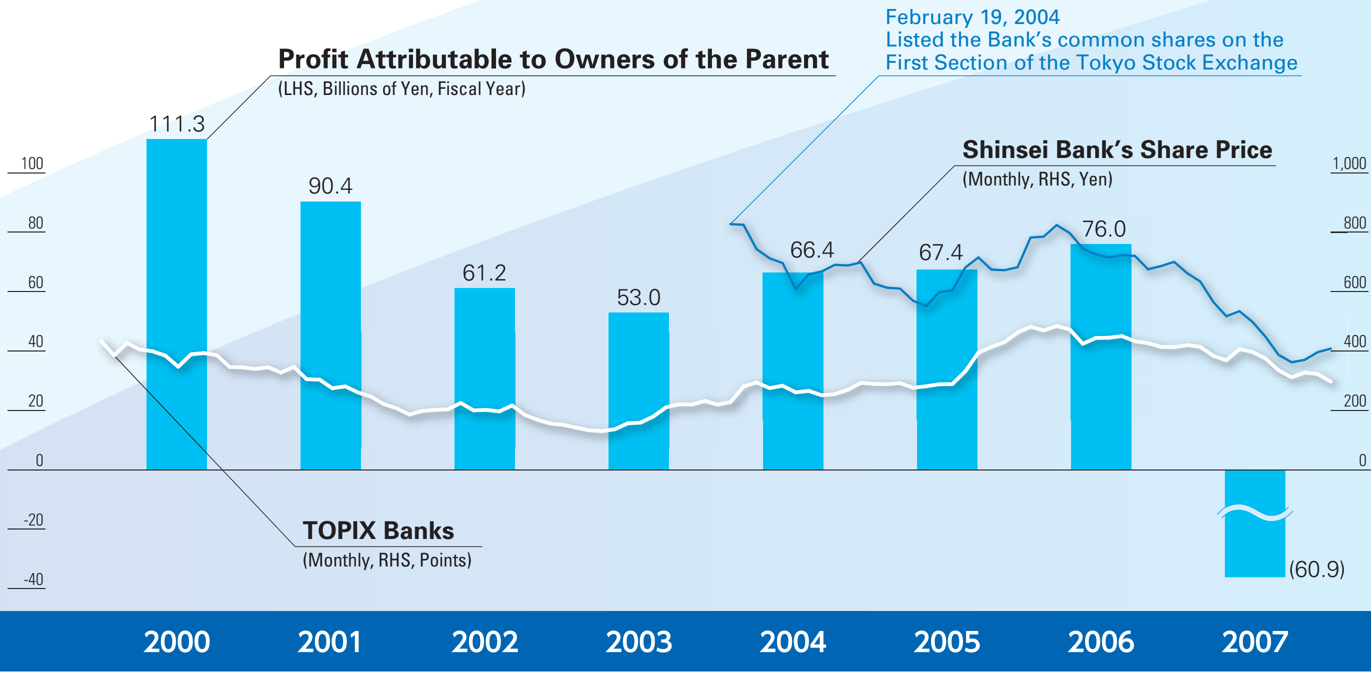
2005
- Controlling interest in Showa Leasing Co., Ltd. acquired

SHOWA LEASING CO.,LTD.

- Commence issuance of cash cards in 32 different colors

2007
- Controlling interest in SHINKI Co., Ltd. acquired

1週間無利息キャッシング NOLOAN



External Environment

2000
- Financial Services Agency Established

2001
- Terrorist Attacks in the United States

2002
- Circulation of the Single European Currency Begins

2003
- Japan Post Commences Operations

2004
- Circulation of New 10, 5 and 1 Thousand Yen Notes Begins

2005
- Full Deregulation of "Payoff"

2006
- Bank of Japan Increases Interest Rate Above Zero

2007
- Japan Post Privatized
- Sub-Prime Mortgage Crisis Emerges in the United States

2008–2010

2008

- Completed a tender offer bid for the Bank's common shares and a third-party allotment of new common shares of the Bank to the investor group led by J.C. Flowers & Co. LLC and affiliates
- GE Consumer Finance Co., Ltd. (Predecessor of Shinsei Financial Co., Ltd.) acquired

2010

- **The Bank commences the First Medium-Term Management Plan**

2011–2013

2011

- Commenced operations at new head office (Nihonbashi Muromachi)

- Issued new shares through international offering
- Commenced unsecured personal card loan service under the Lake brand

Shinsei Bank Card Loan—Lake

2013

- **The Bank commences the Second Medium-Term Management Plan**
- The Shinsei Principal Investments Group established
- Entered ATM partnership with "VIEW ALTTE" ATM, operated by East Japan Railway Company and major convenience store chains such as LAWSON and FamilyMart

2014–2016

2014

- Arranged project financing for mega solar projects in seven locations in Japan utilizing trust schemes

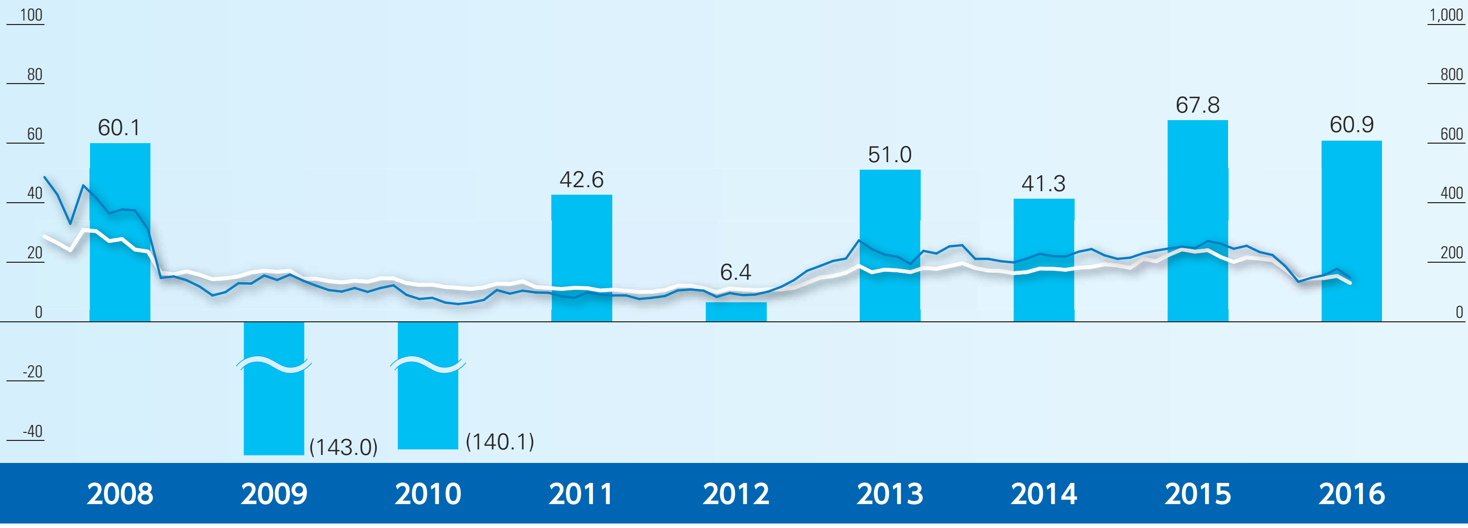
2015

- Launched "Overseas Prepaid Card GAICA"

- Japan Senior Living Partners Co., Ltd. listed on the real estate investment trust securities market of the Tokyo Stock Exchange
- Launched "Shinsei Bank Smart Card Loan Plus"

2016

- **The Bank commences the Third Medium-Term Management Plan**
- ATM partnerships expanded to include AEON Bank ATMs and Station ATM "Patsat"



2008
- Lehman Brothers Securities Bankruptcy

2009
- The Nikkei Average Records a New Post-Bubble Collapse Close of 7,054.98 Yen

2010
- Full Enforcement of Revised Money Lending Business Law
- European Sovereign Debt Crisis

2011
- Great East Japan Earthquake

2012
- Second Abe Administration Inaugurated

2013
- Bank of Japan Introduces "Quantitative and Qualitative Monetary Easing"

2014
- Consumption Tax Increased to 8%

2015
- Nikkei Average Recovers to Above 20,000 Yen

2016
- Bank of Japan Introduces Negative Interest Rates
- "Leave" Supporters Win Referendum for the British Exit of the European Union

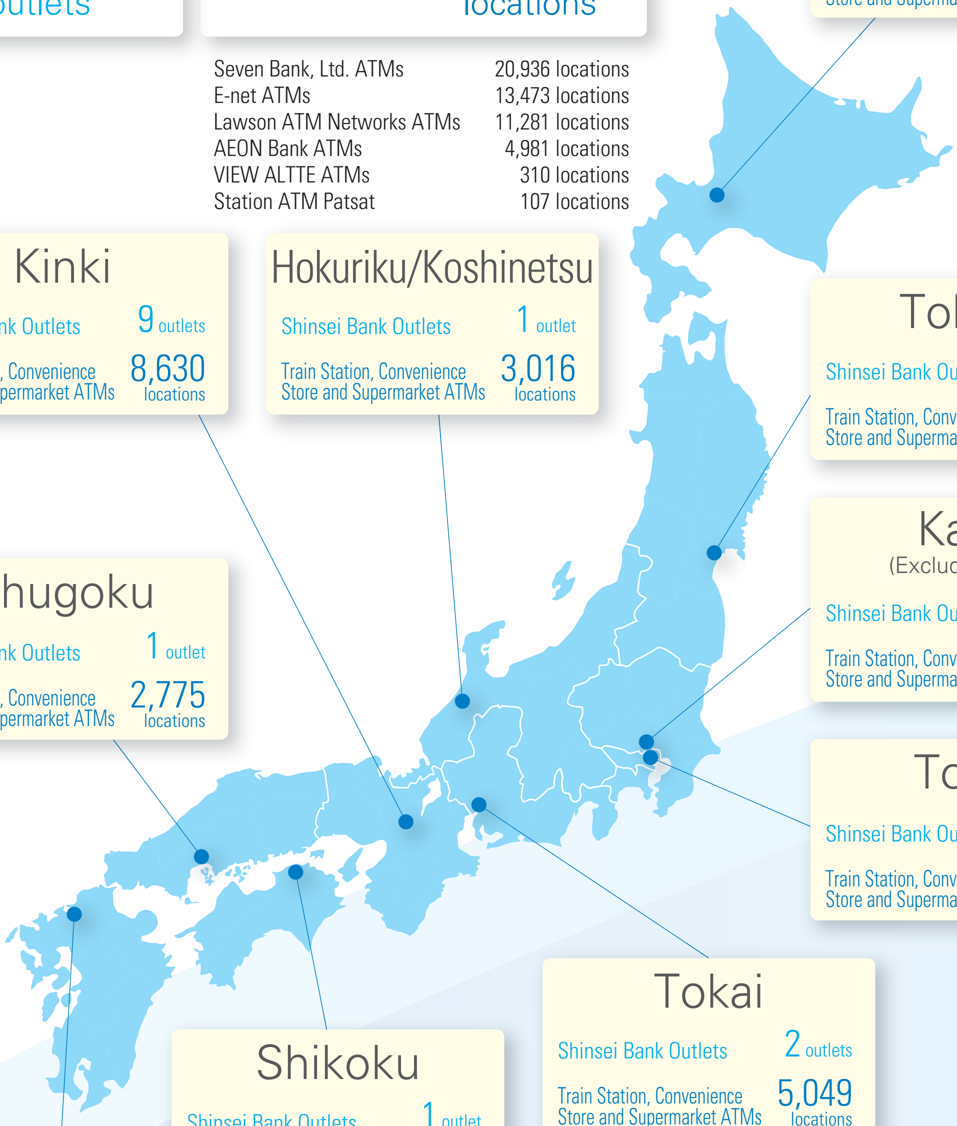
THE NETWORK OF SHINSEI BANK

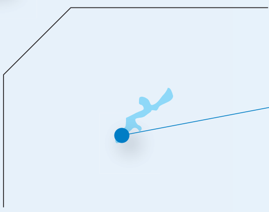
As of June 30, 2016

Shinsei Bank Outlets
35 outlets

Train Station, Convenience Store and Supermarket ATMs
51,088 locations

Seven Bank, Ltd. ATMs	20,936 locations
E-net ATMs	13,473 locations
Lawson ATM Networks ATMs	11,281 locations
AEON Bank ATMs	4,981 locations
VIEW ALTTE ATMs	310 locations
Station ATM Patsat	107 locations





Hokkaido
Shinsei Bank Outlets 1 outlet
Train Station, Convenience Store and Supermarket ATMs 1,944 locations

Kinki
Shinsei Bank Outlets 9 outlets
Train Station, Convenience Store and Supermarket ATMs 8,630 locations

Hokuriku/Koshinetsu
Shinsei Bank Outlets 1 outlet
Train Station, Convenience Store and Supermarket ATMs 3,016 locations

Tohoku
Shinsei Bank Outlets 1 outlet
Train Station, Convenience Store and Supermarket ATMs 3,525 locations

Chugoku
Shinsei Bank Outlets 1 outlet
Train Station, Convenience Store and Supermarket ATMs 2,775 locations

Kanto
(Excluding Tokyo)
Shinsei Bank Outlets 7 outlets
Train Station, Convenience Store and Supermarket ATMs 12,069 locations

Tokyo
Shinsei Bank Outlets 11 outlets
Train Station, Convenience Store and Supermarket ATMs 7,078 locations

Tokai
Shinsei Bank Outlets 2 outlets
Train Station, Convenience Store and Supermarket ATMs 5,049 locations

Shikoku
Shinsei Bank Outlets 1 outlet
Train Station, Convenience Store and Supermarket ATMs 1,507 locations

Kyushu
Shinsei Bank Outlets 1 outlet
Train Station, Convenience Store and Supermarket ATMs 4,936 locations

Okinawa
Shinsei Bank Outlets 0 outlets
Train Station, Convenience Store and Supermarket ATMs 559 locations

DOMESTIC OUTLETS:

AS OF JUNE 30, 2016

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, 2016

Shinsei Bank Card Loan—Lake unstaffed branches	761 locations

PARTNER TRAIN STATION, CONVENIENCE STORE AND SUPERMARKET ATMS:

AS OF JUNE 30, 2016

Seven Bank, Ltd. ATMs	20,936 locations
E-net ATMs	13,473 locations
Lawson ATM Networks ATMs	11,281 locations
AEON Bank ATMs	4,981 locations
VIEW ALTTE ATMs	310 locations
Patsat ATMs	107 locations

FINANCIAL HIGHLIGHTS

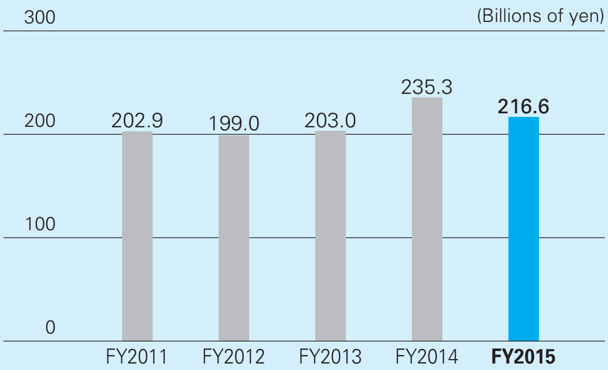
Shinsei Bank, Limited, and Consolidated Subsidiaries
For the fiscal years ended March 31, 2012, 2013, 2014, 2015 and 2016[1]

	Billions of yen				
	2012	2013	2014	2015	**2016**
For the fiscal year:					
Net interest income	¥ 116.9	¥ 111.6	¥ 110.5	¥ 126.4	**¥ 122.3**
Noninterest income	86.0	87.3	92.5	108.8	**94.2**
Net fees and commissions	25.1	19.1	22.4	24.6	**25.4**
Net trading income	13.6	20.0	13.9	11.5	**8.4**
Net other business income	47.2	48.1	56.1	72.6	**60.3**
Total revenue	202.9	199.0	203.0	235.3	**216.6**
General and administrative expenses	130.3	130.9	135.0	144.2	**141.3**
Ordinary business profit	60.6	57.2	58.2	82.4	**67.8**
Net credit costs	12.2	5.5	0.2	11.8	**3.7**
Ordinary business profit after net credit costs	48.3	51.6	57.9	70.5	**64.0**
Profit attributable to owners of the parent[2]	6.4	51.0	41.3	67.8	**60.9**
Cash basis profit attributable to owners of the parent[2,3]	16.0	60.4	49.8	75.4	**67.6**

1 Since all yen figures have been truncated rather than rounded, the totals do not necessarily equal the sum of the individual amounts.
2 In accordance with the revision of the Accounting Standard for Business Combination, as of FY2015 net income and cash basis net income are referred to as profit attributable to owners of the parent and cash basis profit attributable to owners of the parent.
3 Cash basis profit attributable to owners of the parent is calculated by excluding impairment and amortization of goodwill and other intangible assets acquired in business combinations, net of tax benefit, from profit (loss) attributable to owners of the parent under Japanese Generally Accepted Accounting Principles (Japanese GAAP).

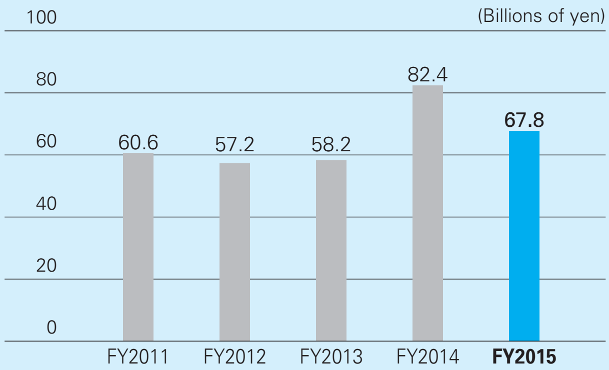
Total revenue

Total revenue—the indicator of gross profit— is composed of "Net interest income" such as interest from loans and "Noninterest income" such as fees from sales of investment products.



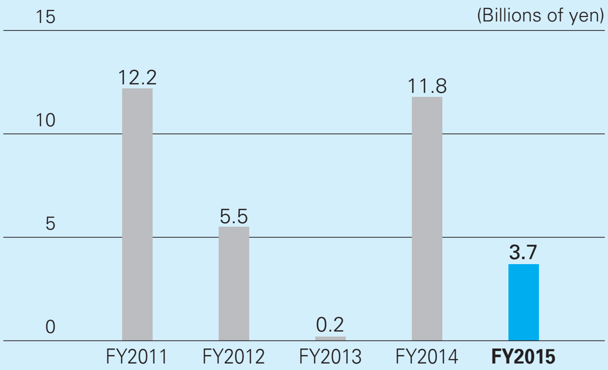
Ordinary business profit

Ordinary business profit—the indicator of profit from core business after expenses—is calculated by subtracting "expenses" from "total revenue." "Net credit costs" are excluded from this calculation.



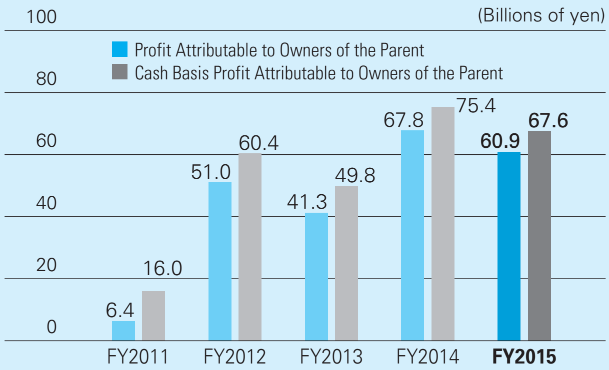
Net credit costs

Net credit costs are the sum of reserves for loan losses set aside (credit costs) according to the credit standing of borrowers, reversal (gains) of reserves for loan losses, and recoveries of written-off claims resulting from their disposal.



Profit attributable to owners of the parent, cash basis profit attributable to owners of the parent

Cash basis profit attributable to owners of the parent is calculated by excluding impairment and amortization of goodwill resulting from acquisitions of subsidiaries and other intangible assets, net of tax benefits, from profit attributable to owners of the parent—and represents the bottom-line profit for the relevant fiscal year.



	Billions of yen				
	2012	2013	2014	2015	**2016**
Balances at fiscal year-end:					
Securities	¥ 1,873.4	¥ 1,842.3	¥ 1,557.0	¥ 1,477.3	**¥ 1,227.8**
Loans and bills discounted	4,136.8	4,292.4	4,319.8	4,461.2	**4,562.9**
Total assets	8,609.6	9,029.3	9,321.1	8,889.8	**8,928.7**
Deposits and negotiable certificates of deposit	5,362.4	5,457.5	5,850.4	5,452.7	**5,800.9**
Total liabilities	7,982.0	8,345.6	8,598.5	8,136.0	**8,135.6**
Total equity	627.6	683.6	722.5	753.7	**793.1**
Total liabilities and equity	8,609.6	9,029.3	9,321.1	8,889.8	**8,928.7**

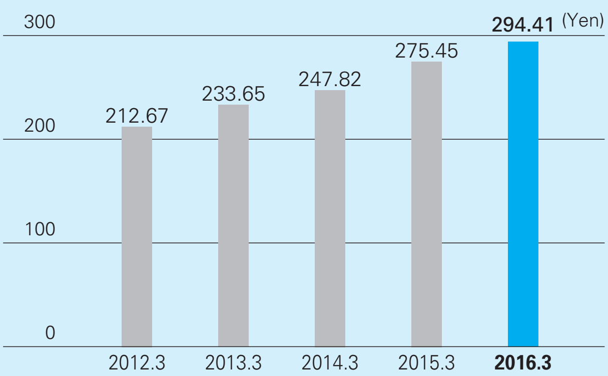
	Yen				
	2012	2013	2014	2015	**2016**
Per share data:					
Common equity	¥ 212.67	¥ 233.65	¥ 247.82	¥ 275.45	**¥ 294.41**
Fully diluted equity[4]	212.67	233.65	247.82	275.45	**294.41**
Basic profit	2.42	19.24	15.59	25.57	**22.96**
Diluted profit	2.42	19.24	15.59	25.57	**22.96**
Dividends	1.00	1.00	1.00	1.00	**1.00**
Cash basis per share data:					
Basic profit	¥ 6.05	¥ 22.77	¥ 18.78	¥ 28.42	**¥ 25.50**
Diluted profit	6.05	22.77	18.78	28.42	**25.50**

	%				
	2012	2013	2014	2015	**2016**
Ratios:					
Return on assets[5]	0.1	0.6	0.5	0.7	**0.7**
Cash basis return on assets[6]	0.2	0.7	0.5	0.8	**0.8**
Return on equity (fully diluted)[7]	1.2	8.6	6.5	9.8	**8.1**
Cash basis return on equity (fully diluted)[8]	3.2	11.1	8.3	11.4	**9.2**
Expense-to-revenue ratio	64.2	65.8	66.5	61.3	**65.3**
Total capital adequacy ratio (Basel II, Domestic Standard)	10.27	12.24	—	—	**—**
Capital ratio (Basel III, Domestic Standard)	—	—	13.58	14.86	**14.20**
Ratio of nonperforming claims classified under the Financial Revitalization Law to total claims	6.66	5.32	3.81	1.42	**0.79**

4 Fully diluted equity per share is calculated by dividing equity at the end of the periods presented by the number of common shares that would have been outstanding had all securities convertible into or exercisable for common shares been converted or exercised with an applicable conversion or exercise price within the predetermined range.
5 Return on assets is calculated by dividing profit (loss) attributable to owners of the parent by the average of total assets at the beginning and end of the period presented.
6 Cash basis return on assets is calculated by dividing profit (loss) attributable to owners of the parent by the average of (total assets–goodwill–intangible assets acquired in business combinations) at the beginning of the period and the same values at the end of period presented.
7 Return on equity (fully diluted) is calculated by dividing profit (loss) attributable to owners of the parent by the average of fully diluted equity at the beginning and end of the period presented.
8 Cash-basis return on equity (fully diluted) is calculated by dividing cash basis profit (loss) attributable to owners of the parent by the average of (total equity–goodwill–intangible assets acquired in business combinations (net of associated deferred tax liability)) at the beginning of the period and the same values at the end of period presented.

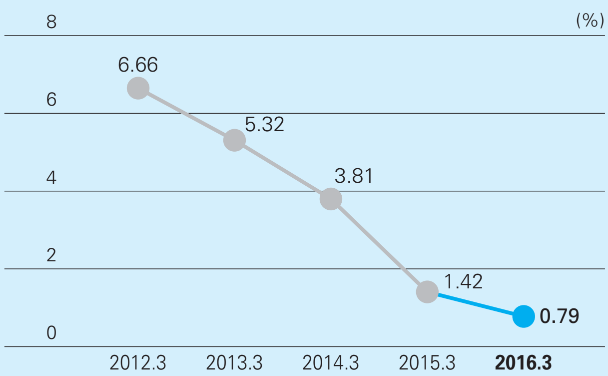
Common equity per share

Common equity per share is calculated by dividing common equity by the total number of common shares outstanding at the end of the term.



Nonperforming loan ratio under the Financial Revitalization Law

Nonperforming loan ratio is the ratio of nonperforming claims, categorized as "Claims against bankrupt and quasi-bankrupt obligors," "Doubtful claims" and "Substandard claims," to total claims under the Financial Revitalization Law.



SHINSEI BANK'S BUSINESS PROFILE

As of July 1, 2016

SHINSEI BANK GROUP

Individual

- Shinsei Bank Lake
  - レイク
  - Shinsei Bank Card Loan—Lake
- Unsecured Personal Loans, Credit Guarantees
  - SHINSEI FINANCIAL
- Unsecured Personal Loans
  - A Financial Venture シンキ株式会社
  - SHINKI Co., Ltd.
- Credit Cards, Shopping Credit, Settlement
  - APLUS FINANCIAL
- Real Estate Mortgage Loans
  - SHINSEI PROPERTY FINANCE
- Retail Deposits
- Mutual Funds
- Structured Deposits
- Insurance
- Housing Loans
- Overseas Remittance

Institutional

- Corporate, Financial Institutions & Public Sector Finance
- Real Estate Finance
- Specialty Finance
- Health Care Finance
- Principal Transactions
  - SHINSEI PI GROUP
    - Private Equity
    - Credit Trading
    - Business Succession Finance
- Trust (ABS, MBS, Real Estate Trust)
  - SHINSEI TRUST
- Leasing (Leasing, Property Management)
  - SHOWA LEASING CO.,LTD.

Global Markets

- Markets
- Wealth Management
- Asset Management
  - SHINSEI INVESTMENT MANAGEMENT
- Securities (Securitization, Structured Debentures)
  - SHINSEI SECURITIES

Strategies for Increasing Corporate Value

TO OUR SHAREHOLDERS, CUSTOMERS AND EMPLOYEES

Hideyuki Kudo
President and Chief Executive Officer

Overview of Past Medium-Term Management Plans (MTMPs)

—"A dispassionate reflection upon the achievements and outstanding challenges of the First and Second MTMPs was the first step in our journey to create the Third MTMP"—

The greatest challenge faced by Shinsei Bank during the First MTMP (FY2010–FY2012) was the rebuilding of the Bank's financial base following the damage it suffered from the global financial crisis triggered by the collapse of Lehman Brothers. In order to accomplish this, the Bank engaged in exhaustive efforts to reduce the Bank's risk asset balance through the disposal of its distressed assets while simultaneously executing measures such as issuing additional shares of common stock in order to reinforce the Bank's capital position and improve our capital adequacy ratio. Through the undertaking of aggressive treatments to eliminate issues such as legacy assets generating nonrecurring losses and return the Bank to a state of financial health, we successfully laid the foundation necessary to stabilize our revenues, and furthermore, we began operating the unsecured personal loan business (Shinsei Bank Card Loan—Lake) through the Bank as part of our efforts to deploy new businesses in order to diversify our revenues, and while the Bank enjoyed these successes, the realities of the Bank's revenues and asset balance made it challenging to argue that the Bank had returned to growth.

In the Second MTMP (FY2013–FY2015), we shifted from a balanced contraction to expansion as we sought to return to growth in both our Individual and Institutional Businesses and established the three major goals of 1) establishing a unique business base, 2) increasing our revenues and further improving our financial fundamentals, and 3) becoming a financial group appreciated by customers and valued by society and markets in order to do so. As a result, in our Individual Business, the unsecured card loan balance expanded at a faster rate than the growth of the overall market while in our Institutional Business we began to see success in the project finance business focusing on renewable energy projects. Additionally, amid an improving economic environment, we effectively booked investment gains while also recording gains on the reversal of reserves for loan losses due to progression in the final treatment nonperforming loans (NPLs) disposed of during the First MTMP and we continued to record consecutive positive net profits from the First MTMP. Consequently, we have been successful in greatly improving the financial stability of Shinsei Bank, having steadily accumulated capital as well as significantly improved the Bank's nonperforming loan ratio to a superior level even in comparison to that of other banks.

However, our decision to allocate management resources in a wide range of business areas in the increasingly competitive Japanese financial services industry was an overextension, resulting in insufficient allocation of resources in business areas where the Bank holds expertise and competitive advantages and has the capability to provide unique products and services. Additionally, due in part to the aforementioned insufficient allocation of management resources, the Bank was unable to deliver the aggressive revenue growth targets of the Second MTMP and the Bank fell short of its overhead ratio target, one of the management indicators during the Plan.

Fully accepting both our achievements and outstanding challenges, the creation of the Third MTMP, which has been started from fiscal year 2016, was initiated following a profound reflection to determine the unrealized strengths of the Bank and the strategic leadership required of management over the following three years in order for Shinsei Bank to remain a Financial Group able to enjoy the loyalty of its customers.

The Shinsei Bank Group Medium- to Long-Term Vision

—"It is critical that we clearly identify the vector of the Shinsei Bank Group from a medium to long term perspective."—

The harshness of the current and future business environment of financial institutions has made apparent the need for management to look beyond the short term and create a Medium- to long-term vision which illustrates the longer term direction of our business. Our Medium- to Long-term vision leaves no ambiguity regarding our strategic direction and was created with the intention that it would serve to identify the loci around which the efforts and businesses of the Shinsei Bank Group would concentrate and gain speed.

Medium- to Long-Term Vision

1. To be a financial innovator that provides cutting edge financial services made possible through Group integration.
2. To be a financial group that achieves outstanding productivity and efficiency through constant improvements and reforms to realize lean operations.
3. To be a financial group which, in addition to rewarding its stakeholders, is both driven and unified by the core values of the confidence, sense of fulfillment and the pride created by the achievement of the first two goals of the Group vision.

The first goal of the vision reflects our intent to realize Group synergies by customer centrically restructuring the businesses of our Group companies, including our core banking business, the unsecured personal loan, credit card, shopping credit, and settlements businesses as well as leasing and other nonbank businesses in a way that transcends their operations as individual companies. Additionally, many core members of the Shinsei Bank Group were assimilated into the Group through acquisitions and have yet to be fully integrated in terms of both their business and management, preventing the full utilization of Group management resources. We believe that the latent opportunity which can be realized by overcoming the concepts of individual companies and enterprises and organically intertwining the customer bases, data, expertise and other business-related assets accumulated by each Group member and the resulting possible combinations of products and services we could provide to our customers could be of staggering magnitude. The realization of this latent potential equates the creation of value for our customers, and while presenting a major challenge for the management of the Bank, is the source of the Shinsei Bank Group's opportunities for growth.

The second goal of our Medium- to Long-Term Vision reflects our belief that the state of our current businesses and operations are less than ideal and that there are areas where we might be able to apply original and ingenious solutions in order to eliminate waste and inefficiency. We believe that the undertaking of meaningful tasks by our employees will lead to the full realization of the capabilities of each individual which in turn will result in the invigoration of the organization. From this perspective, the effective use of our human resources and the pursuit of "diversity and inclusion" are essential to our future growth and success.

The third and final goal of the vision concerns the achievement of the preceding two goals which will lead to the enhancement of our corporate value, rewarding our stakeholders, as well as instill in all of our employees the confidence, sense of fulfillment, and pride that comes from knowing their efforts are contributing to the enhancement of our corporate value, leading to the creation of the corporate culture of the Shinsei Bank Group. It is my earnest desire for the corporate culture that is borne as a result of the Bank's efforts to achieve our vision to become the steadfast foundation upon which the core values of the Shinsei Bank Group will be built.

The three year plan that our Group will execute starting in fiscal year 2016 as it pursues its Medium- to Long-Term Vision is the Third MTMP.

Third Medium-Term Management Plan

—"As part of the Third MTMP we have performed a "selection and concentration" of our businesses according to the strengths and expertise of the Shinsei Bank Group and the growth potential of the businesses as we pursue the growth of revenues which are both highly sustainable and stable."—

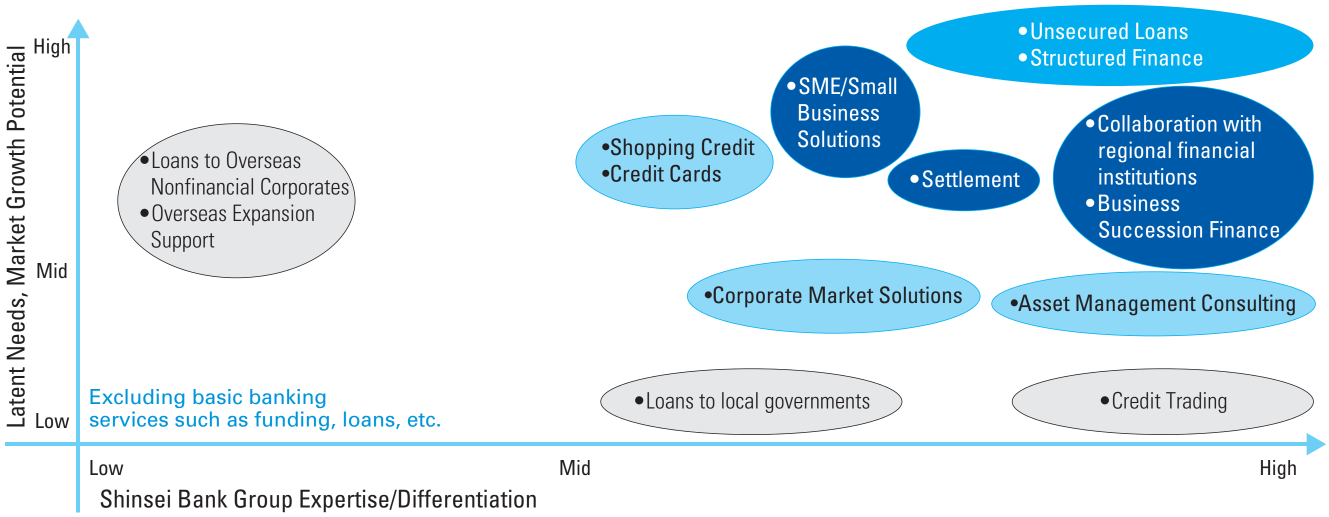
Considering the achievements and outstanding challenges of our First and Second MTMPs as well as the strategic direction expounded upon in the Group's Medium- to Long-Term Vision, the Third MTMP naturally must be based upon the strengths and unique characteristics of the Shinsei Bank Group. We therefore took a fresh look at what would qualify as being strengths and unique characteristics, as well as what would qualify as differentiation. Based upon this examination, we conclude there to be two areas in which the Bank retains these characteristics.

The first area includes businesses that utilize information technology and scientific and statistical methodologies. Examples of such businesses includes our consumer finance and settlements businesses and businesses that utilize large amounts of transaction data such as multi-channel retail banking. The benefits of the information technologies and statistical methodologies used to process and analyze large amounts of data are most pronounced in smaller scale financial transactions with individual customers and small businesses. Due to this area also having a high affinity with new financial technologies, fully utilizing our information technology capabilities to provide cutting edge services which provide convenience is a highly viable method for achieving differentiation.

The second area includes businesses that leverage financial technologies to deliver customized, value-added services to customers. The businesses fitting this description include institutional businesses such as structured finance, business succession and the businesses providing support for growing companies and business establishment as well as businesses serving retail customers such as asset management consulting services.

Based on our examination of the demonstrated strengths of the Shinsei Bank Group in these two areas of expertise and the market growth potential of each business, we have divided our businesses into four classifications and created a strategic mapping of our current businesses.

Strategic Mapping Businesses



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

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

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

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

As a result of the "Selection and Concentration" review of the businesses of the Shinsei Bank Group we have identified unsecured personal lending in the Individual Business and Structured Finance (real estate finance and project finance) in the Institutional Business as areas which hold high market growth potential and in which the Group retains high levels of expertise, and as such, management resources will be proactively allocated in these areas.

Regarding specific initiatives, in the unsecured loan business we will undertake a detailed segmentation of our customer base and leverage the product features of our three core brands— *Shinsei Bank Card Loan* – Lake (hereinafter, Lake), *Shinsei Bank Smart Card Loan Plus*, and *NOLOAN*— to undertake a highly customized marketing approach of our customer base as we seek to grow the loan balance and increase profits. Additionally, we intend to increase the effectiveness of our marketing activities of Lake through the appropriate investment of marketing expenses in order to further enhance the recognition of the brand and grow our new customer acquisitions, as well as pursue increased convenience for our customers through the implementation of improvements to our applications process and increasing the accessibility of the service.

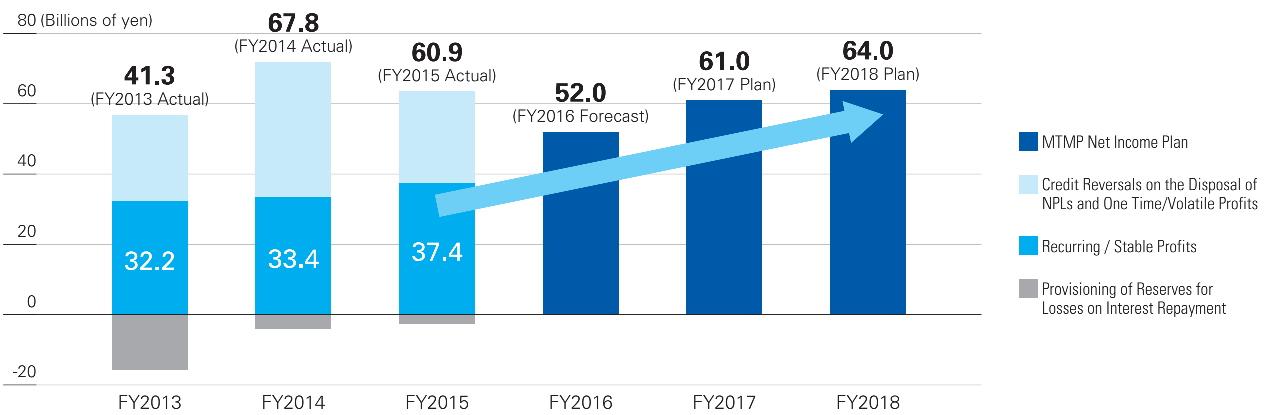
In Structured Finance, while Shinsei Bank has always retained strong market presence in the field of real estate finance, the Bank will look to engage in new initiatives in healthcare and hospitality facilities, which are expected to increase in the future, where it is able to leverage its expertise while also engaging in management which closely monitors factors such as the condition of the real estate market and the balance of risk and return. In the area of domestic project finance the Bank has engaged primarily in the provision of financing for mega solar projects following the renewable energy development boom which occurred after the Great East Japan Earthquake. Going forward the Bank anticipates the growth of other forms of renewable energy generation including wind, geothermal and wood biomass, and leveraging the advanced analysis and project arrangement capabilities of the Bank, we will extend our undertakings beyond solar power generation as we seek to grow the project finance balance and increase associated profits.

While the Bank is forecasting an operating asset balance compound average annual growth rate of around 10%, we will be engaging in dynamic managerial oversight, flexibly allocating management resources in response to changes in the external business environment and our performance versus our business Plan.

Additionally, we will seek to establish a business operating structure which facilitates the efficient use and flexible reallocation of management resources in response to changes in the external environment and progression versus our business plan, reduces waste and inefficiencies as well as maximizes the latent potential of the employees of the Shinsei Bank Group as part of the Bank's internal management infrastructure which supports the growth of its businesses. Furthermore, we will look establish a Group wide governance structure which facilitates the unified management of the Shinsei Bank Group.

Through the persistent implementation of the strategies and measures set forth in the Third MTMP, the Bank will increase profits generated by businesses with a high degree of stability and recurrence and thereby enhance sustainable profits and management efficiency.

Trend of Net Income



Notably, one of the objectives of the Third MTMP is the identification of the path to the repayment of public funds. The Bank has made significant progress in accumulating the capital which will serve as the source of funds for repayment over the past several years. We are keenly aware of the importance of improving per share values and as part of efforts to do so, the Bank has resolved to undertake a share buyback following a full evaluation of all relevant factors including the Bank's current level of capital and profitability as well as the external market environment. Going forward, assuming the maintenance of a sufficient level of capital, the Bank will implement appropriate capital policy as it seeks to enhance per share values.

Seeking the Enhancement of Sustainable Corporate Value

In the Third MTMP we are pursuing the full utilization of the Shinsei Bank Group's customer bases, financial functions and services in order to drive the development and provision of cutting edge products and services to our customers. In order to achieve this, we must we must tear down our preconceptions and dispose of confined thinking to transcend the boundaries between our Bank and Nonbank businesses as well as overcome the limitations we have unconsciously imposed upon ourselves due to our past experiences as we seek to interweave the varied experience and expertise held throughout the Shinsei Bank Group. I will seek to facilitate such change through my management activities and hope the organization we create will encourage the emergence of individuals within our Bank who will seek out challenges which will lead to this kind of innovative thinking. I believe that the confidence, sense of fulfillment and pride which will naturally result from our development into such an organization will become core values of the Shinsei Bank Group and will ultimately lead to our ability to meet the expectations of all stakeholders of the Shinsei Bank Group.

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

July 2016

Hideyuki Kudo
President and Chief Executive Officer

CFO MESSAGE

Shinsei Bank is engaging in flexibly and proactively allocating its Group management resources as well as working to ensure efficiency in their utilization as it seeks to grow stable and sustainable revenues in accordance with its management strategy.

Overview of Financial Management During the Second MTMP

In the Second Medium-Term Management Plan (MTMP), which ran from fiscal year 2013 to fiscal year 2015, management focused on three financial indicators— Growth, Profitability, and Financial Stability. The Bank's achievements in regard to each indicator are as follows:

Growth

Profit attributable to owners of the parent fell short of the target set for the final year of the Second MTMP as a result of deterioration in the market environment and the recording of a loss due to the reassessment of a past investment. While we were unable to record profit growth, the Bank was successful in recording profits for three consecutive years.

Profitability

The Bank achieved the Second MTMP return on risk-weighted assets (RORA) target of around 1%. However, Bank was unable to meet the return on equity (ROE) target of 10%, recording a full year ROE of 8.1% in fiscal year 2015.

The Bank was unable to achieve its targeted expense-to-revenue ratio of below 60% and recorded a full year expense-to-revenue ratio of 64.9% due to the difficulties encountered in achieving the business plan which sought to expand total revenue at a rate far exceeding the rate of expense growth.

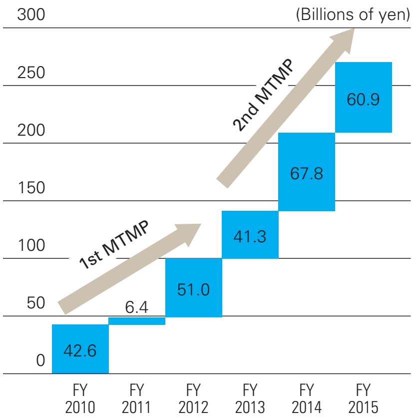
Financial Stability

As of March 31, 2016, the Bank's nonperforming loan (NPL) ratio was 0.79%, well below the Second MTMP's target of an NPL ratio below 3% range. The target was achieved by taking advantage of an improving economic environment to aggressively dispose of NPLs. As a result, the Bank's asset quality has been sharply improved.

The accumulation of retained earnings and the reduction of risk assets achieved through the disposal of NPLs enabled us to sharply improve our capital adequacy ratio (common equity Tier I ratio) to 12.9%, significantly higher than the Second MTMP's initial target of 7.5%.

As a result of the preceding achievements, growing stable and sustainable revenues and further improvement of the expense-to-revenue ratio have been identified as key issues to be addressed in the Bank's Third MTMP, and we are committed to taking all measures necessary to resolve these outstanding issues.

Consolidated Net Income Trend



Performance Review

Profitability

- Total consolidated net income over the past 6 years exceeds JPY 270 billion
- Net interest margin (NIM) increased due to funding cost improvement

	Funding Cost	NIM
FY2010	0.59%	2.19%
FY2015	0.26%	2.40%

- ROA increased to 0.7%, and RORA[1] increased to 1.1%

	EPS	ROA	RORA
FY2010	21.36 yen	0.4%	N.A.
FY2015	22.96 yen	0.7%	1.1%

- Expense-to-revenue ratio remains above 60%

Financial Stability

- NPL ratio significantly improved

	NPL Balance	NPL Ratio
FY2010	279.6 billion yen	6.78%
FY2015	34.7 billion yen	0.79%

- Capital ratios continued to improve

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

Pursuing the Achievement of the Financial Targets of the Third MTMP

During the Third MTMP, which runs from fiscal year 2016 to fiscal year 2018, the Bank will seek to address the challenges it has identified through the evaluation of its achievements in the Second MTMP, and through efforts such as performing a selection and concentration of businesses as well as performing a focused allocation of management resources to growth areas, the Bank will engage in financial management which stresses prioritization.

Additionally, through the integration of the management functions of the entire Shinsei Bank Group the Bank is pursuing increased efficiency in its operations and seeks to achieve greater productivity.

Regarding the financial indicators to be utilized in the Third MTMP, we will be assessing the Bank's performance in regard to "sustainability" and "efficiency" and have established performance indicators for both.

Sustainability

The Bank identified profit attributable to owners of the parent (net income) as the performance indicator for the evaluation of sustainability and seeks to grow net income to ¥64.0 billion in fiscal year 2018, the final year of the Third MTMP.

The Bank will pursue the achievement of this goal through the allocation sufficient management resources to the growth areas of unsecured personal loans and structured finance in order to increase stable and sustainable revenues.

Efficiency

The Bank has identified the achievement of an expense-to-revenue ratio below 60% as the performance indicator for the evaluation of efficiency. In order to achieve this, the Bank will seek to expand revenues through the focused allocation of management resources in growth areas as well as the pursuit of efficiency in its expense management through efforts such as enhancing productivity through operational efficiency.

Additionally, the Bank will evaluate its return on risk assets as a performance indicator and targets a RORA of about 1%.

Financial Targets

		FY2015 Actual	FY2018 Plan
Sustainability	Net Income	60.9 billion yen	64.0 billion yen
Efficiency	RORA	1.1%	Around 1%
	Expense-to-Revenue Ratio	64.9%	Below 60%

Capital policy remains a key management issue. As the Bank seeks to identify the path to the repayment of public funds, assuming the maintenance of a sufficient level of capital, the Bank will engage in appropriate capital policy in order to improve per share values.

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

July 2016

Masayuki Nankouin
Chief Financial Officer

OVERVIEW OF THE SECOND MEDIUM-TERM MANAGEMENT PLAN
(FY2013–FY2015)

Overview

Shinsei Bank implemented its Second MTMP over the three-year period from fiscal year 2013 through fiscal year 2015. The plan had three targets: "establishing a unique business base," "increasing revenues and further improve financial fundamentals," and "becoming a financial group appreciated by customers and valued by society and markets."

The Bank's main accomplishments under the Second MTMP included lowering of the nonperforming loan (NPL) ratio significantly below the plan's targeted level and improvement in the quality of its loan portfolio. Although we continued to post net profits during the plan's three years, the positive results were supported by contributions from volatile income sources and gains on the reversal of reserves for loan losses made possible by the disposal of NPLs. Consequently, one of the major issues for Shinsei Bank in the years ahead will be accumulating assets that provide a source of highly stable and sustainable profits and raising the percentage of profits generated from that source.

Basic Strategy

Individual Business: To implement a new retail banking model to grow our core customer base to 5 million

Institutional Business: To strengthen and utilize expertise to support the growth of companies, industries and regions by working together with customers

Implement a new retail banking model
- Provide products and services with a high level of customer satisfaction
- Strengthen consulting capabilities
- Promote cross selling

Pursue differentiation in key industries/fields
- Medical and healthcare
- Renewable energy
- New business/corporate rehabilitation support

Individual Business

Institutional Business

Expand/develop the loan business
- Expand housing loan products
- Establish a position in the unsecured card loan market as a trusted lender
- Expand unsecured card loan guarantee business

Further promote areas of expertise
- Rebuild the real estate portfolio
- Expand corporate revitalization business
- Utilize the regional financial institutions network
- Strengthen competency of capital market solutions, including sourcing function

Targets and Results

		FY2015 Target	FY2015 Actual
Growth	Net Income	70.0 billion yen (Forecast: 62.0 billion yen)	60.9 billion yen
Profitability	RORA[1,2]	Around 1%	1.1%
	Expense-to-Revenue Ratio	Below 60%	64.9%
	ROE	Around 10%	8.1%
Financial Stability	Common Equity Tier I Ratio[2]	Around 7.5%	12.9%
	NPL Ratio	2% Level	0.79%

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

OVERVIEW OF THE THIRD MEDIUM-TERM MANAGEMENT PLAN
(FY2016–FY2018)

Basic Strategy

In line with the Medium- to Long-Term Vision outlined below, the Bank has established its Third Medium-Term Management Plan (hereafter, the Third MTMP), which is to be implemented over the three years from fiscal year 2016 through fiscal year 2018.

Medium- to Long-Term Vision

1. To be a financial innovator that provides innovative financial services made possible through the integration of its Group companies.
2. To be a financial group that achieves outstanding productivity and efficiency by making constant improvements and reforms to realize lean operations.
3. To be a financial group which, in addition to rewarding its stakeholders, is unified by the core values born from the confidence, sense of fulfillment and the pride created by the achievement of the first two goals of the Group vision.

Overall Strategy

"Selection and Concentration" of Businesses/Creation of Value through Group Integration

- **Growth Areas**
  Areas with high profit/growth expectations in which the Bank holds competitive advantages
- **Stable Revenue Areas**
  Areas in which the Bank will stably and selectively engage in without being involved excessive competition
- **Strategic Initiative Areas**
  Areas which are expected to deliver future growth and in which the Bank looks to create customer value through groundbreaking innovations
- **Curtailment Areas**
  Areas in which the Shinsei Bank Group holds little expertise or the market is expected to shrink

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

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

Financial Plan

- The Third MTMP is focused on the growth of stable profit sources. We are aiming for ¥64.0 billion in profit attributable to owners of the parent in the plan's final year (FY2018).
- We also are emphasizing more efficient operations, with an expense-to-revenue ratio target of below 60%.
- Capital policy is another important issue for the Bank's management. As a recipient of public funds, Shinsei Bank continues to emphasize the accumulation of internal reserves so that it can identify the path of the repayment of public funds and improve shareholder returns.
- We also plan to consider appropriate targets for ROE and the Common Equity Tier 1 Capital (CET1) Ratio.

		FY2018 Plan
Sustainability	Net Income	64.0 billion yen
Efficiency	RORA[1,2]	Around 1%
	Expense-to-Revenue Ratio	Below 60%

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

THIRD MTMP GROWTH AREAS:
UNSECURED PERSONAL LOANS

In its Third MTMP, the Bank has designated unsecured personal loans to individuals as one of its growth areas and, through various initiatives, plans to achieve an average annual growth rate of 10% in the unsecured personal loans operating balance over the plan's three years.

Business Strategy

■ Leverage product features of our three core brands—*Shinsei Bank Card Loan—Lake* (hereafter, *Lake*), *Shinsei Bank Smart Card Loan Plus* (hereafter, *Smart Card Loan Plus*), and *NOLOAN*—to expand total revenue generated by our unsecured personal loan business.

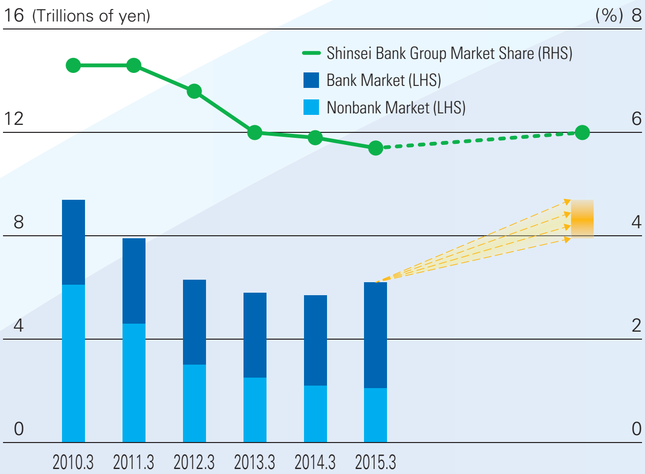
- We will strive to raise brand recognition for *Lake*, the core product of our unsecured personal loan business, and expand the customer base and the outstanding loan balance. Specific measures to achieve those goals are as follows:
  1. Raise brand recognition by investing appropriately in advertising and seeking more effective advertising in order to capture new customers
  2. Enhance customer convenience by making greater use of online contracting and by seeking more optimal locations for unmanned outlets
  3. Prepare systems and a framework that enables more personalized contacts with customers through the collection and analysis of data on customer behavioral patterns
  4. Enhance competitive strengths by simplifying document submission processes and improving product features
- Promote cross-selling of *Smart Card Loan Plus* to holders of Shinsei Bank's PowerFlex comprehensive retail accounts and to customers of other Group companies, thus reducing reliance on mass advertising
- Promote expansion of *NOLOAN* by introducing the product to *Lake* customers wanting to consolidate their loan positions

■ Increase balance of unsecured personal loan guarantees for regional banks, etc., through collaborative efforts of the Bank and Shinsei Financial

■ Maximize profits by reducing expense-to-revenue ratio while expanding business scale and maintaining rigorous credit standards

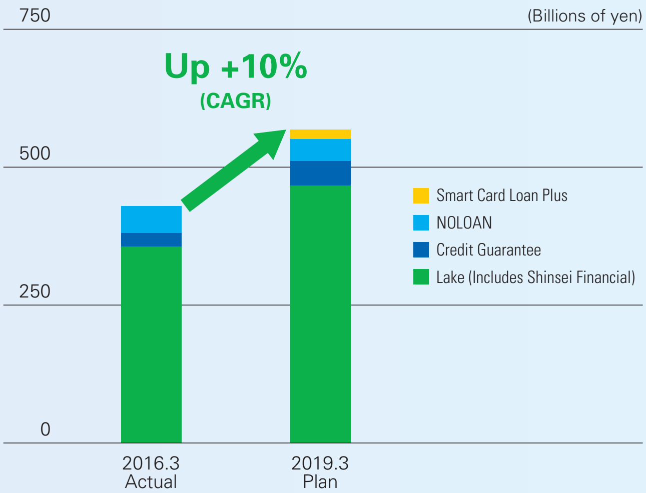
Market Share

Unsecured Loan Market Size and Market Share



Operating Asset Balance Plan

Unsecured Loan Operating Asset Balance



THIRD MTMP GROWTH AREAS: STRUCTURED FINANCE

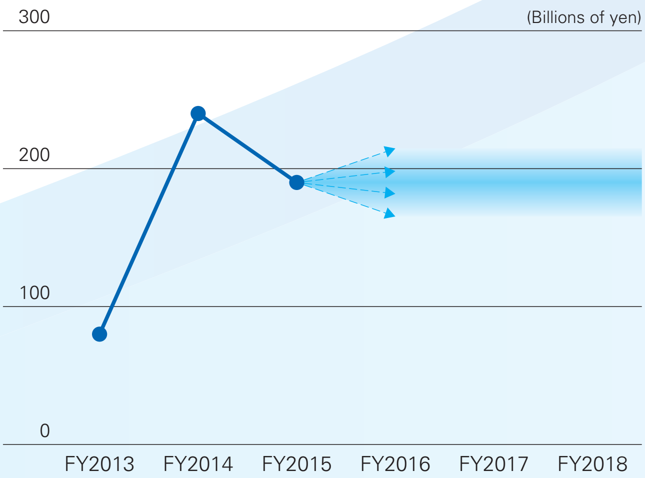
The Bank has designated structured finance, including real estate finance and project finance, as the other growth area in the Third MTMP, which targets an average annual growth rate of around 9% in the outstanding balance of structured finance transactions over the plan's three years.

Business Strategy

Real Estate Finance

We plan to become involved in a more diverse array of real estate financing projects, branching out from simple nonrecourse loans for office building projects to healthcare and hospitality projects while also responding to the demand from Asian investors seeking property investments in Japan. We will seek out unique projects that allow us to take advantage of our accumulated expertise, while maintaining a vigilant watch on market conditions and carefully analyzing each project's risk-return prospects.

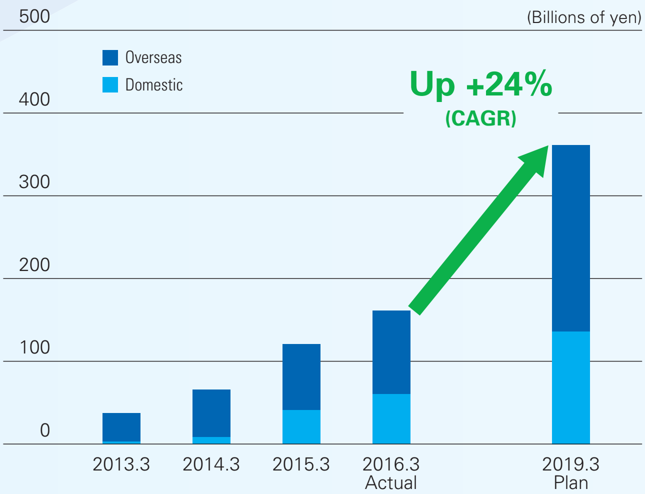
New Real Estate Finance Disbursements



Project Finance

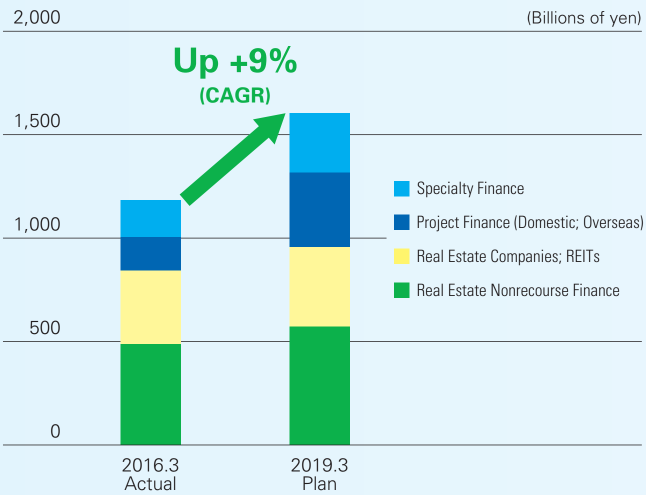
We will foster the creation and development of a project finance market for renewable energy projects in Japan by collaborating with regional banks and other financial institutions to provide financing for solar, wind, and wood biomass power generation projects. Leveraging our highly specialized capabilities, including sophisticated risk analysis and project formation capabilities, we expect to participate in a wide variety of projects in Japan and overseas.

Project Finance Balance (Domestic; Overseas)



Operating Asset Balance Plan

Structured Finance Business: Operating Assets



Mr. Kiyohiro Kiyotani
President and CEO
Showa Leasing Co., Ltd.

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

Mr. Akira Watanabe
Representative Director and President and CEO
APLUS FINANCIAL Co., Ltd.

Moderator: Mr. Shinichiro Nakamura
Senior Analyst
SMBC Nikko Securities Inc.

Group Integration × DISCUSSION

Mr. Riku Sugie
President and CEO
Shinsei Financial Co., Ltd.

To be a financial innovator that provides innovative financial services made possible through the integration of its Group companies

One of the goals of the Shinsei Group's Medium- to Long-Term Vision is "To be a financial innovator that provides innovative financial services made possible through the integration of its Group companies." Group integration is one of the key themes of the Group's Third Medium-Term Management Plan (hereinafter, "MTMP"). Accordingly, for the Annual Report 2016, the Bank has invited Mr. Shinichiro Nakamura, the banking sector analyst at SMBC Nikko Securities Inc., to moderate a discussion regarding the meaning of "group integration" among the top executives of four major Group companies— Mr. Hideyuki Kudo, President of Shinsei Bank, Mr. Kiyohiro Kiyotani, President of Showa Leasing, Mr. Akira Watanabe, President of APLUS FINANCIAL and Mr. Riku Sugie, President of Shinsei Financial.

"Considering the various capabilities and potential of the Shinsei Bank Group's banking and nonbanking subsidiaries for meeting customer needs, it was decided that now is the optimal time to promote greater integration."

Nakamura The Third MTMP calls for the Shinsei Group to pursue greater group integration. Why are you emphasizing group integration at this point in time?

Kudo When I became the President of the Bank in June 2015, it was obvious to me that the key to the future growth of the Shinsei Bank Group laid not in the commercial banking business but in how we could best utilize the Group's capabilities in other areas such as leasing, shopping credit, and unsecured personal loans. At the same time, I wondered if we were fully realizing the Group's potential in each of these business areas. Additionally, although the unsecured personal loan business and shopping credit business were both delivering services as separate, independent entities, they did not appear to be fully meeting current customer needs. Consequently, I wondered how we could combine or recombine our numerous services and functions to provide optimized services that meet the needs of today's customers.

When we began to take concrete steps toward that end, terms such as "cooperation" and "collaboration" did not fully convey the nuance we desired, so we began using the term "integration." We have two main expectations for this integration. First, from a business perspective, we expect it to enable us to make greater use of the various functions of all Group companies and not just those of the commercial bank. Second, our Group companies have different origins and corporate cultures and we therefore need to build a platform that will enable us to generate synergies. In other words, we need to integrate back-office and administrative functions as much as possible and we expect to make those functions leaner and more efficient. We will implement our Group integration from these two perspectives.

"By integrating banking and nonbanking products and services, the value we are able to deliver to customers will clearly be different from what we could previously provide."

Nakamura What is the difference between the group integration being expounded by Shinsei Bank and the cooperation being sought among mega bank group companies? What, if any, advantages or issues do you see?

Kudo Although the end goals probably are not greatly different, the result of our integration will be considerably different. The mega bank groups are trying to create synergies among their banking, securities and trust businesses. At Shinsei Bank, however, securities and trust operations are already functions, or support functions, of our core banking business. Those functions have long been managed on what is essentially an integrated basis. Consequently, the integration of these functions is not a focus of our current group integration efforts. What we seek to achieve going forward is to integrate the unsecured personal loan, shopping credit and leasing functions of our nonbank businesses with our banking business. The goal of effectively linking our functions to better meet the needs of customers is a common goal for our securities, trust banking, leasing and unsecured personal loan businesses. However, the value we can deliver to customers clearly differs with the degree to which those functions are actually integrated. We think financial institutions with that level of awareness regarding integration and collaboration are rare.

"We see potential to expand our business if we can create new products and services by combining the various strengths of Group companies and providing the necessary support through dynamic Group management."

Nakamura The Third MTMP positions unsecured personal loans and structured finance as growth areas in which the Shinsei Bank group already has competitive strengths. Reflecting on your successes and shortfalls over the past three years, what changes do you plan to make to accelerate growth in the unsecured personal loan business? Also, what do you plan to do to increase market share?

Kudo Considering our competitiveness in the market as well as its growth potential and profitability, the unsecured personal loan business is clearly the most promising business for the Shinsei Bank Group. However, there are areas where we have yet to fully demonstrate the potential of this business. This is because the Bank had been restrictive in its oversight. For example, from an operational management perspective, we create plans that include targets for revenues, cost controls and profits, but strict adherence to those plans restricted the investment of management resources in things such as marketing that have a direct impact on revenues, which resulted in an inability to maximize profits. By removing such unnecessary restrictions in operational management, we can complete the PDCA[1] process in an incredibly short period of time, and make any needed adjustments to strategies and implement new measures, through which we will be able to maximize profits over the medium term. Taking this as a model case, we plan to carry out more dynamic operational management going forward.

1 PDCA = Plan–Do–Check–Act, a methodology for managing the productivity and quality of business operations

Sugie In the Shinsei Bank Group, we had three companies engaged in the unsecured personal loan business—Shinsei Bank, which operates the *Shinsei Bank Card Loan – Lake* business, Shinsei Financial, and SHINKI. In October 2015, we integrated the management of SHINKI and Shinsei Financial. By combining their head office functions and eliminating redundancies, we were able to cut costs by more than ¥1 billion and achieve a smoother exchange of expertise.

To date, I think the Third MTMP has had two important effects. The first is Group integration, and the second is the emphasis being placed on the unsecured personal loan and structured finance businesses. Group integration is enabling us to eliminate redundancies and free up our limited management resources to pursue businesses we had been eyeing but were not able to pursue due of a lack of resources. In addition, creating a common business foundation means going beyond simply sharing customer bases and also sharing data and technologies. By combining APLUS' customer database with that of Shinsei Financial, we have been able to detect new trends in customer behavior. Meanwhile, establishing a common technology platform forces us to give due consideration to how we can best share our IT resources. This is not limited to reallocating resources to achieve greater efficiency. Rather, we must also create new capabilities by combining the strengths of each company. Doing so will, I think, expand our business potential. Moreover, I believe the decision to devote more management resources and other corporate strengths to the unsecured personal loan business will give strong impetus to the growth of that business.

Nakamura At present, the bank's unsecured personal loan business is growing rapidly. What specific actions are called for in the new three-year plan to continue this growth? Please give us some specific initiatives that Shinsei Bank plans to undertake.

Sugie Our spending on advertising for our unsecured personal loans is rather limited compared with other major lenders. Nonetheless, even with that lower spending level, we have managed to build a customer base comparable with those of our main rivals. In addition, our unsecured personal loan branch network is only 70 to 80 percent the size of our major rivals' networks, which tend to have more than 1,000 branch offices. By continuing to operate efficiently, we have freed up some management resources. I think we have reached the fighting fit state we need to be in to take on our rivals.

Kudo Indeed, compared with the difficult conditions we faced about five years ago, we now have more leeway to spend. If our investments and other spending are effective in generating revenues and higher profits lead to a lower expense ratio, we can be flexible in spending more to pursue business expansion. However, there is a tendency to adhere strictly to established budgets regardless of how the actual business situation evolves. We therefore must put a stop to such rigid budget management and constantly verify the efficacy of the use of our budget.

Sugie From this year, we will be implementing a scrap-and-build plan through which we will determine which branches to close and where to build new ones based upon quantitative evaluations of each outlet. This will directly contribute to greater customer convenience. We also plan a drastic revision of our loan contract process and will upgrade automated contract machines with new functions. These measures will greatly shorten the time from loan application to the receipt of cash. Generating returns through such effective investments is one of this year's challenges in the growth area of the unsecured personal loan business.

"Determining the functions of our banking, leasing, unsecured personal lending and other operations we can link together by applying the new technologies and know-how referred to as FinTech to the APLUS platform and the resulting "reactions" will be crucial to the Group's next great leap forward."

Nakamura We are increasingly hearing the term "FinTech" being used in relation to Japan's banking industry. The mega banks are taking up the FinTech challenge by inviting venture firms to participate in contests. How is the Shinsei Bank Group's response to the FinTech challenge different from that of the mega banks? Also, I believe that APLUS is an important component of the Shinsei Bank Group's settlements platform. As such, what initiatives are being taken by APLUS to differentiate the Shinsei Bank Group from the competition?

Kudo "FinTech" is presently a popular term used to refer to many different things, but here at the Shinsei Bank Group we hope to pursue initiatives that represent the true meaning of "FinTech." We will prioritize those initiatives that strengthen our existing businesses and are meaningful for our customers. For example, we will use FinTech first to enhance our competitiveness in our settlements business and our finance business directed at individuals and small businesses.

Watanabe At APLUS, we have three core businesses—our original shopping credit business, the credit card and settlements businesses. We now provide a highly granular range of products to individual customers and to the many affiliate shops and alliance partners that we also

count among our customers. This is the APLUS platform. APLUS's strength is its ability to leverage the network of many businesses it has built over the years. In addition, we have been able to expand our customer base by adopting a unique strategy that utilizes the functions of the T Point service program. I believe that applying this core strength across the entire Shinsei Bank Group will help to further differentiate the Group from other financial groups. Going forward, how we connect the new technologies, services and expertise being referred to by the term "FinTech" will be a major theme. There is a company with FinTech to whose customer base and the delivery of new services and platforms by adding new functions, such as credit card and settlement services. This kind of collaboration is one route we can pursue. Another route is the one being applied, which is the application of FinTech to add other functions to our existing settlements business. We are now considering how we can incorporate both of these and deliver the best of both to our customers. Either way, as long as we provide good services to our customers, there is no limit to the potential expansion of our customer base. As one of the active leaders of the Shinsei Bank Group, we at APLUS intend to make every effort to achieve that expansion.

Sugie In the coming age of FinTech, I think we will be speaking less about customer bases and more often about databases. The world of big data will open up many new opportunities and potential for an integrated Shinsei Bank Group. Given the many common features of the leasing, shopping credit, credit card, and unsecured personal loan business formats, as well as the banking business, our customer's digital footprints are extremely large. This provides us with a huge volume of data that is already available for analysis and we are beginning to utilize it in our businesses. We are different from the mega banks, and it will be very difficult for us to use FinTech to create a new global standard. However, in our pursuit of niche markets, I think we will find some interesting applications for big data that will lead to new business.

Kudo If I were to try and point out one typical FinTech application, it would be an area like small-lot finance, where banks have not been fully meeting the credit needs of customers. This function is what makes APLUS an interesting company. APLUS possesses many functions that can be used in combination with the Bank's business or combined with unsecured personal loans and leasing transactions. Putting APLUS's functions and capabilities to use across the Group could provide the impetus for a great growth.

"We want to be free to pursue new concepts, to think out of the box, in order to provide new types of financial services to Showa Leasing's customer base."

Nakamura Showa Leasing possesses a customer base that comprises some 35,000 small and midsize enterprises (SMEs). What needs does this customer base have that an integrated Shinsei Bank Group will be able to address and what is the potential for revenue generation from meeting these needs?

Kiyotani You noted that we have a customer base of 35,000 SMEs, but that number is actually as large as 53,000 if we include companies whose contracts expired over the past five years and presently do not have any active contracts with Showa Leasing. Showa Leasing's business includes the sale of life insurance to customers of SMEs as well as the sale of Japan-style operating leases. Five years ago, the life insurance business generated revenues of only about ¥100 million but that figure has expanded to ¥500 million this year. The operating lease business has made equity investments totaling around ¥7 billion over the past several years. It might be interesting if, for example, Showa Leasing were to integrate its

business with Shinsei Bank's business for high-net-worth individuals. Also, SMEs have a considerable need for business succession–related services, and we intended to engage in efforts to meet those needs with new services. In addition, banks have been able to provide finance leases for some years now and in the future we envision Showa Leasing managing the leases made by Shinsei Bank. By collaboration with APLUS, we also will be able to provide our customers with a service that combines smaller scale financing leases with shopping credit services. For that purpose, we plan to create a platform that suppliers and other customers will find easy to use. I think that aiming for more integration in our services, instead of the cooperative efforts we have focused on to date, will prove extremely positive for our Group.

Kudo The customer introduction activities that we referred to as cross-selling have not proven to be very productive. Going forward, we plan to meet the financing needs of Showa Leasing's potentially 53,000-strong customer base by creating a new financing mechanism that uses methods different from those employed in the past. We are also seeing the emergence of various new techniques, including methods for holding assets, which could be interesting for us.

"The strengths of our unsecured personal loan business include its screening and servicing capabilities, its neutral positioning and speedy IT capabilities."

Nakamura The Bank of Japan has introduced negative interest rate, but the Shinsei Bank Group's core strengths lie in non-traditional commercial banking business, such as consumer finance, credit card, settlement services, and leasing. Considering these strengths and your Group integration, what changes do you expect to see in the Group's competitiveness and market shares as the central bank's negative interest rate policy shrinks margins of domestic operations?

Sugie It is a well-known fact that unsecured personal loans have thick margins. Without a doubt, this is one area where we expect to leverage the overall strengths of the Shinsei Bank Group. However, it is also an area where we expect to see an increase in competition. We are not a mega player that can cover the entire market on our own. Consequently, we will continue to promote alliances with regional financial institutions in Japan and overseas financial institutions. However, we need to create a flexible supply chain that clearly delineates roles appropriate for us and our business partners. For example, asking our partners to introduce their customers to us and then ensuring that we have the required screening and servicing capabilities as well as a sufficiently robust IT platform to provide services to those customers. At present, the trend in Japan is from nonbanks to banks and we will firmly develop strategies that correspond to this directional trend.

Within the unsecured personal loan industry, it is very clear what a traditional bank is able to do and what it cannot do. Shinsei Financial has carefully honed its capabilities in business areas where traditional banks do not operate, such as lending to high-risk borrowers, some of whom have become laden with multiple debts, which requires working closely with those borrowers and negotiating debt repayment schemes and helping them get back on their feet.

Nakamura Looking back over the past three years, your major competitors appear to have established a lead in the credit guarantee business and are capturing customers and further enhancing their know-how in this area. As you attempt to cut into their positions, where do you expect to display your strengths and differentiate yourself from the competition?

Sugie In this business, one needs screening and servicing capabilities appropriate for dealing with high-risk borrowers. There are only four major companies capable of performing these functions at the required levels, and one of them is Shinsei Financial. Moreover, Shinsei Financial is in an extremely advantageous position vis-à-vis its competitors because it is not affiliated with the mega bank groups and can be trusted to provide its service using sound mathematical methodology.

At Shinsei Financial, we practice thorough "dashboard management," with all management decisions and process controls driven by numerical data. As a result, we are able to provide our customers with highly transparent processes and all decisions can be easily explained. We will continue to deliver solutions that leverage our expertise and strengths based on deep market knowledge that enables us to accurately predict what will happen regardless of the decisions made.

Last but not least, I must mention our IT capabilities. IT is one of the major costs of running a consumer finance business, as the lion's share of the business' processes

and procedures are now fully automated. Our open core system was developed in-house, which means we possess all source codes and our staff is able to respond immediately whenever we feel the need to make an improvement. As a result, our IT upgrades are achieved remarkably quickly.

"The effects of the central bank's negative interest rate policy will require that we reconsider what kind of business model can utilize to increase corporate value."

Nakamura As you implement the Third MTMP in an environment negatively pressured by the Bank of Japan's negative interest rate policy, what changes can stakeholders expect from Shinsei Bank. What will you change and what will remain the same, and how will they affect corporate value?

Kudo The negative interest rate policy will have a negative effect on commercial banks. For Shinsei Bank, however, it will result in lower funding costs, as our costs have been comparatively high. We therefore hope to offset the overall negative impact on our financials as much as possible through the positive impact of lower funding costs as well as the shift of focus to businesses that generate relatively high yields. Whether those positives will translate into an increase in corporate value will depend on the magnitude of their contributions being greater than our expectations. We believe we can potentially accomplish this and in order to do so we must naturally expand revenues as we accentuate our differences with other companies and achieve the enhancement of our corporate value together with the revision of our business model. I believe the results will also enable us to provide a solid return to shareholders.

"Group integration will result in changes to our organization and corporate culture that will enable the diverse range of people working to display their individual talents and realize their potential. It is management's job to create the mechanisms and provide the leadership that will support such a working environment."

Nakamura As you proceed with Group integration, what changes do you envision for your organization in order to enable your employees to realize their full potential and how do you anticipate your corporate culture will change?

Kiyotani Integration is not merely a buzz word. It requires concrete action by people and the involvement of younger employees in various projects. In that sense, I believe Group integration will have a positive impact on our employees.

Watanabe Group integration requires more than simply engineering the smooth integration of the Bank with other Group companies. I believe it is a natural progression that results from everyone's recognition that times are changing. It is management's duty to accurately read the changes taking place in the world and take proper action, which includes providing employees with educational programs and training that will encourage the natural flow of ideas that break down the barriers between our various business formats.

Sugie We want to be the team that has the talented individuals on the front lines of our businesses drive business forward. We will not be able to succeed unless the people toiling on the front lines and those making decisions work directly together as a team in implementing the PDCA cycle. To form a winning team, we must seek out the most talented people in our Group, regardless of whether they come from a banking or nonbanking background and challenge them to become leaders who will advance our businesses. Also, to achieve the integration of such a highly diversified Group we must stress the importance of maintaining and enhancing diversity. I want to nurture a corporate culture in which we look for each individual's strengths and provide him or her with opportunities to use those talents.

Kudo I think human resources is the area in which our management resources are most limited. We cannot easily increase the number of high-quality employees and staff capable of being a force in the Group. It is therefore essential that we find ways to fully utilize the resources we already have. We have people with a diverse range of talents and I want to be able to say that we have created a working environment that enables each employee to use all of his or her unique talents. We must search for the mechanisms and operations that will enable employees to utilize their full potential and move forward step by step in that direction.

INTRODUCTION OF OUR DIRECTORS AND EXECUTIVES

REPRESENTATIVE DIRECTORS

Hideyuki Kudo
Representative Director, President

Attendance rate: 100%

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

Yukio Nakamura
Representative Director, Deputy President

Attendance rate: 100%

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

(Note) The attendance rate shows the attendance rate of the Board of Directors meetings held after the Annual General Meeting in the fiscal year 2015 (nine meetings in total).

OUTSIDE DIRECTORS

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

I believe that Shinsei's 3rd MTMP represents a thoughtful and balanced way forward, combining growth in areas of strength with careful attention to costs. I hope that I can help Shinsei achieved this plan in at least two ways. First, I can offer advice based on my long institutional knowledge of the Bank, which dates back to 2000. I was on Shinsei's board when it acquired each of Showa Leasing, APLUS and Lake, for example. Secondly, I hope to offer advice based on my 37 years of experience in global financial services, including involvement in many successful initiatives in banking in many different markets, as well as learning from some unsuccessful ventures.

Reasons for Nomination

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

Attendance rate: 100%

May 2012 Member of the Supervisory Board, NIBC Holding N.V. (Current)
Aug. 2007 Member of the Advisory Board, The Kessler Group (Current)
Nov. 2002 Managing Director and Chief Executive Officer, J.C. Flowers & Co. LLC (Current)
Mar. 2000 Director, Shinsei Bank, Limited (Current)
Dec. 1988 Partner, Goldman, Sachs & Co.
Mar. 1979 Joined Goldman, Sachs & Co.

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

One of the "key" themes of Prime Minister Abe's reforms for the economic recovery of Japan is "Corporate Governance." I believe the presence of outside board members that can represent shareholders with diverse perspectives and opinions in order to enhance management decisions is especially important. Shinsei Bank has already implemented a robust governance structure whereby the outside board members actually outnumber the internal board members 5 to 2. Furthermore, Shinsei's Board meetings are very interactive, with frank discussions that challenge and advise the management team of the Bank in a collaborative manner, inciting reflection and sometimes resulting in reassessment of decisions made pertaining to strategy and execution. In this context, as an outside board member, I endeavor to contribute to the Board Meetings in a proactive manner to express opinions and observations, from my perspective and experience, which I feel can be helpful to Shinsei's management, as well as represent the view point of our shareholders.

Reasons for Nomination

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

Attendance rate: 88%

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

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

In order to realize the full strength of the Shinsei Bank Group through the integration of it various businesses, through the Third Medium Term Management Plan which was commenced this year, the Group is engaging in efforts to provide innovative products and services through the integration of its Group companies as it seeks to become a Bank Group which is trusted by all its stakeholders. In order to achieve this, the Group must both pursue its strategy of selection and concentration through which it seeks to allocate the management resources of the entire Group in a focused manner as well as engage in efforts to achieve prioritized, efficient management to enable the Bank to swiftly respond to any changes which may develop in the external business environment.

Additionally, the full synergistic expression of the expertise of all employees of the Shinsei Bank Group in a closely collaborative manner will be crucial in our pursuit of the 3rd Medium Term Management Plan. I believe that by unceasingly engaging in such efforts we will be able to satisfy the meets of our customers, which in turn will benefit the Group in the form of increasing stable, sustainable revenues.

All outside directors including myself will continue to strive to contribute to the execution of the Plan in line with its original purposes through the monitoring of the Group's operations from both compliance and validity perspectives and by proactively providing opinions and advice to those responsible for business execution.

All officers and employees of the Shinsei Bank Group are committed to the pursuit of the goals of the Plan. I am deeply appreciative of the support we have received from our stakeholders thus far and hope we will be able to continue to enjoy it.

Reasons for Nomination

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

Attendance rate: 100%

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

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

The bank has now completed its first year under the leadership of our new President, Mr. Hideyuki Kudo. It has been a year with many changes and significant volatility in the markets. In this environment, we announced our Third Medium Term Management Plan, which builds on the progress we made in the last few years repairing our balance sheet and building a capital cushion. The focus going forward is on closely integrating the Bank's businesses to become significantly more efficient and focusing our efforts where we have a competitive advantage and where we anticipate growth. In other words, we are transitioning from "rebuilding" to "efficient growth." We have no illusions that this will be an easy task. The market for banking services is very competitive, and the macroeconomic environment has many unfavorable elements, including negative interest rates and slowing growth. On the other hand, the opportunity to offer new and creative solutions that meet the needs of individual and corporate clients has never been greater.

Shinsei is fortunate to have a board with a diverse set of skills and experience, encompassing finance and M&A, consumer retail, technology, and regulation, all important elements of the Bank's strategy. We will continue to use these skills to support President Kudo and his team execute their growth strategy.

Reasons for Nomination

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

Attendance rate: 100%

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

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

Fiscal Year 2016 is a key year for the Shinsei Bank Group as the first year of the Third Medium-Term Management Plan. The word "Fintech" has spread throughout Japan, and the entry of new players leveraging their technological expertise into the market has resulted in a further acceleration of the development of new services in the financial sector. In the current environment which requires both speed and security, the adoption of new technologies such as A.I. has begun and there are limitations one what a shingle company is able to accomplish. I believe that this new era requires us to be willing to reach beyond the boundaries of individual companies and organically operate the businesses of the Group as a whole as well as have the capability to create networks with other third parties.

As an outside director I will utilize my experience assisting various corporate transformations in this ever-changing industry in order to support the Shinsei Bank Group achieve its plan together with our stakeholders.

Reasons for Nomination

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

Attendance rate: 100%

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

AUDIT & SUPERVISORY BOARD MEMBERS

Shinya Nagata
Audit & Supervisory Board Member

The Third Medium-Term Management Plan was developed through exhaustive deliberations held between the management team and external directors and I am convinced that the process which was undertaken in its creation was both appropriate and thorough.

The audit plan of the Audit & Supervisory Board for fiscal year 2016, the year in which the Plan is being implemented, has identified the "monitoring of the Plan's progress and assessing the efforts of the board of directors for the achievement of the Plan timely and pertinent debate" as the most important audit item. The Audit & Supervisory Board and its members will of course not only monitor the progress of the Plan but also proactively participate in the discussions.

Additionally, one of my most vital roles as the full-time audit & supervisory board member is to assess whether all Shinsei Bank Group Companies and their employees are aligned in the pursuit of the achievement of the goal of the Third Medium-Term Management Plan of "creating further value through organic inter-Group collaboration and pursue further productivity and efficiency" and warn or provide advice to the Group as needed.

I will perform my duties in order to contribute to the strengthening of the Shinsei Bank Group's value for its stakeholders through the achievement of the Third Medium-Term Management Plan.

Reasons for Nomination

Reflect in the Bank's audit operations his long years of business experience in the areas of finance and accounting at Shinsei Bank

Attendance rate: 100%

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

Michio Shibuya
Audit & Supervisory Board Member
Certified Public Accountant

The first meeting I attended last year in Shinsei Bank as an audit & supervisory board member was the strategy session which was held to prepare the Third Medium-Term Management Plan ("MTMP"). This session was divided into several meetings and greatly enhanced my understanding of the businesses of Shinsei Bank and the Shinsei Bank Group.

The distinguishing feature of the new Plan is the intent to undertake an integration of its Group under the direction of the Bank's management in order to integrate the businesses and human resources of each Group Company, through which the Bank will engage not only the banking business but all businesses of the Group in a cohesive manner. In particular, the Group plans to sharply grow the structured finance and consumer finance businesses, two distinguishing parts of the Group's unique business model. In my second year as an audit & supervisory board member I am committed to contributing to the achievement of the Third Medium-Term Management Plan by providing my opinions and offering advice to the management team together with the other outside directors, as well as monitoring the execution of business by the management team from both compliance and propriety perspectives.

Reasons for Nomination

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

Attendance rate: 100%

Jun. 2015	Audit & Supervisory Board Member, Shinsei Bank, Limited (Current)
Jun. 2014	Audit & Supervisory Board Member, Financial Brain Systems Inc. (Current)
May 2011	Audit & Supervisory Board Member, Ryohin Keikaku Co., Ltd.
Jun. 2010	Audit & Supervisory Board Member (full time), Business Brain Showa-Ota Inc.
Aug. 2008	Board of Councilors and Global Advisory Council, Ernst & Young ShinNihon LLC
May 2000	Executive Director, Ernst & Young ShinNihon (Predecessor of Ernst & Young ShinNihon LLC)
May 1991	Senior Partner, Showa Ota & Co. (Predecessor of Ernst & Young ShinNihon LLC)
Jul. 1977	Peat Marwick Mitchell (Predecessor of KPMG) LA office
Apr. 1974	Joined Showa Audit Corporation (Predecessor of Ernst & Young ShinNihon LLC)
Apr. 1971	Joined Arthur Andersen LLP

Kozue Shiga
Audit & Supervisory Board Member
Lawyer

I believe that most of our stakeholders are already familiar with the details of the Third Medium-Term Management Plan that started in fiscal year 2016. Its basic policy details the actions to be taken by the Shinsei Bank Group such as group integration, selection and concentration, achieving greater proactivity and flexibility in business operations as well as identifying the path to the repayment of public funds and strengthening shareholder returns.

None of these will be achieved easily and, in my experience, the closer we come to achieving our goals the more we will lose sight of our surroundings.

As an audit & supervisory board member, I will ensure that all information necessary to perform thorough audits of the Group is gathered from the Group's various Divisions and safeguard against the Group straying from the path it must follow in order to ensure the realization of the basic policy.

I will also endeavor to strengthen our information gathering capabilities in order to ensure that our actions are in step with those of the business execution team.

Reasons for Nomination

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

Attendance rate: 100%

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

Creating Values through Businesses

AT A GLANCE
Segment Data

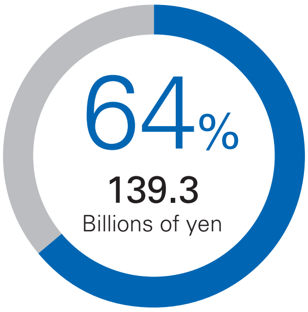
INDIVIDUAL BUSINESS

Major Business

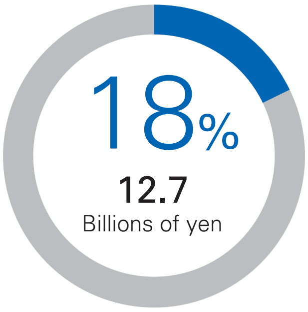
- Retail Banking
  - Deposit related products (saving deposits, time deposits, structured deposits, foreign currency deposits)
  - Asset management (consultation, mutual funds, annuity products)
  - Housing loans
- Consumer Finance
  - Unsecured personal loans (Shinsei Bank, Shinsei Financial, SHINKI)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

Contribution[1]

Total Revenue



Ordinary Business Profit after Net Credit Costs



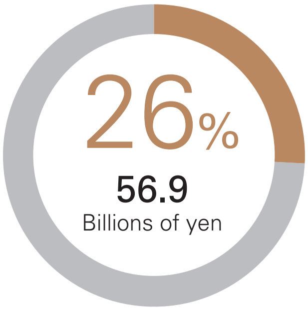
INSTITUTIONAL BUSINESS

Major Business

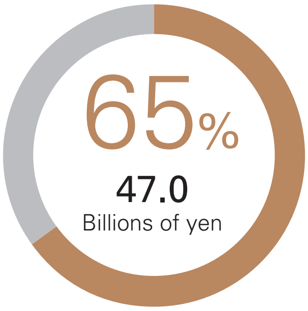
- Corporate, Financial Institutions & Public Sector Finance
- Healthcare Finance
- Real Estate Finance
- Specialty Finance
- Corporate Restructuring
- Credit Trading
- Private Equity
- Advisory Services
- Leasing (Showa Leasing)
- Trust operations (Shinsei Trust & Banking)

Contribution[1]

Total Revenue



Ordinary Business Profit after Net Credit Costs



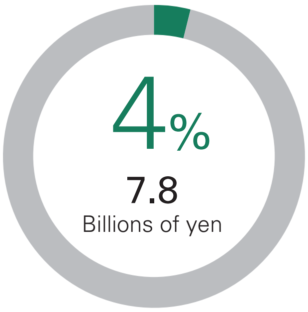
GLOBAL MARKETS BUSINESS

Major Business

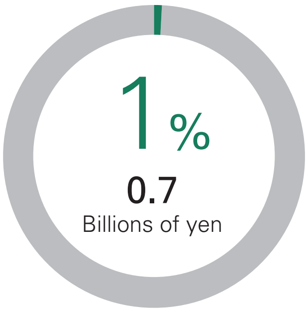
- Markets
- Asset Management
- Wealth Management
- Securitization (Shinsei Securities)

Contribution[1]

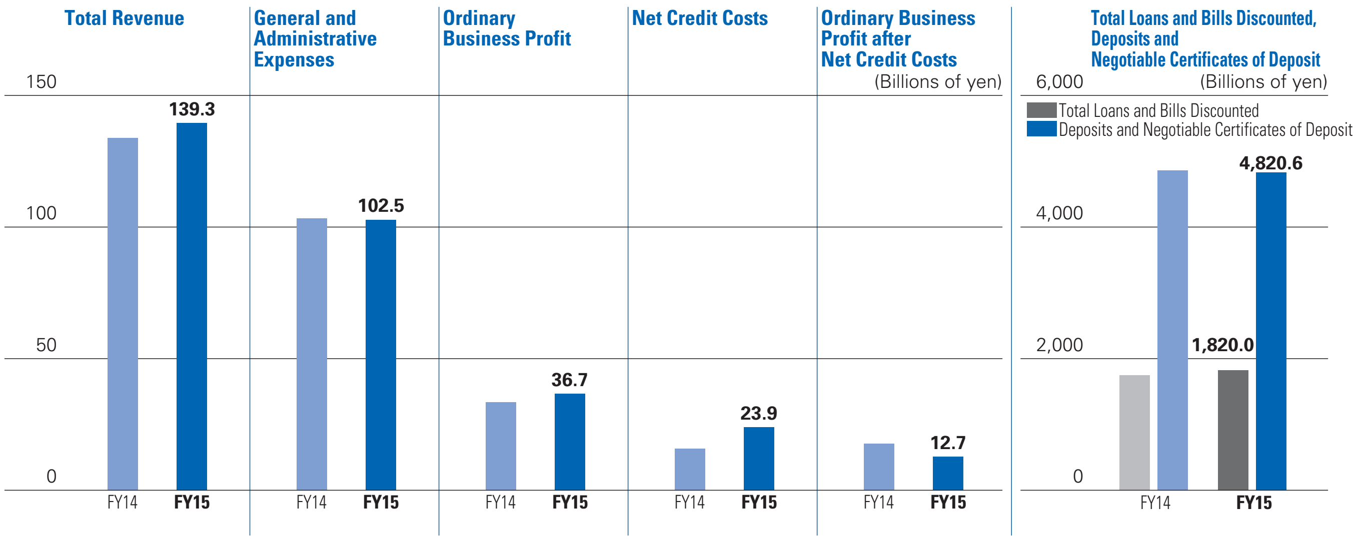
Total Revenue

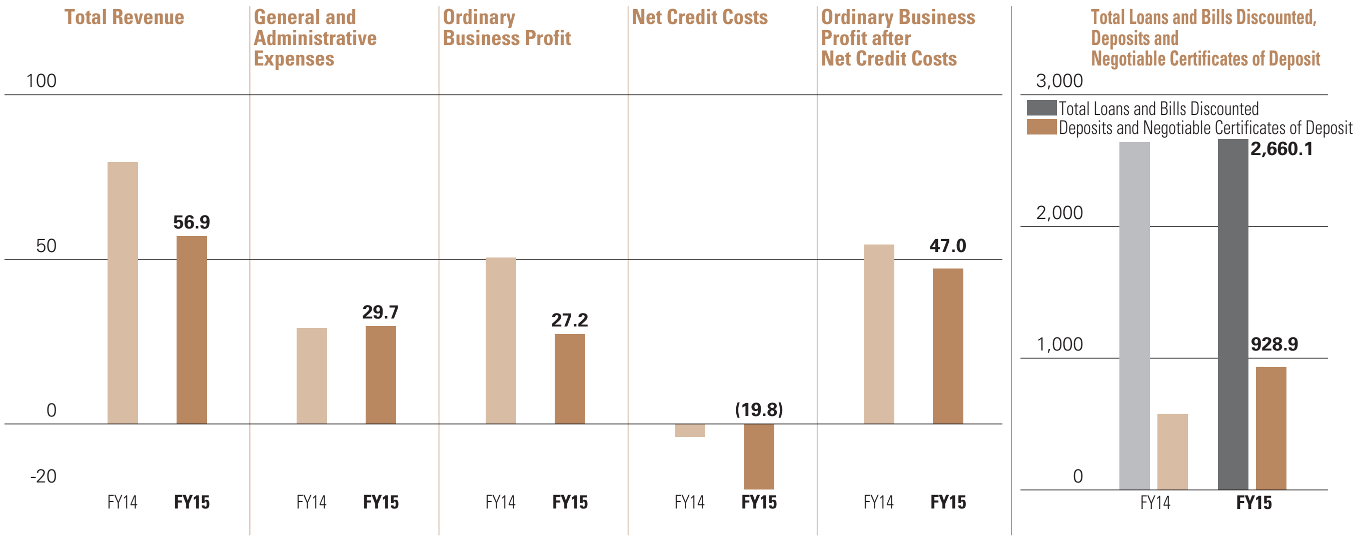


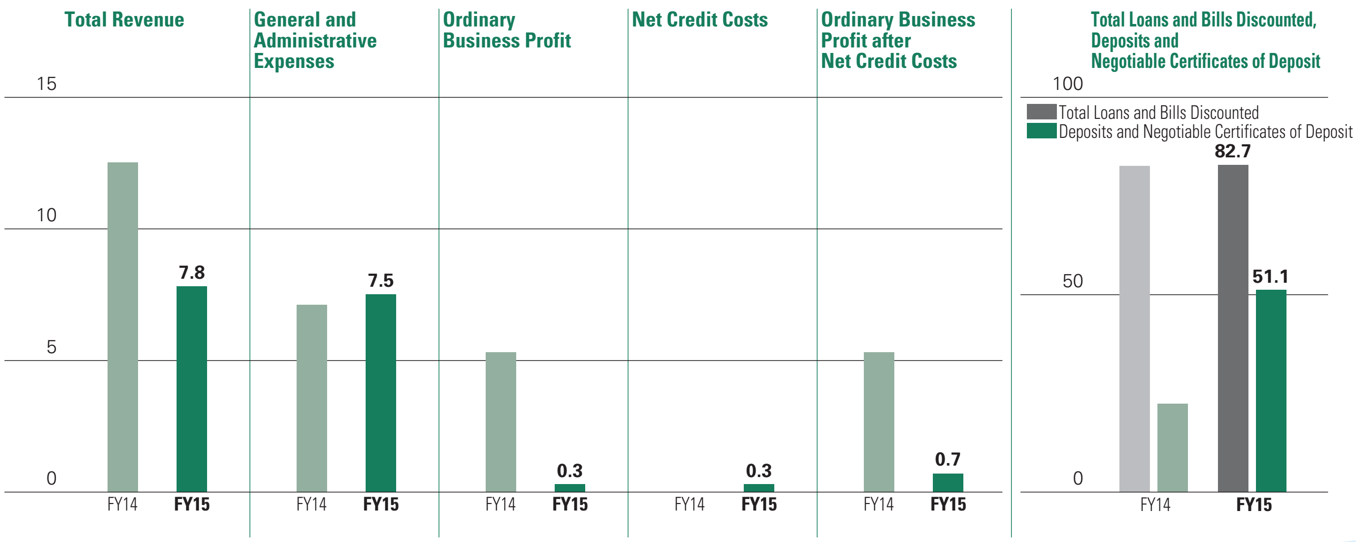
Ordinary Business Profit after Net Credit Costs



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


Total Revenue
General and Administrative Expenses
Ordinary Business Profit
Net Credit Costs
Ordinary Business Profit after Net Credit Costs
(Billions of yen)
150
100
50
0
139.3
102.5
36.7
23.9
12.7
FY14
FY15
Total Loans and Bills Discounted, Deposits and Negotiable Certificates of Deposit
6,000
4,000
2,000
0
(Billions of yen)
Total Loans and Bills Discounted
Deposits and Negotiable Certificates of Deposit
4,820.6
1,820.0
FY14
FY15


Total Revenue
General and Administrative Expenses
Ordinary Business Profit
Net Credit Costs
Ordinary Business Profit after Net Credit Costs
100
50
0
-20
56.9
29.7
27.2
(19.8)
47.0
FY14
FY15
Total Loans and Bills Discounted, Deposits and Negotiable Certificates of Deposit
3,000
2,000
1,000
0
Total Loans and Bills Discounted
Deposits and Negotiable Certificates of Deposit
2,660.1
928.9
FY14
FY15

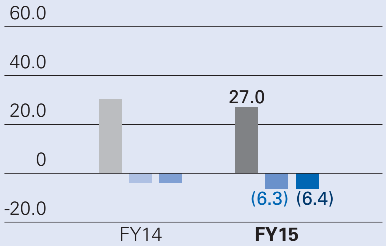

Total Revenue
General and Administrative Expenses
Ordinary Business Profit
Net Credit Costs
Ordinary Business Profit after Net Credit Costs
15
10
5
0
7.8
7.5
0.3
0.3
0.7
FY14
FY15
Total Loans and Bills Discounted, Deposits and Negotiable Certificates of Deposit
100
50
0
Total Loans and Bills Discounted
Deposits and Negotiable Certificates of Deposit
82.7
51.1
FY14
FY15

Explanations of Major Businesses

INDIVIDUAL BUSINESS

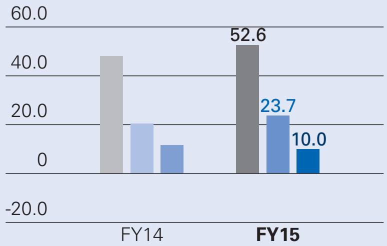
Retail Banking

Financial products and services for individual customers, such as yen/foreign currency deposits, structured deposits, investment trusts, brokerage service through an alliance partner, life/casualty insurance through alliance partners, and housing loans



Shinsei Financial and *Shinsei Bank Card Loan—Lake*

Unsecured personal loan business and credit guarantee services (Shinsei Financial and *Shinsei Bank Card Loan—Lake*)

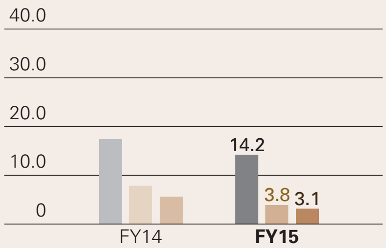


(Billions of yen)
- Revenue
- Ordinary Business Profit (Loss)
- OBP (Loss) after Net Credit Costs

INSTITUTIONAL BUSINESS

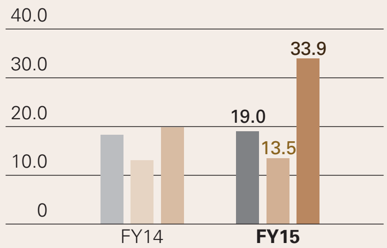
Corporate Business

Financial products and services for corporate, public and financial sector customers (including healthcare finance and advisory services)



Structured Finance

Specialty finance business including real estate finance, M&A related finance and project finance, as well as corporate restructuring and trust business

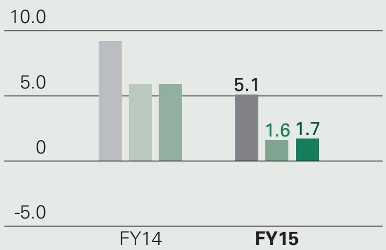


(Billions of yen)
- Revenue
- Ordinary Business Profit
- OBP after Net Credit Costs

GLOBAL MARKETS BUSINESS

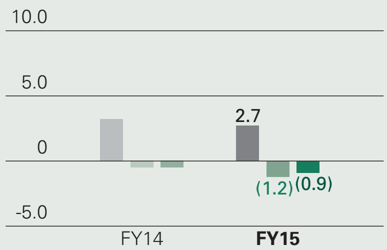
Markets

Foreign currency exchange, derivatives, equity, and other capital markets business



Other Businesses

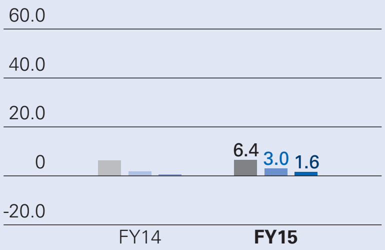
Shinsei Securities, asset management, and wealth management business



(Billions of yen)
- Revenue
- Ordinary Business Profit (Loss)
- OBP (Loss) after Net Credit Costs

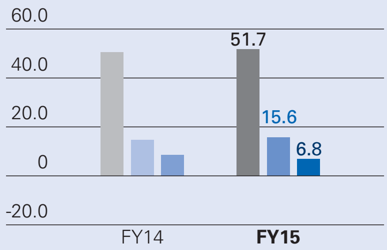
SHINKI

Unsecured personal loan business—brand name "NOLOAN"



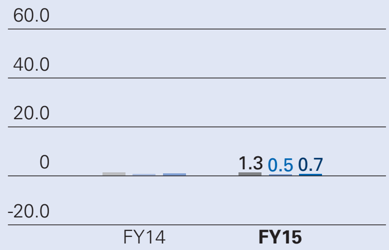
APLUS FINANCIAL

Installment sales credit, credit cards, credit guarantee services, loans, and settlement services



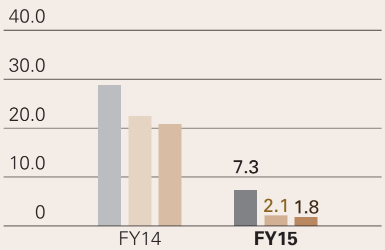
Other Businesses

Consumer Finance Sub-Group and Shinsei Property Finance which is engaged in real estate collateralized finance



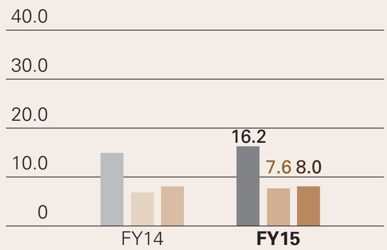
Principal Transactions

Credit trading—the business of trading various monetary claims—and private equity



Showa Leasing

Leasing services for information equipment, industrial machinery, and machine tools as well as finance services such as installment sales credit



Tetsuro Shimizu
Managing Executive Officer,
Head of Individual Business

Masayoshi Tomita
Executive Officer,
Executive Officer in charge of Individual Business

INDIVIDUAL BUSINESS

The Individual Group is composed of: (1) Shinsei Bank's retail banking business, which handles deposits, investment trusts, insurance, housing loans, unsecured personal loans issued under the *Shinsei Bank Card Loan—Lake* brand, (2) Shinsei Financial Co., Ltd., which handles unsecured personal loans and credit guarantee operations, (3) SHINKI Co., Ltd., (4) APLUS FINANCIAL Co., Ltd., which is engaged mainly in the credit card business and the installment sales credit business, and (5) Shinsei Property Finance Co., Ltd., which issues loans secured by real estate.

Key Developments in the Fiscal Year 2015

During fiscal year 2015, the Individual Group engaged in efforts to "expand the customer base and enhance profit-generating capabilities" by leveraging the various resources of the Shinsei Bank Group to meet customer needs by providing its customers with the wide range of products and services available from all Group companies.

Retail Banking

In recognition of the Bank's superior in-branch customer service and its rich lineup of financial products, Shinsei Bank's retail banking services were ranked No. 1 overall for the first time in 2015 by the 11th annual Nikkei Retail Strength Survey conducted by Nikkei Inc. and Nikkei Research. A Key development in fiscal year 2015 included the opening of the Shibuya Financial Center in January 2016 which strengthened our marketing structure in the southern part of the Tokyo Metropolis. We also enhanced our retail marketing base in the Nagoya area through a dual location structure—the Nagoya Financial Center and the Sakae Financial Center, both of which opened in February. In conjunction with the opening of the Shibuya Financial Center, we closed the Roppongi Hills Financial Center and the Jiyugaoka Consulting Spot in a move targeted at enhancing the efficiency of our marketing network.

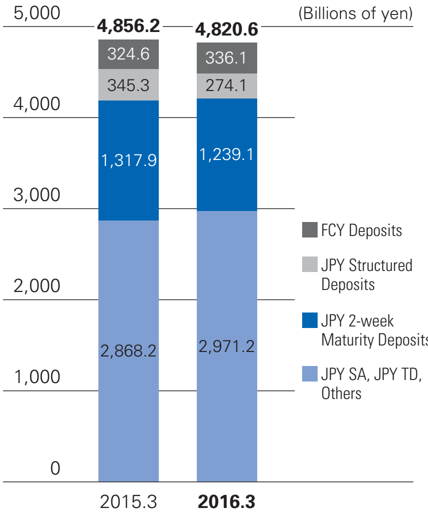
In the housing loan business, our *Shinsei Bank PowerSmart Home Mortgage Anshin Pack W* continues to be selected by a growing number of customers, especially in urban areas, due to the loan product's unique value-added propositions. To further enhance the product's feature in April 2015 we began offering the TOKYU Group Plan through a business alliance with the Tokyu Corporation and its group companies. This new loan package provides after-school and other services to PowerSmart Home Mortgage borrowers. We also were one of the first banks to lower mortgage rates following the Bank of Japan's introduction of its negative interest rate policy in February 2016.

Unsecured Personal Loans

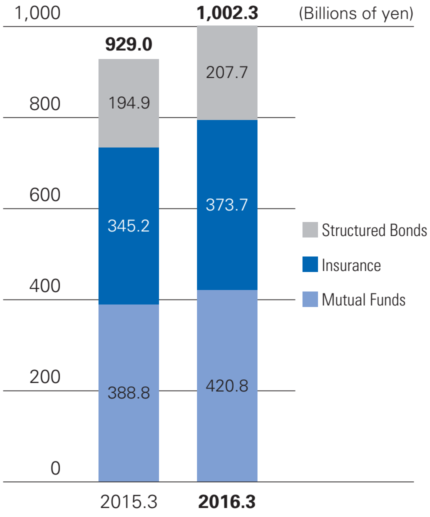
The *Shinsei Bank Card Loan—Lake* business (hereafter, *Lake*) expanded its loan balance and customer base in fiscal year 2015 by further strengthening marketing efforts based on the smartphone app introduced in fiscal year 2012, the creation of new brand proposition and the introduction of new brand ambassadors.

In November 2015, we launched the *Shinsei Bank Smart Card Loan Plus* as a new loan product brand targeted primarily at customers with *Shinsei Bank PowerFlex* comprehensive retail accounts, as well as customers of other Shinsei Bank Group companies.

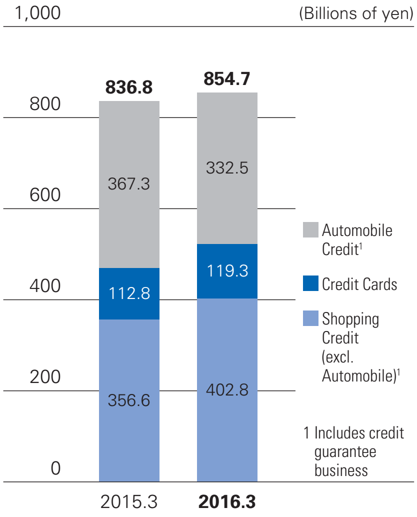
Retail Banking: Deposit Balance



Retail Banking: Balance of Asset Management Products



APLUS FINANCIAL: Operating Asset Balance



Shinsei Financial Co., Ltd. (hereafter, Shinsei Financial) engaged in efforts to expand its credit guarantee business for unsecured loans to individual customers of other financial institutions, while also strengthening services for its existing customers. In July 2015, Shinsei Financial entered into an agreement with Shizuoka Bank, Ltd. to guarantee their unsecured card loans.

Credit Card and Shopping Credit

From July 2015, APLUS Co., Ltd. (hereafter, APLUS) began issuing the "Overseas Prepaid Card GAICA," which can be used by customers for credit card transactions and to withdraw cash in foreign currencies from overseas ATMs. The new card can also be linked to Bank customers' *Shinsei PowerFlex* accounts. Also, in November 2015 APLUS launched its *Rental House Plan*, a new loan for individuals needing funds required for entering into new residential rental contracts. In the finance lease guarantee business targeted at self-proprietors and small businesses, we formed new alliances with Tochigin Leasing Co., Ltd., a subsidiary of Tochigi Bank, Ltd., in December 2015 and Tomato Lease in February 2016.

Real Estate–Backed Loans

Shinsei Property Finance Co., Ltd., in May 2015 entered into business alliances with Tokyu Livable, Inc., and Tokyu Housing Lease Corporation to provide real estate–backed loans to Hong Kong residential customers who are investors seeking to purchase condominiums in Tokyo.

Results of the Second MTMP and Key Objectives in the Third MTMP

During the Second MTMP, our retail banking business received positive evaluations from customers and the markets, leading to the receipt of various awards. In addition, the unsecured personal loan business saw a sharp increase in its overall loan balance across the entire Shinsei Bank Group. On a less positive note, we fell far short of achieving the plan's goal of five million core customers.

The Third MTMP does not include any major changes from the Second MTMP's basic strategies for our retail banking business. It does, however, call for fully utilizing the approximately 10 million-strong customer base of the Shinsei Bank Group to strengthen the consumer finance business, which the plan targets as a growth area.

Growth Areas

Unsecured personal loans: During the Third MTMP, we aim to expand total revenue generated by our unsecured personal loan business by leveraging the special features of our three unsecured personal loan products—namely, our core *Lake* brand loan, the new *Shinsei Bank Smart Card Loan Plus* brand and SHINKI's *NOLOAN* brand.

Stable Revenue Areas

Asset Management Consulting: This is one of the key business areas where we expect to achieve stable and moderate growth by utilizing the various strengths of the Shinsei Bank. We will introduce new technologies, including new devices that enable customers who have difficulty visiting branch offices to safely and securely contact the Bank. We also will promote greater coordination among our various channels to create a system that makes it more convenient for customers to contact the Bank from anyplace at any time.

Credit Card & Shopping Credit: In the credit card business, we will continue to increase new credit card issuances as we seek to increase our total number of customers. We will also undertake various promotions designed to increase credit card usage. In the shopping credit business, we will enhance customer convenience through initiatives such as the e-Order system for online applications and by promoting the provision of housing-related shopping credit products such as those used for home renovations.

Strategic Initiative Areas

Settlements Business: We will deliver a settlement gateway service by utilizing APLUS's settlements function as a Group platform, while also promoting the creation of a business platform capable of utilizing new settlement methods, especially those associated with the EC market, where the use of prepaid cards is expanding.

Shinichirou Seto
Senior Managing Executive Officer,
Head of Institutional Business

INSTITUTIONAL BUSINESS

The Institutional Group is composed of: (1) the Institutional Business Sub-Group that provides private and public sector corporate customers financial institution customers with loans, other corporate financial services, and financial products and solutions and structured finance for real estate and other projects, (2) the Principal Investments Department that operates the credit trading and private equity businesses, (3) Showa Leasing, which is engaged in the leasing business and (4) Shinsei Trust & Banking, which is engaged in the trust business.

Key Developments in the Fiscal Year 2015

In fiscal year 2015, the Institutional Group continued to leverage the functions of various Shinsei Group companies, the Group's customer base and its relationships with regional financial institutions to provide highly differentiated products and services that strengthen capabilities in strategic focus areas as well as in areas where the Bank has demonstrated expertise.

Institutional Business

In the institutional business, the Bank continued its efforts to expand its core customer base and build transaction-based relations from a long-term perspective. Our efforts included enhancing our marketing approach by utilizing customer segmentation that focuses on customer growth prospects and profitability in order to increase transaction volume per customer, as well as deepening customer relationships through the cross-selling of the Bank's other products and services.

Healthcare Finance

In July 2015, a healthcare REIT management company, in which the Bank invested, listed its investment corporation, Japan Senior Living Investment Corporation, on the Tokyo Stock Exchange's market for real estate investment trusts.

Real Estate Finance

Amid a favorable domestic real estate market environment, the real estate finance business continued its efforts to identify and participate in highly attractive new real estate projects. In May 2015, the Bank acquired a real estate nonrecourse loan portfolio valued at about ¥65 billion (face value) from GE Japan Corporation. Going forward, the Bank will continue to seek out deals taking into consideration the overall condition of real estate market in addition to the risk-return prospects of each individual project.

Project Finance

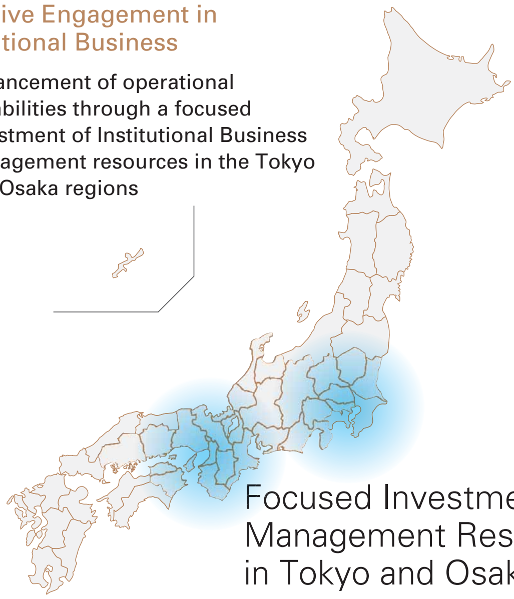
The Bank continued efforts from the previous fiscal year to establish and develop a domestic project finance market for renewable energy projects through collaboration with regional financial institutions to provide financing for a range of renewable energy projects, including mega solar power generation plants.

Principle Investments (PI)

Leveraging the platform provided by the Bank's subsidiary, the Shinsei Principal Investments Group (Shinsei PI Group), the Bank has continued from the previous fiscal year to support corporate customers seeking to exit from noncore and unprofitable businesses. This includes investments and loans as well as the provision of solutions for long-term fixed claims. Meanwhile, the PI Group is helping venture firms increase their investment value by supporting their business growth.

Selective Engagement in Institutional Business

- Enhancement of operational capabilities through a focused investment of Institutional Business management resources in the Tokyo and Osaka regions



Contributing to the Vitalization of Regional Economies Through Cooperation and Collaboration (e.g.)

Structured Finance Origination, a Competitive Advantage of the Bank

Syndications with Regional Financial Institutions

↓

Provision of Diversified Finance Opportunities to Rural Regions

↓

Contribution to the Vitalization of Regional Economies

Showa Leasing Co., Ltd.

In addition to providing leases for industrial machinery, machine tools, construction machinery and other essential equipment to middle-market companies and SMEs, Showa Leasing is providing solutions such as the buying and selling used equipment, providing loan guarantees backed by movable property collateral, arranging financing to promote the acquisition of environmentally sound products and renewable energy related equipment, and purchasing long-term care receivables.

Results of the Second MTMP and Key Objectives in the Third MTMP

During the Second MTMP, the Institutional Group's basic strategy was to support the growth of enterprises, industry, and regional economies through participation in businesses while honing its own specialized capabilities. We promoted differentiation of our services in targeted areas, such as medical & healthcare, renewable energy, and support for business establishment and corporate restructurings. Through aggressive efforts to expand our business, we achieved a measure of success in some target areas, such as in the medical, healthcare and renewable energy fields. However, we still have work to do to complete the establishment of a stable revenue source and a customer base, including core customers, which will support earnings growth over the medium-term. In light of these remaining issues, during the Third MTMP the Bank will selectively invest management resources in areas in which it possesses specialized expertise and in businesses and markets with strong growth potential. Aided by the horizontal integration of Group operations, the Institutional Group aims to deliver high value-added financial solutions that conform to client needs.

Growth Areas

The Third MTMP has designated structured finance as an area in which the Bank's extensive expertise provides a considerable competitive advantage, and facilitates pursuing further specialization to grow our business.

In real estate finance, we will use our abundant expertise to conduct quick project analysis, while flexibly responding to property attributes, location, and risk levels, and put together projects that flexibly meet client needs, all while closely monitoring risk-return profiles.

In the project finance business, we will be an active participant in projects both in Japan and overseas, including renewable energy projects and PPP/PFI (Public Private Partnership/Private Financial Initiative) projects.

Stable Revenue Areas

We aim for continued expansion of our customer base by working with other Group companies to provide products and services that meet clients' most-crucial needs.

The Institutional Business will endeavor to build a core of long-term customers by continuing its efforts to develop new clients and expand per-customer transaction value by applying a customer segmentation process that focuses on profitability and growth prospects and pursuing the deepening of relationships through cross-selling of products and services of other Group companies.

Strategic Initiative Areas

- The Institutional Group will continue to deliver solutions to SME customers that leverage the strengths of the Shinsei Group. Specifically, we will aim to provide new value to our customers by creating a business framework that provides them with one-stop access to the wide range of financial services offered by the entire Shinsei Group. In particular, we will promote greater integration with Showa Leasing, whose transactions with SMEs are a core strength.
- We also will promote cooperation and collaboration with the Group's extensive network of regional financial institution partners. To meet the funding needs of regional financial institutions and other business partners, we will provide a range of investment products, including structured financings that fully utilize the Group's expertise. In addition, to support these business partners' efforts to strengthen their main businesses, we will provide the wide range of financial solutions available from the Shinsei Group. More specifically, we will help our regional financial institution partners meet the needs of their retail customers by providing loan guarantees, structured deposits and other services.
- In addition, with an increasing number of baby-boomer generation owners of small businesses approaching retirement, we plan to respond to the growing needs of SMEs and middle-market companies for business succession and business change/cessation solutions through the provision of buyout finance, debt disposal, and other financial solutions. Our small, elite team of highly experienced professionals will deliver customized solutions that leverage the know-how and expertise accumulated by our PI Group as well as the resources of the entire Shinsei Group.

Hironobu Satou
Managing Executive Officer,
Head of Global Markets Business

GLOBAL MARKETS BUSINESS

The Global Markets Group is composed of: 1) the Markets Sub-Group that engages in foreign exchange, derivatives, and other capital markets operations, 2) the Asset Management Sub-Group that engages in the asset management business, including the provision of investment trusts, and a wealth management business that provides financial products and services to high net-worth individuals and 3) and Shinsei Securities, a securities company engaged in securitizations and securities brokerage business.

Key Developments in the Fiscal Year 2015

In fiscal year 2015, the Global Markets Group remained focused its business with its customers and engaging in solutions-oriented marketing based on current market conditions and customers' business environment. We also looked to respond to the increasingly diverse needs of our customer by expanding our product lineup and providing unique products that helped to further differentiate our products and services from our competition.

Markets Sub-Group

The Markets Sub-Group was faced with unprecedented conditions in Japan's financial markets due to factors such as the introduction of the Bank of Japan's negative interest rate policy. Despite rising volatility and increasing uncertainty in the markets, we continued our efforts to enhance our ability to provide finely-tuned solutions that meet the diverse needs of our customers in a timely manner by upgrading our systems for marketing to corporate and individual customers and by reviewing and expanding our offering of products and services. During the year, the Markets Sub-Group engaged in efforts to attract new customers and win new business with existing customers by strengthening its solutions-based marketing system. As a result, we continued to enjoy a firm performance in our derivatives transactions that meet corporate customers' needs to hedge against foreign exchange and interest rate fluctuations. By providing solutions that responded to a wide range of customer's actual needs, we were able to steadily expand our customer base while simultaneously deepening ties with our existing customers.

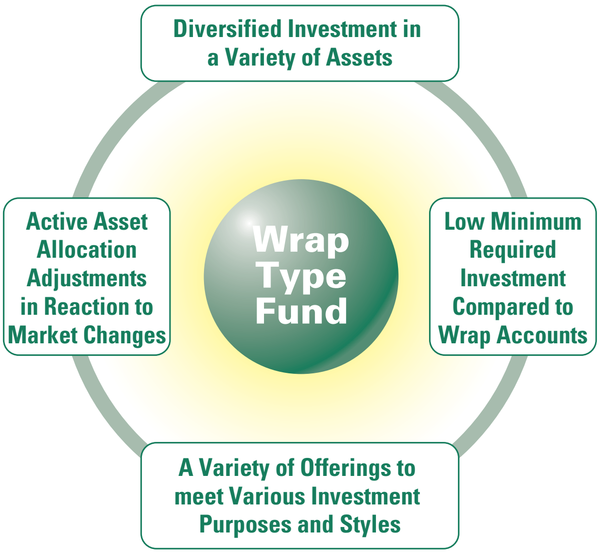
Shinsei Securities

At Shinsei Securities, a subsidiary of the Shinsei Bank, sales of structured bonds to individual investors via the Bank's securities brokerage business made a major contribution to earnings recorded in fiscal year 2015. The subsidiary also continued to apply its accumulated expertise to grow its securitization business, which has led to the development of a diverse range of structured finance products. In its underwriting business, Shinsei Securities served as joint lead underwriter for bond issues by the Japan Housing Finance Agency in July 2015 and February 2016.

Asset Management Sub-Group

The strongly positive reception received by the Shinsei World Smart Bond Fund and the Shinsei World Wrap Fund launched by Shinsei Group subsidiary Shinsei Investment Management Co., Ltd., prompted the serialization of the products. We also continued to focus on the creation and sales of privately placed investment trusts in tune with market trends and the special investment needs of financial institutions and high-net-worth individuals. Specifically, in order to meet Japanese regional financial institutions' growing need to diversify their investments, Shinsei Investment Management in November 2015 established a privately placed investment trust investing primarily in US municipal bonds.

Feature of the Shinsei World Wrap Fund



Results of the Second MTMP and Key Objectives in the Third MTMP

During the Second MTMP, the Global Markets Group remained focused serving client business and strove to supplement and strengthen its ability to provide market-based solutions as well as its lineup of products and services. In particular, its derivatives trading operations helped it win new clients, while Shinsei Investment Management greatly increased its offerings of new investment trusts. As a result, the Global Markets Group was able to expand its business scale to some degree.

Considering the overall competitive environment, it is obvious that not all regional financial institutions can engage in these businesses. At the same time, we have noticed restructuring of Japan's financial institution landscape and the withdrawal of some foreign institutions from the Japanese market have taken place. From our customers' perspectives, the opacity of the market is increasing the need for foreign exchange and interest rate hedging. However, the number of financial institutions able to handle these transactions has effectively decreased. Consequently, we expect to see increases in demand for derivative trading from corporate clients and for asset management products from financial institutions. Given this operating environment, during the Third MTMP, the Bank will leverage the expertise and experience accumulated during the Second MTMP and allocate sufficient management resources to ensure further expansion of derivative trading for corporate clients and the provision of asset management products to financial institutions. We will also endeavor to strengthen our operational platform and invest in systems and other necessary infrastructure. In addition, with market interest rates expected to remain at low levels, we will enhance our efforts to provide attractive investment products, including structured bonds through our securities brokerage business, to meet the needs of not only corporate clients and financial institutions but also the needs of individual investors. In particular, we think that growth of the market for investment trust products is a near certainty. At present, investment trusts account for only about 6% of Japanese individuals' financial assets totaling ¥1.7 quadrillion, a much smaller percentage than in the US and Europe. However, Japan has only relatively recently introduced the Nippon Individual Savings Accounts (NISA), a system that should encourage the flow of funds from savings to asset management products. We therefore expect that flow to gain momentum in coming years. Of the various asset management products, we expect strong demand for investment trusts, which enable investors to diversify their investment portfolio even while investing relatively small amounts. One of the strengths of the Shinsei Bank Group is its ability to provide customers with a variety of domestic and overseas investment trusts, unrestrained by group affiliations. Going forward, we will leverage that strength to differentiate our products and services from the competition.

Status of Regional Revitalization and SME Management Improvement Initiatives

To improve the management of Small- and Medium-sized Enterprises ("SMEs") and contribute to regional revitalization, Shinsei Bank is engaging in initiatives such as those described below, providing our expertise and, depending upon the initiative, cooperating with local financial institutions and the SME Business Rehabilitation Support Cooperative. In addition to supporting SMEs and local businesses that have promising technologies or business models, the Bank is promoting the development of new business areas and businesses that contribute to the revitalization of regional economies. The Bank's efforts focus on providing multifaceted management solutions that satisfy not only funding need, with an emphasis on cash flow financing, but also needs for such services as business strategy planning and implementation support. Through such efforts, the Bank aims to expand the scope of its business with growing SMEs and contribute to the development of new innovative businesses.

Examples of Shinsei Bank Initiatives

• Supporting regional revitalization through business rehabilitation

Golf course operator in North Kanto: Golf courses with lodging facilities have faced a difficult operating environment ever since the bursting of Japan's economic bubble, as the number of users and the market prices for golf club memberships have both declined. Strapped with huge debts, this golf course in North Kanto entered legal liquidation procedures. However, the local government's desire to maintain the golf course as a place for the relaxation and recreation of local residents set in motion the search for a sponsor that would assume operation of golf course. Shinsei Bank was selected as financial adviser for selecting a sponsor on the basis of its extensive experience in golf course M&A and high evaluation of its related expertise. The Bank supported the sponsor selection process, setting as conditions the preservation of existing club members playing privileges, job security for local employees, and financing sufficient for the continuation of golf course operations. With the Bank's support and advice, the golf course was successfully sold to an influential local business operator with the ability to resuscitate the golf course while fulfilling all the above conditions. The new sponsor is now in the process of reviewing operating costs and renovating facilities in preparation for reopening of the golf course.

• Supporting companies in their growth stages

Construction and civil engineering company in the Tohoku region: After completing civil rehabilitation procedures, this company's challenge was to rebuild relationships with financial institutions to secure funding capacity for future business expansion. Additionally, since the company aimed to revitalize its business by maximizing its contribution to meeting reconstruction demand of the Tohoku region following the Great East Japan Earthquake, Shinsei Bank commenced support for the company through corporate revitalization financing. Specifically, after carefully examining the company's business plan, the Bank proposed an agency collection scheme for construction payments from local governments and other customers and provided efficient funding in a form that doesn't necessarily depend on collateral or guarantees. Taking advantage of this opportunity, the company took initiatives to strengthen its management foundation through business diversification to prepare for future changes in the business environment. The rehabilitation phase has ended, and the company is now proceeding toward a normal growth path.

• Supporting companies in their growth stage

Semiconductor packaging venture company: This company, whose main business is the development and manufacture of semiconductor packages on a consignment basis, successfully developed a technique for mounting chips to substrates with an extremely low defect rate. This technique reduced the size of the chip package and greatly increased the product's competitiveness, leading to its application in communications and medical devices. Recognizing the high growth potential of its unique technology, Shinsei Bank has been providing the company with the financing needed to grow its business. In addition, the Bank has helped the venture company strengthen its ability to develop target markets through a business matching service that put the company in touch with several other clients of the Bank. One of the companies introduced by the Bank was so impressed with the venture company's advanced technologies that it has begun considering a business alliance that goes beyond sales support. Access to the Shinsei Bank network has thus provided the venture company with vital support for the growth of its business.

• Supporting management improvement

Mid-sized regional fishing company: Several years ago, this fishing company entered the real estate industry and opened a large business hotel for the purpose of supplementing its core business, which is subject to large fluctuations in business performance. Although the hotel business performed favorably, the company's financial health deteriorated because of the burden of hotel construction loans, and this was expected to impede fund-raising for equipment to strengthen its core business.

For this reason, the company considered selling the hotel and appointed Shinsei Bank as an advisor. In response to the company's objective of selling the hotel on favorable terms to a buyer capable of adhering to the company's hotel management philosophy and further developing the hotel, the Bank proposed a sale to a joint venture between a major hotel operator with a strong reputation and a well-financed hotel REIT, contributing to the realization of a sale on favorable terms in a short period of time. This transaction enabled the company to recover its capacity to raise funds to acquire fishing vessels and made possible initiatives to strengthen its core business.

GLOSSARY

Advisory
Shinsei Bank's advisory business proposes solutions to meet customers' diverse needs in areas such as M&A, corporate restructuring, and fundraising in Japan and overseas.

ALM (Asset Liability Management)
ALM refers to the comprehensive management of the market and liquidity risks that exist in the Bank's balance sheet (i.e. assets and liabilities) as a result of its business operations. ALM aims to optimize interest rate income from the Bank's balance sheet and economic value by monitoring interest rate conditions and asset/liability duration, including off-balance items such as derivatives on the Bank's account, and adjusting for risks in assets/liabilities and derivatives transactions in consideration of the change in value of assets, liabilities, and periodic profits or losses due to market fluctuations.

Asset Management
In a broad sense, Asset Management refers to Shinsei Bank's overall asset management business, but in a narrower sense it refers to the investment trust business and investment advisory business. Shinsei Bank offers a variety of unique financial products and services for both institutional and individual (including high-net worth) customers, primarily through the Global Markets Group and the Individual Group (retail banking Business).

Business Succession Support
The provision of investments and loans to meet capital requirements for the transfer of shares, etc. to customers considering family members or employees as business successors in order to facilitate the smooth hand over of business ownership.

Capital Markets Business
Capital Markets business refers to capital markets-related transactions, including derivatives and trading, in order to meet customer needs for investment, risk hedging, fundraising, etc.

Common Equity Tier 1 Ratio
The financial indicator calculated in accordance with the international standard of the third Basel accord, indicating the adequacy ratio of capital of an even higher level of quality than the capital adequacy ratio commonly used to gauge the financial stability of banks, etc. The ratio is calculated by dividing the balance of common equity tier 1 capital, which is comprised of capital with high loss absorption capability such as common equity and retained earnings, and dividing the total by the balance of risk assets, the indicator of the magnitude of risk of assets, etc. held by banks.

Credit Guarantee Business
Credit Guarantees represent a guarantee to repay a loan made by a partner financial institution on behalf of the borrower, in the case that the borrower becomes unable to make repayments, in return for a fee. In the Shinsei Bank Group, Shinsei Financial is focused on this business, offering comprehensive support to partner financial institutions including advice on advertising strategies and product design as part of its service.

Credit Trading
Credit Trading offers balance sheet optimization solutions, including the purchase of loan receivables from current creditors or an investment in (purchase of) monetary claims held by the customer. Shinsei Bank also invests in monetary claims such as loans and leases sold in the secondary market for nonperforming loans, aiming to make profits by securing a greater return than the initial investment through servicing or resale of the receivables.

Derivative
Derivative is a collective term referring to transactions that are derived from or linked to other underlying transactions such as interest rate, bond, foreign exchange, and equity transactions. They are also called "financial derivatives" since most of the transactions originate from financial products.

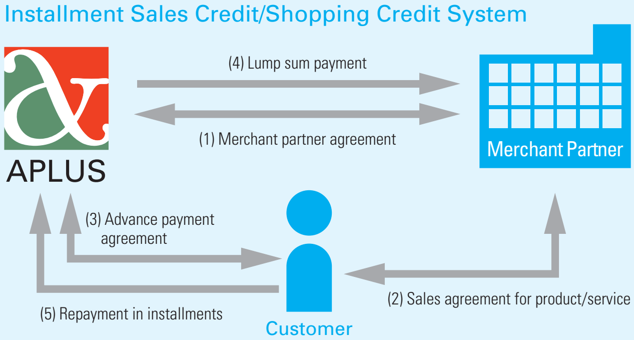
Exposure
Exposure refers to an amount of assets or an amount of money that is exposed to foreign exchange, price fluctuations or other risks as a result of loans and investments.

(Grey Zone) Interest Repayment
Prior to the interest rate reduction implemented as part of the revisions to the Money Lending Business Law, the interest rates on some consumer finance products offered by the Shinsei Bank Group's subsidiaries exceeded the upper limit stipulated by the Investment Law. Following a ruling by the Supreme Court in January 2006, customers who paid more than the upper limit stipulated by the Investment Law have been allowed to request a refund of the extra interest paid. Accordingly, consumer finance companies have recorded reserves in order to cover losses on (grey zone) interest repayments.

Healthcare Finance
Healthcare Finance refers to financing— primarily nonrecourse loans— as well as financial advisory on management strategies and M&A for senior care facilities and nursing homes.

Installment Sales Credit (Shopping Credit)
Installment Sales Credit (Shopping Credit) is a service that allows customers to pay for goods or services in installments without using a credit card. Shinsei Bank group offers this service primarily through APLUS FINANCIAL.

Installment Sales Credit/Shopping Credit System



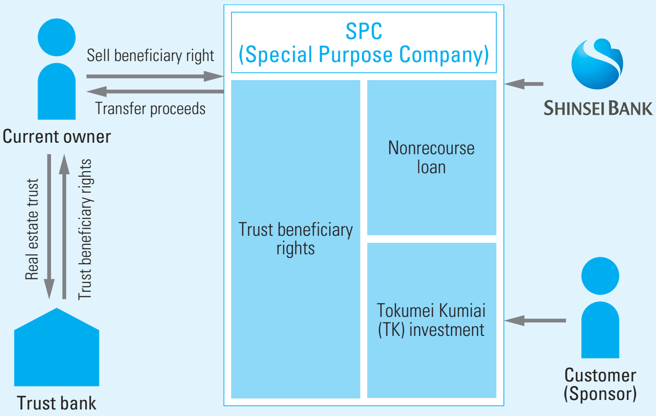
(1) APLUS concludes a merchant partner agreement with the merchant partner
(2) Customer purchases a product or a service from the merchant partner
(3) Customer applies to APLUS for installment sales credit
(4) APLUS pays the purchase price for the product/service as a lump sum to the merchant partner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

LBO Finance (Leveraged Buyout Finance)
LBO finance is a type of M&A finance based on the assets or future cash flows of a company to be acquired. It is used when a company or an investment fund acquires another company. At Shinsei Bank, LBO Finance is included in Specialty Finance.

MBO Finance
MBO stands for Management Buyout. It is a type of LBO finance offered when a company's management buys its own company co-working with an investment fund and others. At Shinsei Bank, MBO Finance is included in Specialty Finance.

Net Credit Costs
Net credit costs are the sum of reserves for loan losses set aside (credit costs) according to the credit standing of borrowers, reversal (gains) of reserves for loan losses and recoveries of written-off claims resulting from their disposal.

Nonrecourse Loan
Nonrecourse loans are loans for which repayment is made solely from the cash flows generated from specific businesses or assets (typically, but not always real estate), with no recourse to the sponsor.



Ordinary Business Profit (Loss)
Ordinary business profit (loss)— the indicator of profit (loss) from core business after expenses— is calculated by subtracting "expenses" from "total revenue." "Net credit costs" are excluded from this calculation.

Portfolio
A portfolio refers to a group of various components. An asset portfolio, for example, refers to a collection of various assets such as real estate, cash deposits and equities.

Principal Transactions
Principal Transactions generally refer to a bank's proprietary investments. Shinsei Bank proactively makes proprietary investments in the Credit Trading and Private Equity businesses in order to meet customers' needs for corporate restructuring, business succession and growth funds.

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

Private Finance Initiative (PFI)
A financing technique based upon the idea of utilizing private capital and expertise in the design, construction, maintenance and operation of projects, such as public construction works, and performing the provision of the public services through the private sector in order to ensure their efficiency and effectiveness.

Profit (Loss) Attributable to Owners of the Parent, Cash Basis Profit (Loss) Attributable to Owners of the Parent
Cash basis profit (loss) attributable to owners of the parent is calculated by excluding impairment and amortization of goodwill resulting from acquisitions of subsidiaries and other intangible assets, net of tax benefits, from profit (loss) attributable to owners of the parent— and represents the bottom-line profit for the relevant fiscal year.

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

Public Private Partnership (PPP)
A scheme in which public services are provided through a collaboration between the public and private sectors. PFI is a representative form of PPP.

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

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

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

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

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

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

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

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

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

Strategies Supporting Corporate Value

CORPORATE GOVERNANCE

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

Additionally, the Bank is in full agreement with the spirit of the "Corporate Governance Code" implemented in June 2015, which applies to all companies listed on Japan's stock exchanges, and through the pertinent implementation of the Code in order to realize effective corporate governance, the Bank seeks to continue strengthening its corporate governance to in order achieve sustainable growth and enhance its corporate value over the mid to long term.

Corporate Governance of Shinsei Bank

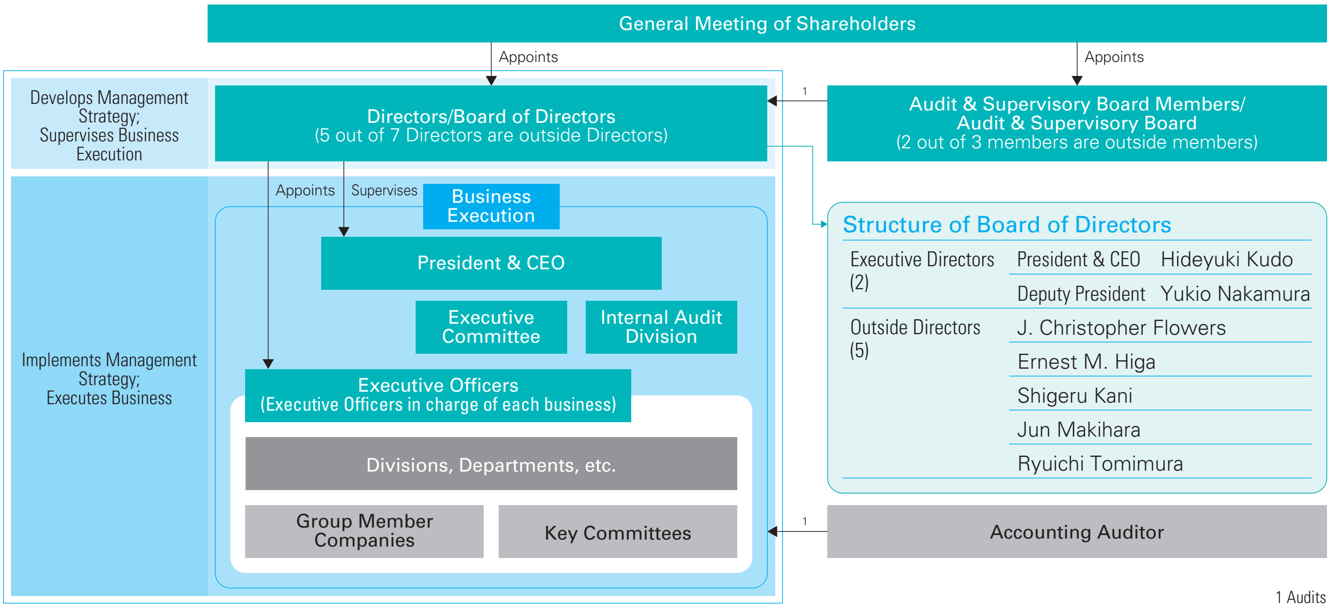
Shinsei Bank's Board of Directors— the Bank's decision-making body for its business management— consists of seven Directors— two full time directors who are directly responsible for the execution of the Bank's business and five outside Directors who primarily supervise the Bank's business execution. This combination of internal and external Directors ensures the transparency and objectivity of the Bank's management and fosters appropriate decision-making regarding the Bank's operations. Additionally, the Bank employs an Executive Officer system organized around the two Executive Directors in order to facilitate flexibility in the execution of the Bank's day to day business operations. While the Bank had previously created its organizational structure in accordance with a Group based system, the Bank has retired the system effective April 1, 2016 in order to foster greater collaboration among different sections within the Shinsei Bank Group and to improve organizational mobility. The Bank now designates "Divisions" as the most basic business unit and has introduced the "Executive Officer in charge" system whereby the Board of Directors assigns the responsibilities of each business area to Executive Officers. Additionally, Executive Officers with extensive experience in relevant business areas are appointed as Heads of Executive Officers in charge. Through the execution of the respective business function responsibilities of each Executive Office in charge of the Bank expects to realize an efficient management structure. Furthermore, through the auditing of the Bank's Board of Directors and the Bank's business execution by the Bank's auditors and Audit & Supervisory Board, which are independent from the Board of Directors, the Bank seeks to create a strict corporate governance framework which will encourage the adoption of optimal and balanced management policies, through which the Bank seeks to enhance its corporate value.

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

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

The Board of Directors holds six scheduled meetings a year, with extraordinary meetings convened as necessary. At these meetings, all Board members express their opinions freely and engage in robust discussions. The outside Directors articulate their views regarding the management of the Bank, drawing upon their diverse backgrounds to offer a broader range of perspectives on topics being discussed and perform supervisory roles regarding management issues such as whether optimum strategies are being adopted, whether the risk-return balance

Corporate Governance Structure Chart (as of June 23, 2016)



is appropriate and whether a particular course of action will contribute to the growth of the Bank's businesses. By determining policy through such discussions the Bank seeks to achieve sustainable growth and enhancement of the Bank's corporate value over the mid to long-term, protection of the interests of all stakeholders including our shareholders and customers as well as maintain appropriate business promotion frameworks. Furthermore, efforts to improve the effectiveness of the Board of Directors by enabling the Board members to focus on discussing key management issues and important matters which affect the mid- to long-term sustainable growth of Shinsei Bank.

The Outside Directors and Auditors of Shinsei Bank are not involved in the day to day execution of the Bank's business and in order to ensure the sharing of their independent viewpoints as well as to share detailed information regarding the execution of the Bank's business with each of the outside officers, the Bank holds regular meetings attended only by the outside officers. Through these meetings each outside Director and Auditor is able to more effectively fulfill their role as supervisors, advisors and auditors to the Executive Directors responsible for the Shinsei Bank Group's day to day operations.

Regarding transactions with parties such as Directors and major shareholders, the Bank conducts checks to avoid conflicts of interest and to maintain the fairness of transactions and, when necessary, the Bank utilizes established frameworks for the deliberation of such transactions by the Board of Directors meetings and conducts any necessary follow-ups.

Reasons for Nomination of Outside Directors

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

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

Status of Board of Directors Meetings

Ratio of outside Directors 71%

- Five out of the seven Directors of Shinsei Bank are outside Directors and make up the majority of the Board of Directors.
- The structure where outside Directors make up the majority of the Board members has continued since the start of Shinsei Bank.
- Six officers including outside Audit & Supervisory Board Members are reported as independent officers to the Tokyo Stock Exchange (as of June 2016).

Attendance rate 98%

- The Directors, including outside Directors, attended almost all the Board meetings and had robust discussions concerning the management and business execution of Shinsei Bank.
- The figure in the box to the left shows the attendance rate of the Board of Directors meetings held after the Annual General Meeting in the fiscal year 2015 (nine meetings in total).

Summary of Executive Committee and Other Important Committees

Name	Main Purpose
Executive Committee	The President's decision-making body for day-to-day business execution
ALM Committee	Negotiate, coordinate and make decisions concerning medium- and long-term Asset and Liability Management
Compliance Committee	Communicate, coordinate and make decisions in regard to compliance
Risk Policy Committee	Discuss the bank-wide risk operation policy and management framework for the Bank's portfolios, and the Bank's approach to major portfolios, sectors, products and so forth
Doubtful Debt Committee	Promptly inform top management about significant bad debt exposure, and make decisions on write-offs and other matters concerning sale of debts, debt forgiveness, and so forth
SME Loan Committee	Through discussions on the business policy and challenges for the entire institutional banking business, take initiative in bank-wide efforts to achieve SME loan goals set in the Revitalization Plan
IT Committee	Discuss, coordinate and make decisions on matters concerning the Shinsei Bank Group's information technology systems
Business Continuity Management Committee	Discuss, coordinate and make decisions concerning the organization of the business continuity structure throughout the Bank
Basel Committee	Discuss, coordinate and make resolutions on matters concerning regulatory capital, with a focus on Basel regulations
Management Development Committee	Discuss, coordinate and make decisions about the HR system, HR measures and so forth

Executive Officer System, Executive Committees and Other Important Committees

Shinsei Bank has adopted the Executive Officer system to ensure the flexible execution of day-to-day business operations. As of June 23, 2016, the Bank's business activities are being overseen by 32 Executive Officers, including the two Executive Directors, appointed by the Board of Directors. Under the direction of the Executive Directions, including the President, Executive Officers tasked with the oversight of individual business areas as well as Heads of Executive Officers in charge, each appointed by the Board of Directors, in accordance with the Bank's "Executive Officer in charge" structure engage in the efficient operation of their respective businesses.

Additionally, the Bank has established the Executive Committee, comprised of Executive Directors and the Heads of Executive Officers in charge, as the decision making body through which the President makes determinations regarding the execution of the Bank's business, enabling swift, efficient operational management. The Executive Committee is convened on a weekly basis in order to deliberate on matters concerning the Bank's business operations, and through these deliberations the alignment of the sections responsible for each business with the Bank's overall management strategy and strategic focus is ensured.

Furthermore, the Bank has established numerous cross-functional committees around the Executive Officers in charge in order to enable the Bank to appropriately and flexibly respond to issues arising from the increasing specialization and sophistication of the Bank's business.

Audit & Supervisory Board Members/ Audit & Supervisory Board

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

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

Reasons for Nomination of Audit & Supervisory Board Members

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

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

Audit & Supervisory Board Members' Activities in FY2015

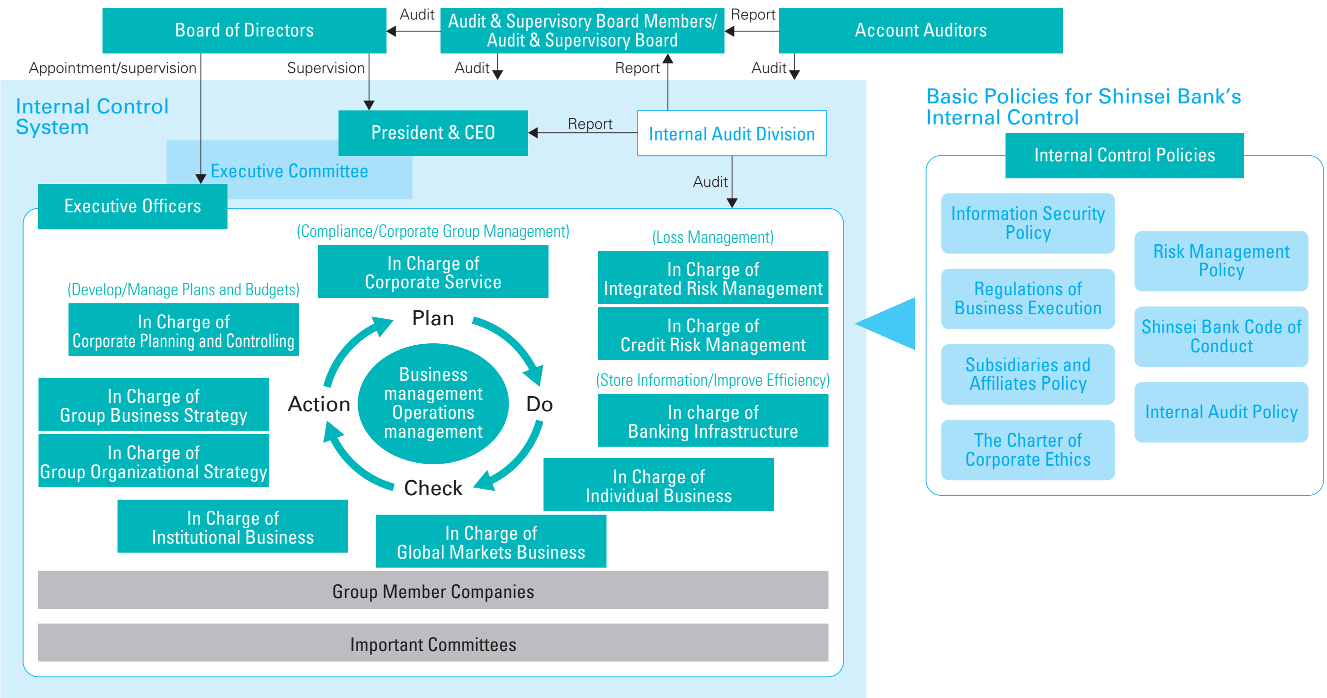
	Board of Directors meetings	Audit & Supervisory Board meetings
Number of meetings held[2]	9 times	12 times
Attendance rate	100%	100%

2 The total number of meetings held after the Annual General Meeting in fiscal year 2015

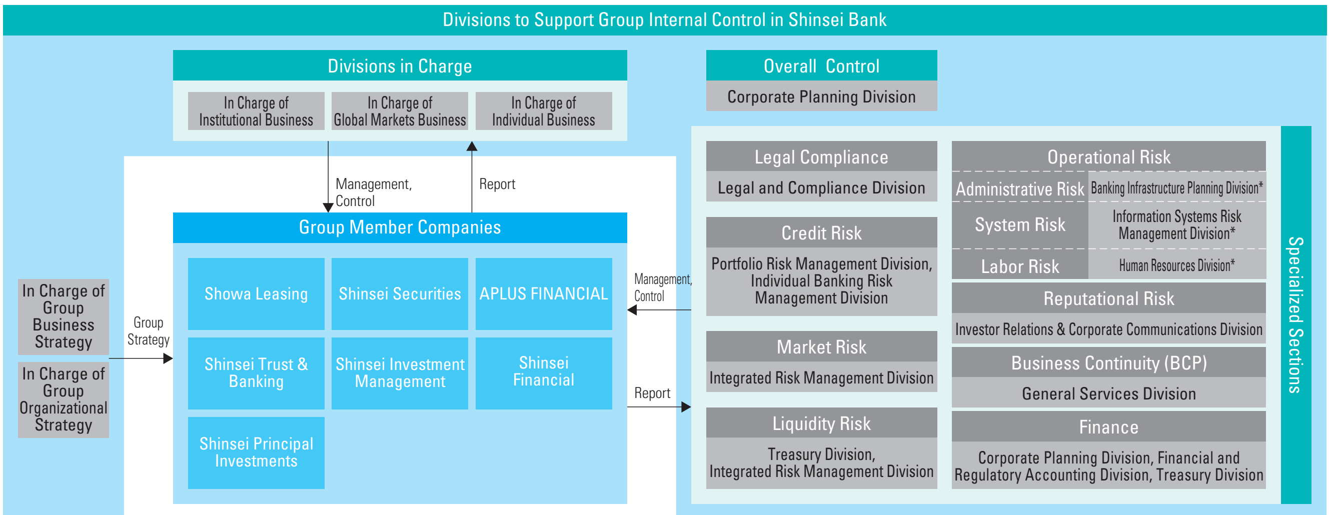
Internal Control

In order for corporate governance to function effectively, in addition to creating business execution oversight and decision-making frameworks around the Board of Directors, the placement of frameworks which facilitate the proper functioning of functions such as internal audits and compliance is also necessary. Additionally, the creation of internal control systems as required by the Corporation Act or internal controls which ensure the accuracy of financial reports as required by the Financial Instruments and Exchange Act is also a crucial element in a properly functioning corporate governance structure. While management is responsible for ensuring the implementation of such internal controls, the proper function of overall internal controls can be ensured installing detailed internal control frameworks within the Divisions executing business operations. Shinsei Bank's basic policy governing the internal control systems put in place in order to ensure the propriety and efficiency of day to day operations and is defined in the "Internal Control Rules" determined by

Internal Control Framework



Group Internal Control Support Framework



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

the Board of Directors, and furthermore, the adequacy of internal control systems is reviewed annually by the Board of Directors. The "Internal Control Rules," in addition to creating a framework for safeguarding the effectiveness of audits by the Audit & Supervisory Board Members, defines the Subsidiaries and Affiliate Policy, the Information Security Policy, the Risk Management Policy, the Regulations of Business Execution, the Shinsei Bank Code of Conduct and the Internal Audit Policy as the underlying provisions aimed at preserving the propriety, transparency and efficiency of the operations of the entire Shinsei Bank Group including subsidiaries. Furthermore, the Bank has instituted frameworks to ensure the propriety of the operations of the Bank, and as required by the Charter of Corporate Ethics in regard to the prevention of relationships with antisocial forces, the Bank continues to prevent and terminate any such. It should be noted that in accordance with the May 2015 amendment of the Corporation Act and the concept of "Group integration" introduced in the Bank's Third Medium-Term Management Plan that started in April 2016 and in its medium- to long-term vision, the Bank has launched initiatives to further enhance the business management and internal control frameworks of the entire Group including its subsidiaries and affiliates. To this end, the Bank has revised its management frameworks, previously centered on Divisions in charge, into a framework that emphasizes collaboration among the Divisions in charge and Specialized Sections. Through such measures, the Bank seeks to maintain frameworks which facilitate an appropriate Group internal control system.

Legal and Compliance Activities

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

Compliance Framework

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

The Bank's Compliance Committee, the Legal and Compliance Division, and Compliance Supervisors (General Managers) and Compliance Managers who are assigned in divisions, branches, and departments constitute the main elements of our compliance organization.

The Compliance Committee, with our Head of Corporate Service as its chair, examines and discusses important compliance matters.

On the other hand, the Legal and Compliance Division plans various measures concerning compliance risk and implements these measures through central management.

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

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

Compliance Activities

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

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

Legal Supervision

Banks are required to comply with a wide variety of laws and regulations in their day-to-day business operations.

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

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

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

Internal Audit

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

The Internal Audit Division (IAD) of the Bank reports directly to the CEO as well as to the Audit & Supervisory Board. The IAD supports the CEO in his responsibilities for controlling business execution, and in particular for establishing an effective system of internal controls. The IAD provides independent and objective assessments of the effectiveness of risk management, control and governance processes, the reliability of information and information technology systems, and compliance with statutory, legal and regulatory requirements as well as internal policy and procedure requirements of the Bank, and provides solutions to management. The IAD also maintains a close relationship with the Audit & Supervisory Board and provides them with internal audit-related information.

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

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

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

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

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

DIRECTORS AND EXECUTIVES

As of July 1, 2016

BOARD OF DIRECTORS (7)

Hideyuki Kudo	Representative Director, President
Yukio Nakamura	Representative Director, Deputy President
J. Christopher Flowers*	Managing Director and Chief Executive Officer, J.C. Flowers & Co. LLC
Ernest M. Higa*	Chairman President & Chief Executive Officer, Higa Industries Co., Ltd.
Shigeru Kani*	Former Director, Administration Department, The Bank of Japan, Specially Appointed Professor, Yokohama College of Commerce
Jun Makihara*	Director, Monex Group, Inc., Director, Philip Morris International Inc.
Ryuichi Tomimura*	Executive Vice President, Representative Director, SIGMAXYZ Inc.

*Outside Directors

AUDIT & SUPERVISORY BOARD MEMBERS (3)

Shinya Nagata	Audit & Supervisory Board Member
Michio Shibuya*	Certified Public Accountant
Kozue Shiga*	Lawyer

*Outside Audit & Supervisory Board Members

EXECUTIVE OFFICERS (32)

Hideyuki Kudo
Representative Director,
President and Chief Executive Officer

Yukio Nakamura
Representative Director,
Deputy President Executive Officer

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,
Deputy Head of Group Organizational Strategy, General Manager,
Human Resources Division,
Group Chief Risk Officer,
Head of Integrated Risk Management

Yasunobu Kawazoe
Managing Executive Officer,
Head of Credit Risk Management

Yoshiaki Kozano
Managing Executive Officer,
Special Assignment
(Head of Group Business Strategy)

Nozomi Moue
Managing Executive Officer,
Executive Officer in charge of
Institutional Business

Masayuki Nankouin
Managing Executive Officer,
Group Chief Financial Officer,
Head of Corporate Planning and Controlling,
General Manager, Financial Research Division

Hironobu Satou
Managing Executive Officer,
Head of Global Markets Business

Tetsuro Shimizu
Managing Executive Officer,
Head of Individual Business,
Deputy Head of Group Business Strategy

Masashi Yamashita
Managing Executive Officer,
Special Assignment
(Head of Group Organizational Strategy)

Shigeto Yanase
Managing Executive Officer,
Executive Officer in charge of Institutional Business

Naoto Hanada
Executive Officer, General Manager,
Information Systems Development Division II

Shouichi Hirano
Executive Officer, General Manager,
Corporate Planning Division,
General Manager,
Office of Financing Facilitation Management

Kiyohiro Kiyotani
Executive Officer, Executive Officer in charge of Institutional Business, President and CEO,
Showa Leasing Co., Ltd.

Takahisa Komoda
Executive Officer,
Executive Officer in charge of Institutional Business

Tsukasa Makizumi
Executive Officer,
Executive Officer in charge of
Credit Risk Management

Masanori Matsubara
Executive Officer,
General Manager,
Information Systems Development Division I

Yuji Matsuura
Executive Officer,
Executive Officer in charge of
Global Markets Business

Nobuyasu Nara
Executive Officer,
Executive Officer in charge of
Institutional Business,
General Manager,
Osaka Branch

Eiji Shibazaki
Executive Officer,
Executive Officer in charge of
Institutional Business

Yasufumi Shimada
Executive Officer,
General Manager,
Integrated Risk Management Division

Toichiro Shiomi
Executive Officer,
General Manager,
Portfolio Risk Management Division

Riku Sugie
Executive Officer,
Executive Officer in charge of Individual Business,
Deputy Head of Group Business Strategy,
President and CEO,
Shinsei Financial Co., Ltd.

Satoshi Suzuki
Executive Officer,
General Manager,
Banking Infrastructure Planning 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

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

Takahiro Yoshida
Executive Officer,
General Manager,
Treasury Division

Takashi Yoshikawa
Executive Officer,
Special Assignment
(in charge of Group Business Strategy)

SENIOR ADVISOR

David Morgan — Supervisory Board Member, HSH Nordbank AG, and Managing Director, Europe and Asia-Pacific, J.C. Flowers & Co. UK Ltd

ADVISOR

Shigeki Toma

ADVISOR

Yuji Tsushima

ORGANIZATION

As of July 1, 2016

Customers

- Board of Directors
- Chief Executive Officer
  - Internal Audit Division[2]
- Executive Committee
- Management Affairs Division[1]
- Audit & Supervisory Board Members
- Audit & Supervisory Board
- Office of Audit & Supervisory Board Members

- Executive Officer in charge of Group Business Strategy
  - Group Business Strategy Division
- Executive Officer in charge of Group Organizational Strategy
  - Group Organizational Strategy Division
- Executive Officer in charge of Corporate Planning and Controlling
  - Corporate Planning Division
    - (J-SOX Program Department)
  - Financial and Regulatory Accounting Division
    - (IFRS Department)
  - Treasury Division
  - Investor Relations & Corporate Communications Division
  - Financial Research Division
  - Office of Financing Facilitation Management
- Executive Officer in charge of Corporate Service
  - Human Resources Division
  - Legal and Compliance Division
    - (Legal Department)
    - (Financial Crime Information Department)
  - General Services Division
  - Operations Management Division
    - (FATCA Management Department)
- Executive Officer in charge of Institutional Business
  - Institutional Business Planning Division
    - (Corporate Customer Service Department)
    - (Principal Investments Department)
    - (New Business Promotion & Support Department)
  - Corporate Banking Business Division I
  - Corporate Banking Business Division II
  - Corporate Banking Business Division III
    - (Overseas Finance Department)
  - Osaka Corporate Banking Business Division[5]
  - Real Estate Business Division
  - Financial Institutions & Public Sector Business Division
  - Sapporo, Sendai, Kanazawa, Nagoya, Osaka, Hiroshima, Takamatsu and Fukuoka
  - Real Estate Finance Division
  - Healthcare Finance Division
  - Specialty Finance Division
  - Project Finance Division
    - (New Energy Promotion Department)
  - Business Succession Finance Division
  - Syndicated Finance Division
  - Corporate Advisory Division
- Executive Officer in charge of Global Markets Business
  - Global Markets Business Division
  - Trading Division
  - Markets Division
    - (Osaka Business Department)
  - Investment Business Division
  - Asset Management Division
    - (Asset Management Business Promotion Department)
    - (Asset Management Product Planning Department)
  - Wealth Management Division
  - Asset Management Products Division
- Executive Officer in charge of Individual Business
  - Individual Business Planning Division
  - Retail Sales and Distribution Division — Financial Centers[3]
    - (Estate Consulting Promotion Department)
  - Channel Management Division[4]
    - (Fukuoka Call Center)
  - Retail Products Division
    - (Life Planning Business Department)
    - (Overseas Remittance Business Department)
    - (Retail Operation Department)
  - Housing Loan Division
    - (Tama-plaza Annex)
  - Consumer Finance Division
    - (Application Service Center)
    - (Customer Service Center)
    - (Customer Communication Center)
    - (Smart Card Loan Center)
    - (Osaka Administration Management Center)
    - (Customer Relationship Department)
  - Customer Service Division
    - (Customer Service Department)
- Executive Officer in charge of Integrated Risk Management
  - Integrated Risk Management Division
  - Portfolio Risk Management Division
- Executive Officer in charge of Credit Risk Management
  - Institutional Credit Management Division
  - Structured Risk Management Division
  - Real Estate Risk Management Division
  - Individual Banking Risk Management Division
- Executive Officer in charge of Banking Infrastructure
  - Information Systems Risk Management Division[6]
  - Banking Infrastructure Planning Division
  - Information Systems Development Division I
  - Information Systems Development Division II
  - Information Systems Operation Division
  - Operations Services Division

1 Management Affairs Division shall act as the secretariat for the Board of Directors and Executive Committee.

2 Internal Audit Division shall report not only to CEO but also to Audit & Supervisory Board directly.

3 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

4 Channel Management Division shall report to Executive Officer in charge of Banking Infrastructure.

5 Osaka Corporate Banking Business Division shall report to GM of Osaka Branch.

6 Information Systems Risk Management Division shall report to the management.

RISK MANAGEMENT

Shinsei Bank has identified risk management as one of its most important management issues, and the Bank has undertaken various measures to strengthen risk management frameworks. These include improvements of our various committees and further empowerment of their functions, and the establishment of a system of checks and balances conducted by units that are completely independent of other units of the Bank. From fiscal year 2016, in line with the termination of the Bank's former group system, the system of checks and balances is being further strengthened by the separation of the former Risk Management Group into (i) credit analysis units that are responsible for conducting credit checks and management as part of the system of checks and balances on the Bank's sales staff, and (ii) a unit responsible for overall oversight of risk management including the establishment of a system for managing the various risks, monitoring of credit management, and the measurement and analysis of credit, market, and other risks.

The credit analysis units thoroughly discusses risk management policies for products and sectors as well as policies for transactions with individual companies in order to make decisions in an appropriate and speedy manner. The overall risk oversight units tasked with honing our portfolio-specific risk management methods and frameworks and further developing the Bank's risk culture. Together, the two new units will continue to strengthen the Bank's risk management.

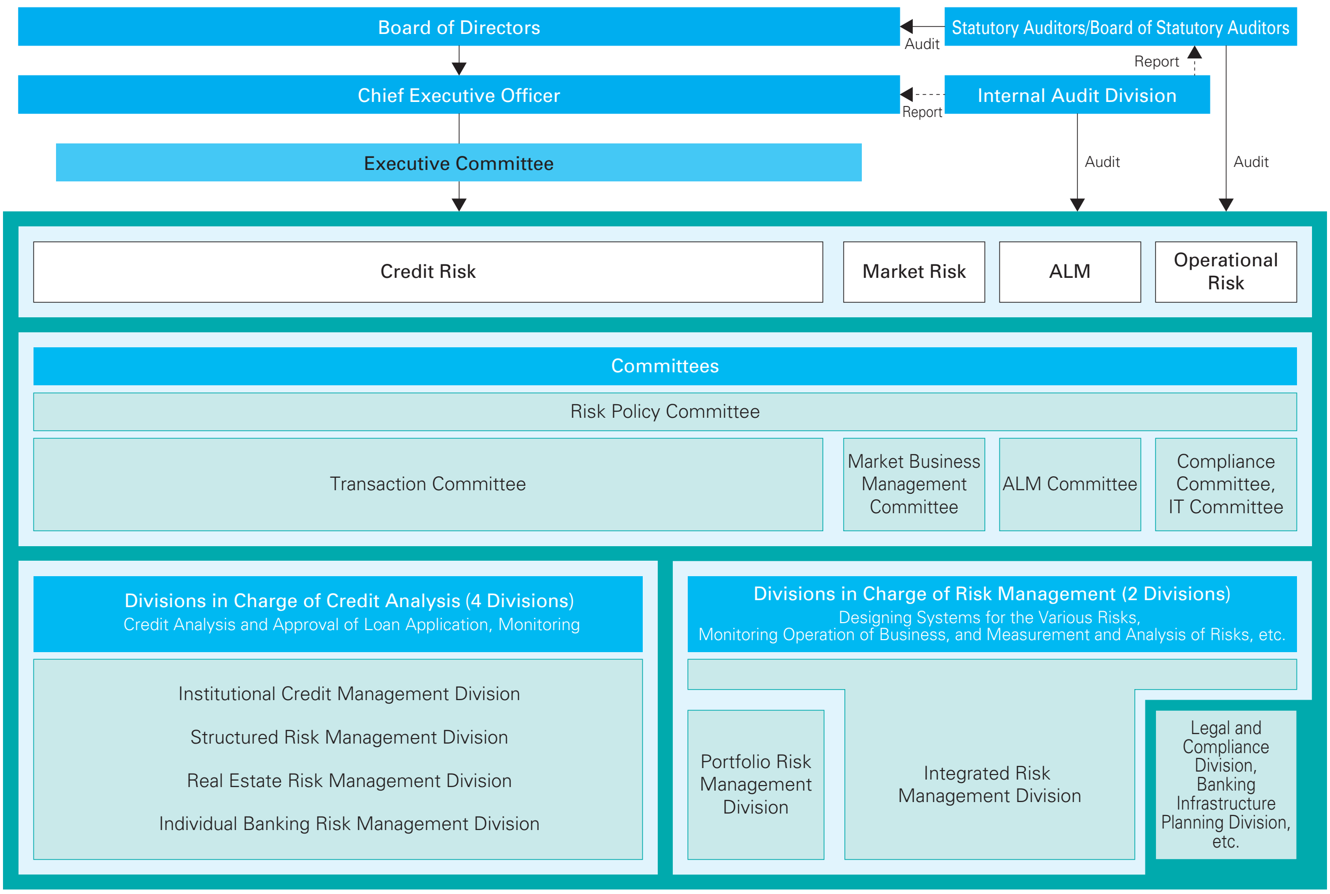
Fiscal Year 2015 Overview

Domestic and Overseas Economic Trends

In fiscal year 2015, Japanese stocks continued the rally with support from Abenomics started in the latter half of fiscal year 2012 and monetary easing by the Bank of Japan. The Nikkei Stock Average reached a 15-year high of ¥20,952 in June 2015. Thereafter, however, the rally lost momentum and in February 2016 the Nikkei Stock Average temporarily fell below ¥15,000 for the first time in a year and four months as market concerns that the U.S. Fed was growing reluctant to make an additional rate hike led to a stronger yen. During this period, a slumping Chinese stock market, volatile oil prices and forex rates, and the Bank of Japan's introduction of negative interest rates led to intense price movements.

The Japanese economy saw real GDP growth on a seasonally adjusted basis fall into negative territory in the April–June and October–December quarters of 2015, as private-sector consumption remained weak in the aftermath of the April 2014 consumption tax hike. On a more positive note, however, the number of corporate bankruptcies remained

Risk Management System Chart (as of June 22, 2016)



in a downward trend, while vacancy rates, average rents, and prices in the Tokyo office leasing market remained on the upward trends begun in the previous year.

Shinsei Bank's Portfolio

Given the conditions noted above, the Bank's asset portfolio again saw little negative impact from deterioration in the creditworthiness of corporate customers. We also continued to improve the quality of our real estate loan portfolio, centered on nonrecourse loans, by reducing our exposure to high-risk assets through asset replacement. As a result, we successfully concluded the three-year period of the Second MTMP with a nonperforming loan (NPL) ratio well below the plan's target. The consumer finance business had seen decrease in its loan balance contract in recent years owing to factors including changes in the regulatory environment and external challenges such as a fiercer competitive environment. However, we have succeed in putting the loan balance back on the growth path, thanks to a revised credit strategy and strategic efforts to add higher quality assets to the loan portfolio. Additionally, losses on interest repayment have peaked out and declined to a level easily covered by the net income at our nonbank subsidiaries.

Regarding the overall portfolio, capital buffers are expanding thanks to risk reductions through the aforementioned credit cost reductions and asset quality improvements, as well as the steady accumulation of capital through an increase in revenues. As a result, we finished the Second MTMP with a common equity Tier 1 ratio above plan, thereby increasing management stability.

Risk Factors and Future Policy

From fiscal year 2016, in accordance with the strategies laid out in the new Third MTMP, the Bank will be pursuing a more selectively concentrated business portfolio by segregating businesses into growth areas, stable revenue areas, strategic initiative areas, and curtailment areas. As such, we will be aggressively developing the businesses designated as growth areas, especially consumer finance and structured finance. Although the external environment has been improving, we must continue to monitor the potential downside risk to the global economy and the impact on financial markets from such factors as the strategy of the U.S. in their coming exit from monetary easing, the slowdown in the Chinese economy, and various geopolitical risks. Risk management operations will remain highly conscious of domestic and overseas environments while using sophisticated stress tests and other means to gain a firm grasp of the risk profile of the Bank's portfolio from various perspectives, and then presenting its view of the Bank's risk tolerance to management. Additionally, we will exercise an appropriate system of checks and balances for the business promotion sections' initiatives in growth areas and the implementation of their business strategies. We will organize and strengthen the risk management framework, including developing more sophisticated methods for measuring risk and return, enhancing monitoring functions, and flexibly reviewing risk strategies as required.

Comprehensive Risk Management

Basic Concept of Risk Management Systems

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

To strengthen the required monitory functions and further develop the risk management framework, the Bank established two new risk management units on April 1, 2016. The Integrated Risk Management Division is tasked with the measurement and analysis of credit, market and other risks as well the examination and appraisal of fair value. The Portfolio Risk Management Division is tasked with strengthening the Bank's system of checks and balances related to credit risk and planning functions related to the internal credit rating system, credit authority, and allowance for depreciation.

Achieving Comprehensive Risk Management

Shinsei Bank has established its "Risk Management Policy" as the fundamental policy to be used to recognize risks and implement controls based upon an understanding of the risks faced by the Bank. Due to a fiercely competitive business environment and evolving regulatory and market environments, Shinsei Bank faces an increasingly complex assortment of risks. The Risk Management Policy therefore sets forth fundamental risk management principles including a risk culture and we facilitates proper judgment on the nature of risks the Bank can undertake.

Comprehensive risk management requires not only detailed monitoring of each risk involved in individual operations, but also an understanding of bank-wide risks and quantification of these risks to the greatest extent possible based on analysis and insights into the bank's markets and customers. The Bank defines "Risk Capital," which is an integrated control approach, and quantifies each risk category, namely credit risk, market risk, interest rate risk, and operational risk. In this way, our financial strength and risk acquisition activities are controlled in an integrated manner by monitoring the Bank-wide risk volume and the status of the capital attributable to each business line. The Bank's current financial strength enables it to undertake a considerable amount of risk. Nonetheless, we remain conscious of the need to constantly and effectively conduct comprehensive risk management and consistently strive to improve our control methods.

It should be noted that at Shinsei Bank's senior management has delegated certain risk management authority to specific committees including the "Risk Policy Committee," "Transaction Committee," "Asset and Liability Management (ALM) Committee" and "Market Business Management Committee." By constantly improving their systems and functions in response to changes in the operating environment, these committees are able to function effectively as committees responsible for making important risk judgments. The Risk Policy Committee, whose members include the top management of the Bank such as the CEO, CFO, and CRO, by concurrently reviewing the Bank's risk management policy and business strategy, fulfills the Crucial role of setting and adjusting the appropriate and optimal level of risk taking.

Categories of Risk Capital

Risk Capital	Capital amount required as a cushion against unexpected economic losses. Unexpected Loss calculated by subtracting expected loss from estimated maximum loss of which time horizon is one year.
Credit Risk	Unexpected Loss calculated by subtracting expected loss from Credit VaR (Credit Value at Risk). Credit VaR is estimated maximum loss calculated by a simulation based on data including probability of default, exposure at default, and loss given default.
Market Risk	Estimated maximum loss from interest rate, foreign exchange and price change risk based on Market VaR (Market Value at Risk). Market VaR is calculated by a simulation based on data including position, volatility of risk factors, etc.
Interest Rate Risk	Estimated maximum loss from interest rate risk in banking account based on Interest Rate VaR (Interest Rate Value at Risk). Interest Rate VaR is calculated by a variance-covariance method based on data including sensitivity of fair market value when interest rates move 100 basis points.
Operational Risk	Estimated maximum loss based on Operational Risk VaR (Operational Risk Value at Risk). Operational Risk VaR is calculated by a simulation based on frequency and severity distributions which will be derived from internal loss records and scenario loss data.
Total Risk Capital	Amount calculated by subtracting effect of correlation across risk categories from simple sum of Risk Capital for each risk category.

Institutional Business Credit Risk Management

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

Our model for credit risk management focuses on securing adequate return on risk, avoiding excessive concentration in particular sectors or obligors, and managing risk while maintaining an awareness of maximum losses possible from the credit portfolio.

Shinsei Bank has established a comprehensive "Credit Risk Policy" which defines specific policies regarding customer attributes, products, markets, industries and credit situations in order to determine whether risks should be taken or limited, and clarifies policies for credit provision operations and specific guidelines for credit risk management together with the "Credit Procedure," and each protocol system.

Credit risk management processes are largely divided into credit risk management for individual transactions and portfolio-based credit risk management, as described below.

Credit Risk Management for Individual Transactions

(1) ORGANIZATION & STRUCTURE

In principle, credit assessments are based upon joint consultation by business promotion units and the credit analysis team, which is independent from the business promotion units. To ensure a transparent and rigorous evaluation process, the credit analysis team has veto rights, which results in the establishment of an effective system of checks and balances on the business promotion units. The approval of each transaction is strictly managed, with each transaction also discussed by the Transaction Committee, etc. Through these deliberations, the level of approval authority required over the obligor whose group companies should be taken into consideration is identified based mainly on the total exposure to the obligor group and their credit rating and, as a result, strict credit management is enforced.

Additionally, regarding needs caution receivables, those that fall under a certain category determined by factors such as ratings, the Bank's exposure, and reserves, Shinsei Bank defensively manages the account, monitoring the obligor's business performance through the Doubtful Debt Committee and other means, and by determining measures for the treatment of such obligors in the future, Shinsei Bank is making efforts to minimize credit costs and to ensure the quality of assets.

(2) CREDIT RATING SYSTEMS

The following is an outline of the internal obligor rating system that the Bank uses for corporate exposures:

CHARACTERISTICS OF
SHINSEI BANK'S OBLIGOR RATING SYSTEMS

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

Specifically, obligor ratings are determined by applying adjustments for qualitative factors to the model ratings calculated by our estimation models, which are based on the ratings of external rating institutions. Obligor ratings are determined at the "Credit Rating Review Committee" to ensure objectivity and transparency. Moreover, we ensure consistency of obligor ratings with obligor categories based on the regulatory self-assessment requirements.

Obligor ratings are used in the standards of credit approval authority procedures and portfolio controls, and are the foundation for credit risk management.

In addition to obligor ratings, the Bank also applies a facility rating system based on expected losses that incorporates elements such as collateral and/or guarantees, in order to assess obligor ratings and the credit status of individual transactions.

It should be noted that an obligor rating system and facility rating system similar to those adopted by the Bank also are applied in the analysis of large leasing receivables at Showa Leasing.

Portfolio-Based Credit Risk Management

(1) MONITORING ANALYSIS SYSTEM

It is essential that credit risks are diversified in terms of industries as well as ratings. Diversification is accomplished on a portfolio basis, which is an aggregation of transactions, and operations of individual transactions must be conducted based on appropriate risk analyses. At Shinsei Bank, the Portfolio Risk Management Division and the Integrated Risk Management Division jointly monitor the status of segment-specific risk diversification, including industry classifications, ratings, products, and regions. Their analysis is conducted from the product-specific perspectives based on each risk profile, and the results are reported to senior management and the CRO on monthly as well as on an ad hoc basis.

(2) QUANTIFYING CREDIT RISK

Quantifying credit risk means measuring and assessing the likelihood of losses that may be incurred from changes in an obligor's creditworthiness. Expected loss amounts derived from the probability of default and collection ratios, an assumption based upon past experiences and future outlook, are generally called "expected losses." Also, losses that may be incurred in worst case scenarios and cannot be estimated based on past experiences are generally called "unexpected losses," and it is generally considered that risk capital can be quantified by measuring "unexpected losses."

Shinsei Bank has established a system for the accurate, timely, and comprehensive measurement of risk capital. This system automatically measures credit risk based on creditworthiness, transaction types, and other relevant data. Through use of this system and the analysis of risk capital changes and profitability against risks, we are working to ensure sound portfolio management and resource allocation. Also, by reflecting measured expected losses and unexpected losses in loan spreads, we are able to ensure appropriate risk-return for each transaction.

(3) CREDIT CONCENTRATION GUIDELINE

The credit concentration guideline is an upper limit guideline that was established as part of the framework to prevent the concentration of credit in specific segments, customers or groups. Our credit concentration management framework consists of industry concentration guidelines and obligor group concentration guidelines, and in the event that credit concentration exceeds the guideline, reviews and countermeasures will be performed. These procedures are designed to prevent Shinsei Bank from being exposed to a crisis in the event our credit portfolio is affected by systemic shock or other extraordinary events. During the Second MTMP, we strengthened the framework for our obligor group concentration guidelines by adopting more appropriate procedures and as a result achieved more optimal portfolio allocation.

With the importance of risk diversification growing as financial markets become more globalized, we will continue our efforts to create ever more effective credit concentration management frameworks.

Market-Related Transaction Credit Risks

Credit risks of counterparties from market transactions, such as derivative transactions, are managed based on their fair value and estimations of future value fluctuations. Assumptions about future value fluctuations cover a wide range of instruments, including exotic derivatives, and take into account netting and collateral impact based on ISDA Credit Support Annex (CSA) documents, etc. Because the amount of risk associated with a market transaction changes according to fluctuations in market rates after the transaction is traded, Shinsei Bank manages transactions based on forecasts of future value fluctuations.

Self-Assessment

As a result of the introduction the "Prompt Corrective Action" system, financial institutions conduct self-assessments of their assets, such as loans, in order to appropriately write offs or sets aside sufficient reserves.

Shinsei Bank has put in place a self-assessment system which establishes the Credit Assessment Division, which is independent from the business promotion and credit analysis sections, as the unit responsible for the final self-assessment of the Bank's assets.

Specifically, the criteria and procedures for self-assessment adhere to the Financial Services Agency's "Inspection Manual for Deposit-Taking Institutions" and, in accordance with the outlined procedures, the business promotion section and the credit analysis section carry out primary assessments and secondary assessments respectively, and final assessments are conducted by the Credit Assessment Division. In the future, we will continue to strengthen and update systems in order to ensure obligor categories and categorizations are reviewed in a timely manner in response to changes in obligor financial fundamentals. Through this, we seek to mitigate the emergence of problem loans and ensure the timely and accurate management of troubled loans.

Measures to Meet Basel Accord Requirements

In order to comply with the credit risk regulations under the Basel Accord, Shinsei Bank has adopted the F-IRB (Foundation Internal Ratings-Based) Approach. This approach ensures strict internal controls for our internal rating systems, the foundation of credit risk management, through the execution of the design and operations of internal rating systems and parameter estimations such as probability of default. The results of the internal rating systems are reflected not only in credit risk management, but also in calculations of capital levels required under the regulations. It should be noted that as of the end of March 2014, Shinsei Bank calculates required capital and capital ratios in accordance with Basel III (enhancement/revision of capital controls, etc.).

Individual Business Risk Management

Risk management for the consumer finance business includes all operations from loan application approvals (entry-point credit) to management of risks during the contract period (developing credit) and, if needed, debt collection operations. The Individual Banking Risk Management Division, which is responsible for risk management for products targeted at individuals, including the consumer finance business, holds a monthly risk performance review with Shinsei Bank's other risk-related divisions in order to share information and promote a shared awareness of risks. The division also provides advice and operational support on risk management policies and strategies to related divisions in Shinsei Bank and at our subsidiaries. Risk-related divisions at Group subsidiaries carry out appropriate risk control through a credit operation process that incorporates the use of credit-related databases of customer attributes stemming from the nature of their businesses, credit information, and transaction history with a scoring model that generates initial credit scores, developing credit scores, and collection strategy scores, etc., based upon statistical methodologies. Additionally, in order to maintain the accuracy of this scoring model in line with the level achieved when it was first developed, model performance is constantly monitored and the score cards are updated as needed. Credit costs are crucial to the management of profitability in the consumer finance business. For that reason, we implement monitoring and analyze various leading indicators and verification indicators at the portfolio level to ensure that we recognize any deteriorations in the portfolio's overall asset quality at an early stage and make the necessary action to improve its profitability.

Market Risk Management

Market risk is the risk of incurring losses due to changes in the value of the balance sheet through fluctuations of interest rates, FX rates, and stock prices, etc.

Market Risk Management Policy

Risks of the trading business are managed through, in accordance with the "Trading Business Risk Management Policy and Procedure," the determination of overall market risk and loss limits by the Executive Committee, and monitoring of the status of compliance with the limits on a daily basis by the Integrated Risk Management Division. In addition, the Market Business Management Committee reviews the trends of individual businesses, profits and losses, and the risks of overall business including the risks of products handled on a monthly basis.

Market risk, centered on interest rate risk related to assets and liabilities in the banking book, are managed in accordance with the "Asset Liability Management Policy for Banking Book," and the ALM Committee determines total market risk and loss limits. The Integrated Risk Management Division then monitors compliance with these limits on a daily basis and reviews the status of profits and losses and the risk management measures on a monthly basis.

Trading Book

The market risk in the trading book is measured through techniques such as VaR. VaR is the maximum loss amount possible due to future price fluctuations, which is estimated statistically at a specific confidence level, assuming a specific position is held for a specific time horizon. In addition, we implement multi-faceted risk management using interest rate sensitivities.

The Bank's VaR model uses a 99% confidence level, a 10 day holding period and an observation period of 250 days (See the following table).

The validity of the VaR model is verified through back testing, which examines how frequently actual daily loss exceeds daily VaR for a one-day holding period. The back testing results for the previous fiscal year reveals that there were no days in which actual losses exceeded VaR on a consolidated basis. Additionally, we conduct stress tests on a weekly basis and report the findings to senior management at the Market Business Management Committee meetings, etc.

Interest Rate Risk in the Banking Book

The interest risk in the banking book is managed through interest rate sensitivities, etc. To measure interest rate risk, grid point sensitivity (GPS) for each period reflecting a 1% interest rate shock is calculated and used for internal management purposes (GPS is the fluctuation in the current value of assets, liabilities, and off-balance-sheet transactions caused by interest rate fluctuations during each period (grid)). As the amount of interest rate risk is significantly impacted by the recognition of maturities and prepayments, we are endeavoring to appropriately capture interest rate risk by adopting the following models.

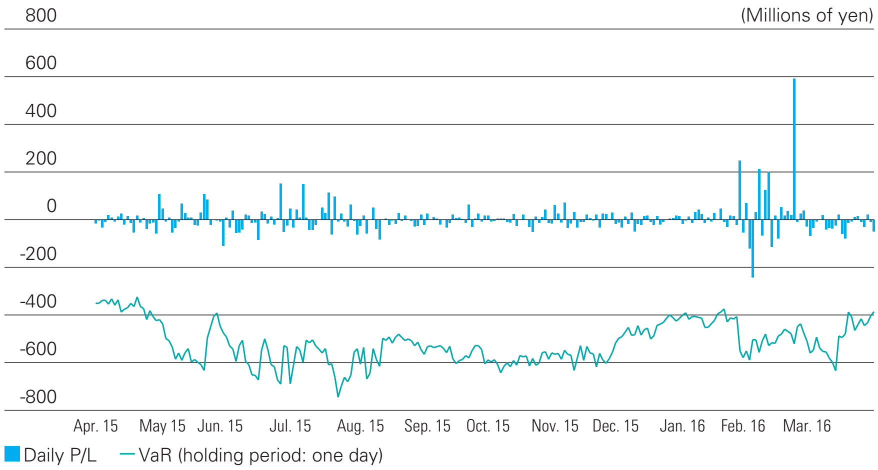
VaR Data for Fiscal Year End, Maximum, Minimum and Average During the Fiscal Year 2014 and 2015

		Millions of yen			
		FY2014		**FY2015**	
		Consolidated	Non-consolidated	**Consolidated**	**Non-consolidated**
FY End VaR		976	594	**1,214**	**788**
FY VaR	Maximum	1,662	1,534	**2,346**	**1,761**
	Average	977	789	**1,626**	**1,128**
	Minimum	468	397	**1,017**	**623**

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

		Millions of yen	
		FY2015	
		Consolidated	**Non-consolidated**
FY End VaR		**2,587**	**1,916**
FY VaR	Maximum	**5,219**	**4,286**
	Average	**3,859**	**2,975**
	Minimum	**2,393**	**1,694**

VaR and Daily Profit and Loss (Back-Testing) (FY2015, Consolidated basis)



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

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

ASSUMPTIONS OF SHINSEI's VaR MODEL

Method: Historical simulation method

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

a. Housing loans

We calculate the interest rate risk of fixed-rate retail housing loans by statistically analyzing historical prepayment data and estimating future cash flow based on a proportional hazard model using periods lapsed from the loan origination.

b. Core deposits

Core deposits are defined as retail ordinary yen deposits and 2-week yen denominated time deposits which are left with banks for a long term without withdrawal. We model depositors' behaviors by statistically analyzing deposit balance data and estimating maturities by customer segments.

Regarding the outlier criteria calculation, a 2% interest rate shock range is utilized and the criteria is calculated through a method which is consistent with internal controls. Additionally, based on the interest rate risk volume as of March 31, 2016, the actual outlier rate (whether or not the calculated decrease in economic value of the banking book would be greater than 20% of core capital in the event of an interest rate shock with a range of 2%) is below the outlier criterion.

Change in Economic Value for Applied Interest Rate Shock of 2% in the Banking Book at the End of March 2016

	Billions of yen	
	Consolidated	Nonconsolidated
JPY	¥ (98.1)	¥ (56.2)
USD	(3.1)	(3.1)
Other	(3.3)	(3.3)
Total	¥ (104.6)	¥ (62.7)
Outlier Ratio	12.9%	7.6%

Risk related to marketable credit instruments

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

Liquidity Risk Management

"Cash liquidity risk" is the risk of facing difficulty in securing necessary funds or a risk of incurring losses due to a need to raise funds at an interest rate that is significantly higher than the norm due to a mismatch between the durations of investment and funding or an unexpected outflow of funds.

Pursuant to the "Cash Liquidity Risk Management Policy," cash liquidity risk is managed and administered by the Cash Flow Management Unit (Treasury Division) and the Cash Liquidity Risk Management Unit (Integrated Risk Management Division).

Also, the "risk management indexes" for securing sufficient cash liquidity, the "funding gap limit" and the "minimum liquidity reserves" are determined by the ALM Committee, and compliance with these is monitored on a daily basis and reported to management by the Integrated Risk Management Division.

In order to ensure the ability to implement appropriate measures such as additional fundraising or asset disposals in the event the funding environment sharply deteriorates, we conduct liquidity stress tests require the maintenance of a minimum liquidity duration of one month in stressed scenarios. If this requirement is not satisfied, we analyze all factors and, whenever necessary, examine measures necessary to secure the required liquidity, such as changing the funding gap limit or the minimum liquidity reserves, and in such cases the ALM Committee prepares a liquidity improvement policy. Liquidity stress tests are conducted on a monthly basis and reported to the ALM Committee by the Integrated Risk Management Division. Additionally, the suitability of stress scenarios is regularly reviewed at the ALM Committee.

The levels of cash liquidity risk consist of "Normal," "Need for Concern," "Crisis," and "Risk Administration Mode." The ALM Committee determines the current mode by comprehensively evaluating information and reports from the Cash Flow Management Unit and the Risk Management Unit as well as the status of the risk management indexes. Each mode-specific framework is set forth in the "Cash Liquidity Contingency Plan," and regular training is conducted in preparation of unexpected situations.

Operational Risk Management

1. Operational Risk Management Frameworks

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

To ensure the comprehensive management of operational risks, the Bank has established an operational risk management policy that determines the definitions of risk and sets forth our basic policy and system for risk management and frameworks for identifying, evaluating, monitoring, reporting and controlling/mitigating risk.

The Integrated Risk Management Division, which is responsible for Group-wide operational risk management, evaluates, analyzes and reports on overall operational risks.

Additionally, specialized management divisions that are independent from business divisions have been designated to monitor respective areas of risk, such as operational and administrative risk and systems risk. The Integrated Risk Management Division and these specialized management divisions hold periodic meetings to share information on risk management issues and measures as well as to discuss how to manage the common elements across the risk areas including those of subsidiaries, thereby ensuring the effective management of operational risk.

Regarding quantification of operational risk, it should be noted that we have adopted the standardized approach for regulatory capital under the Basel Accord. Meanwhile on the internal management level, we gauge potential internal risk scenarios by considering factors such as previous losses due to internal factors and the perception of risks by each business line. The findings that come out of these practices have been used as part of the overall risk capital system.

2. Management of Administrative Risk and Systems Risk

Administrative and systems risk refers to the risk of "incurring losses owing to the failure of executives' or employees' to accurately perform clerical work, their committing errors or misconduct." Shinsei Bank has expanded its retail banking and consumer finance businesses and developed our institutional banking business. We therefore understand that appropriate administrative and systems risk management is crucial to our ability to offer reliable services to our customers.

In accordance with its "Operations Guidelines" and other company regulations, Shinsei Bank is constantly enhancing its administrative management system with the goal of raising operating efficiency and standards in order to support the sustained and stable supply of services to customers. These efforts include the holding of training seminars, the optimization of administrative flows, the provision of operational guidance, and the reviewing of the expressions targeted at clarifying procedural content. Specific risk management measures include the preparation of a system of autonomous checks at the business line level by the outlet self-inspections and the creation of a database documenting past errors. The Bank expects such thorough analysis of the reasons for errors will help to avoid recurrences in the future. Indeed, the Bank has been able to minimize the recurrence of errors by simplifying and automating many office tasks and procedures. The Bank has identified the following three factors as crucial to the development and operation of its information systems: security/reliability, flexibility, and scalability. In fiscal year 2015, we proactively implemented the system of regularly scheduled reviews of system risks that was started in fiscal year 2013 in order to maintain and increase the stability and reliability of our information systems. As a result, we successfully improved the quality of our systems development and the operating capabilities to prevent system failures and ensure rapid recoveries when problems do occur. In addition, we made steady progress in constructing our next-generation core banking system related to our key operations with a view to bringing it on line in the near future. We also began to check system risk at main Group subsidiaries during fiscal year 2015.

Going forward, we will continue our efforts to strengthen and maintain safe, secure, and reliable systems, whilst also ensuring they have the flexibility required to provide customers with the new products and services that meet their constantly changing needs.

Furthermore, in response to the cyber security issues that have become a serious threat to our society, Shinsei Bank is taking appropriate measures based on the most recent technologies to protect the personal information and assets of its customers.

ENHANCING CUSTOMER SATISFACTION

Aiming to be a financial group that is truly needed by customers, the Shinsei Bank Group will develop and offer services that go beyond conventional concepts, by connecting the Group's customer bases, financial functions, and services based on the customer's perspective.

Thinking from the Customer's Perspective

Shinsei Bank implements initiatives for improving customer satisfaction on an ongoing basis. Thanks to such efforts, we were ranked number one in the 11th "Retail Banking Survey" jointly conducted by Nikkei, Inc. and Nikkei Research, Inc. targeting banks across Japan[1]. This section introduces some of our specific initiatives.

Since fiscal year 2014, our Individual Business has been implementing initiatives such as "Project *Omotenashi*" and introduced the "Hospitality Leader System" to reflect customer feedback in our products and services. The sharing of our customers' feedback gathered through the Shinsei Financial Centers (branches) by all staff members is generating the following three effects:

1 The survey ranks 117 banks across Japan by comparing the depth of their customer services and financial products based on incognito visits to branches and questionnaires responded by the banks.

1 Customer feedback has been appropriately incorporated into our services

First, customer feedback has been appropriately incorporated into our services. For example, in July 2015, we implemented the remote sign language translation service using tablet devices in our Yokohama Financial Center and Shinjuku Financial Center in order to serve customers with hearing difficulties. Traditionally we had communicated with them in writing using communication boards; however, by implementing the service in response to the feedback we received, we can now provide transactions with simultaneous sign language translation.

2 Our staff members' skills have improved, allowing them to serve our customers in a flexible manner

Second, our staff members' skills have improved, allowing them to serve our customers in a flexible manner by sharing customer service examples at other Financial Centers, in addition to acting upon customer feedback. Furthermore, we are becoming a self-learning organization where each staff member works to understand the situations of each customer and independently determines the best responses. We are also making minor improvements to our Financial Centers so that our customers can use them comfortably. For example, we installed tables next to our navigation counters so that customers can rest their bags and other articles; and we changed the layout of the sofas in the waiting area.

Remote sign language translation service

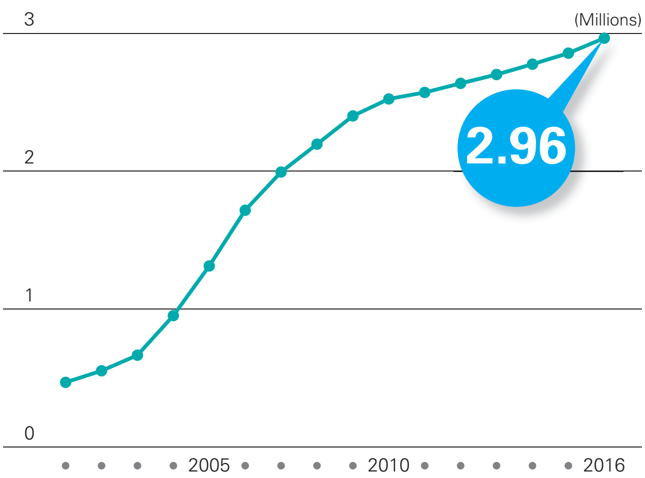
Shibuya Financial Center

3 We can now offer advantages that are available only at Shinsei Bank, with more creative ideas for new products and services

Third, as the mindset of seeking to enhance customer convenience has spread throughout the organization, we can now offer advantages that are available only at Shinsei Bank, with more creative ideas for new products and services. "GAICA," our overseas prepaid card launched in July 2015, has combined the convenience of Shinsei Bank's foreign currency deposits and the settlement infrastructure of APLUS Co., Ltd. (hereinafter, "APLUS"), our group member company, and allows its holders to load foreign currencies to GAICA directly from the foreign currency deposits they may hold in their *PowerFlex* (Shinsei Bank's integrated account) accounts. This product is the result of Shinsei Bank, which operates the deposit business, and APLUS, which operates the funds transfer business, engaged in joint product development despite their industry differences, in order to meet the needs of foreign currency prepaid card users. As a result, the Shinsei Bank Group has created a unique and highly convenient product for its customers.

Thanks to these continuing efforts, Shinsei Bank was ranked number one in the 11th "Retail Banking Survey," achieving high scores in almost in all categories of "over-the-counter services" such as branch environment and services, customer service representative skills, ability to explain products, and telephone answering, as well as "product depth" such as asset management, housing loans, security, customer satisfaction and ATMs. We will continue to improve customer convenience and our hospitality to enhance customer satisfaction.

Number of Retail Accounts



SECURING AND CULTIVATION OF HUMAN RESOURCES

“People” as an Engine for Growth

Under the Third Medium-Term Management Plan being implemented from fiscal year 2016, the Bank is promoting the selective concentration of its businesses in areas of competitive strengths in order to enhance Group profitability and seize growth opportunities. In line with those goals, we are taking action to carve out a distinctive position in the financial industry and create a sustainable business model that leverages the Bank’s unique qualities and strengths.

With the global economy and society undergoing rapid changes, it is essential that we continue to differentiate ourselves even further from our competition in order to remain as an institution that is truly appreciated by our customers, society, and the market. To accomplish this, it is imperative that we be able to attract and develop talented individuals across the entire Group who are able to put themselves in the position of our customers and consistently deliver services of unsurpassed quality and high value-added solutions.

Shinsei people will be the driving force as the Bank strives for growth by delivering new financial services that transcend existing concepts, creating a new image of a financial group, and winning customers’ confidence as a financial innovator able to deliver multidimensional support by providing access to the Shinsei Group’s diverse customer base and wide range of financial functions and services.

A Personnel System in Line with Our Management Principles

The management philosophy of Shinsei Bank has three core principles: (1) to become a banking group that is sought out by our customers, and contributes to the development of both domestic and international industrial economies, while maintaining stable profitability, (2) to become a banking group that values diverse talents and cultures and is constantly taking on the challenges presented by change, and (3) to become a trusted banking group that has highly transparent management and values all stakeholders. To fulfill our management principles and achieve the goals of our strategies, Shinsei Bank has established a highly transparent and objective system for evaluations, promotions, and remuneration based on a “Pay for Performance” philosophy, while also creating a work environment, systems, and processes that enable each employee to fully demonstrate his or her unique qualities, skills, and personal ambitions and therefore maximize their contribution to the organization. The culmination of these efforts came in April 2015, when we revamped our personnel system. This reform included the introduction of a multi-track career system consisting of three courses that clearly define expectations for each employee’s role and help them to set their own career paths. The reform also included a new highly transparent evaluation/compensation structure that corresponds to those role expectations and career paths. In addition, we established a new flexible working arrangement system that enables employees to choose from a variety of work arrangements, in accordance with their life stages and other needs for diverse work arrangements. We also upgraded an equitable package of fringe benefits that better meets the needs of today’s workers.

We are confident that appropriate management of this highly transparent personnel system will heighten employee motivation and loyalty and encourage employees to perform to the best of their abilities, which in turn will maximize the organization’s performance and enhance overall corporate value.

Further Strengthening Our Organization and Human Resources

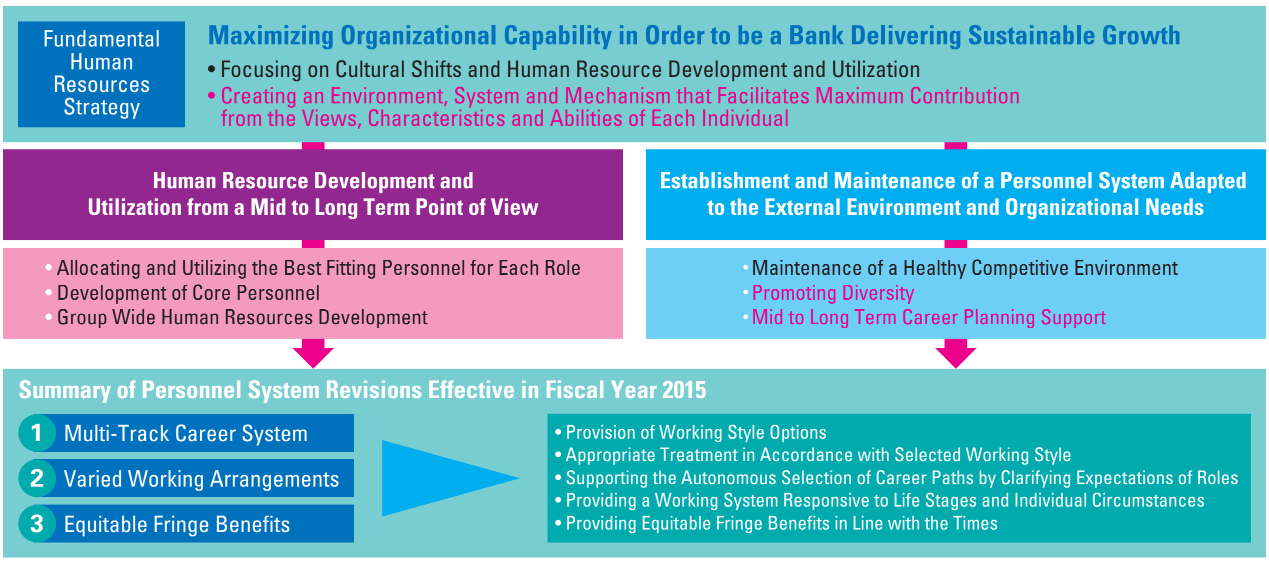
To promote greater cooperation between departments within the Group, increase internal mobility, and facilitate the implementation of the Third MTMP, we have dissolved the previous business group system from fiscal year 2016. This change in organizational structure is intended to promote Group-wide development and use of human resources as well as the emergence of a corporate culture that will better enable us to provide customers with unprecedentedly high value service that fully demonstrates Group synergies made possible by cross-divisional collaboration among highly specialized staff capable of delivering differentiated financial solutions to our customers. Shinsei Bank provides various types of training programs tailored to the development of skills or the career paths of our employees, including courses designed to provide a wide range of general financial knowledge or to hone specialized knowledge and skills necessary in each field, as well as schemes that allow employees to study at graduate schools both in Japan and overseas. We also send our employees overseas for short-term training programs and encourage them to obtain qualifications. Addressing the important issue of enhancing management's ability to maximize the strength of the Group, we implemented 360-degree feedback for employees in management positions in order to promote awareness and behavioral changes. We also expanded our skill development training program for management level employees. In addition, as part of our multifaceted human resources development measures, we put together project teams with staff from various group companies and divisions and strategically transfer personnel across Group companies. We also encourage our people to take charge of their own career development by utilizing the "self-declaration" system that allows employees to express their satisfaction level of and suitability to their respective current positions.

Promoting Inclusion & Diversity

One of Shinsei Bank's greatest strengths is the diversity of our people in terms of age, gender, nationality and background. It is the creativity generated by this diverse set of people that has enabled us to launch groundbreaking services and business models, and we believe that this diversity is the source of our competitiveness. In line with this belief, each year we hire a relatively steady number of new graduates to expand the ranks of employees from whom we expect our future leaders to emerge, while also making mid-career hires in line with business needs. This hiring practice helps preserve the strengths of our diverse corporate culture. Also, since its inception, Shinsei Bank has actively promoted the role of women in the workplace by expanding the availability of a variety of support frameworks, including child-care leave and shorter working hours, and forming the "Shinsei Women's Network" to facilitate interaction between female employees of the Group. As of April 2016, the proportion of female managers at Shinsei Bank remains among the highest in our industry, with women representing approximately 29% of all titled managers. We aim to raise this ratio to 35% by 2020. With Japan's population continuing to age and its birthrate continuing to decline, we will continue to promote personnel policies that are respectful of employees' attributes, characteristics and stages in life— whether they be women or seniors, raising children or caring for a relative—and that enable the Group to fully utilize the talents of this diverse pool of human resources. In addition, to maximize the latent potential of the Group engaged in a wide range of businesses, we will search for and appoint talent across the Group and strive to create knowledge-based synergies through personnel exchanges.

Going forward, we will strive to utilize Group resources to their fullest by further promoting the "Inclusion & Diversity" of an even more integrated Group as we seek to meet customers' increasingly complex and diverse needs by providing new solutions that are beyond the scope of existing frameworks.

Positioning of Shinsei Bank's Human Resources Strategy and Personnel System Revision



CORPORATE SOCIAL RESPONSIBILITY

Contributing to Society

Our Approach

As part of our commitment to acting as a responsible corporate citizen and contributing to societal development, the Shinsei Bank Group actively promotes Corporate Philanthropic Initiatives. The Shinsei Bank Group promotes employee-driven activities aspiring to create a sustainable society together with our employees.

Our Focus

The Shinsei Bank Group aims to create a sustainable society by prioritizing our activities centered on the three themes of "nurturing the next generation," "the environment," and "disaster relief activities" after the Great East Japan Earthquake in 2011. The Shinsei Bank Group also continues to participate in charity runs and supports other activities that are strongly supported by our employees.

Nurturing the Next Generation
Support children, youth and physically and intellectually challenged people who create our future

Environment
Protect our earth and the environment we live in

Disaster Relief
Support the areas affected by the Great East Japan Earthquake

In fiscal year 2015, Shinsei Bank Group organized 33 "employee-driven" activities and a total of 530 volunteers including Group employees and their families participated in these activities. Main activities are listed below.

Nurturing the Next Generation
- Financial literacy program "MoneyConnection®"
- "Designing Artists Academy" summer art camp for children in foster homes
- Special Olympics Nippon Tokyo Christmas party
- Service dog demonstration event in offices
- Volunteer work to support the "Service Dog Festival"
- Family day

Environment
- "Arakawa Clean-aids" riverbank clean-up
- "Fujisawa Beach Cleaning Project" beach clean-up
- Rice terrace conservation volunteer activity
- "Hana-Kaido" flower maintenance/clean walk event
- Forest conservation volunteer activity

Disaster Relief Activities
- Disaster relief volunteer activity
- Tohoku support tour
- Internal fundraiser to support disaster affected regions
- "Miyagi Selp" Tohoku fair
- Great East Japan Earthquake disaster relief volunteer gathering

Other
- FIT (Financial Industry in Tokyo For Charity Run) charity run/walk event
- Tokyo Run for the Cure®/Walk for Life fight against breast cancer charity run/walk event

Contributing to Society: Nurturing the Next Generation

Financial Literacy Program "MoneyConnection®"

MoneyConnection® is Japan's first financial literacy program aimed at preventing youth from becoming people who are unemployed, and not in education or vocational training by providing them with an opportunity to think about money, work and their own future. This is a workshop-based program that is targeted primarily at high school students. Shinsei Financial Co., Ltd. ("Shinsei Financial"), a consolidated subsidiary of Shinsei Bank, developed the program in 2006 in cooperation with Sodateage.net, a certified non-profit organization with a strong track record in employment support for young people. From fiscal year 2012, Shinsei Bank has been running this program together with Sodateage.net as part of its corporate philanthropic initiatives focusing on the theme of "nurturing the next generation." As of March 31, 2016, the program has been taught to 94,543 students from 709 schools throughout Japan.

As a corporate sponsor, Shinsei Bank is supporting the program financially as well as promoting employee involvement by providing volunteer opportunities for Group employees to participate as facilitators where possible.

MoneyConnection® received an Excellence Award in the "First Career Education Awards" program organized by the Japanese Ministry of Economy, Trade and Industry in 2010. MoneyConnection® also won a Special Award in 2015 in the "Eleventh Japan Partnership Awards" program organized by the Japan Partnership Award Secretariat in recognition of its outstanding partnership between an NPO and a private sector company.

Shinsei Bank is collaborating with regional financial institutions to expand the geographic reach of MoneyConnection®. Shinsei Bank and Sodateage.net have signed a memorandum of agreement with The Fukui Bank, Ltd. in October 2012, The Kiyo Bank, Ltd. in May 2013, and The Bank of Iwate, Ltd. in December 2013. Shinsei Bank will continue to promote and strengthen the MoneyConnection® program in regional areas by looking for opportunities for collaboration with regional financial institutions.

Supporting the Japan Service Dog Association

Shinsei Bank supports the Japan Service Dog Association ("JSDA"), a non-profit organization training service dogs to help with the daily tasks of the physically disabled and promoting and raising awareness of service dogs. Shinsei Bank supports JSDA as a corporate member and sponsors the "Service Dog Festival." In order to raise awareness within the Shinsei Bank Group, JSDA held a "service dog demonstration event" at the Shinsei Bank headquarters building, the Meguro Production Center, the Nagoya branch and Group subsidiaries' headquarters buildings. Group employees supported JSDA through the purchasing of charity goods and making donations at the event. Shinsei Bank Group employees also volunteered to assist in the operation of the "Service Dog Festival," an event held every year in May at Nagakute, Aichi Prefecture, to increase awareness and understanding of service dogs and people with physical disabilities.

Contributing to Society: Disaster Relief

Volunteer Activities in Disaster Affected Areas

Employee volunteers from Shinsei Bank and Group subsidiaries took part in volunteer activities in the Tohoku Region of Japan to help support the areas affected by the Great East Japan Earthquake. From July 2011, Shinsei Bank has conducted a total of thirteen volunteer activities in the disaster affected areas, and a total of 361 Shinsei Bank Group employees participated in these activities. Of these, eight activities were conducted in the Minamisanrikucho region of Miyagi Prefecture and were activities that supported the immediate needs of the disaster affected areas, such as drain clearing and debris removal, aquaculture support work, holding of mini concerts at temporary housing facilities, and summer festival support activities. In fiscal year 2015, Shinsei Bank held two disaster relief volunteer activities in Minamisanrikucho and Higashimatsushima of Miyagi Prefecture and organized events aiming to relieve emotional stress for the people living in the area. From 2011, Shinsei Bank held various activities to support disaster relief efforts following the Great East Japan Earthquake including eight internal fundraiser activities, Tohoku support fair at the Shinsei Bank headquarter building and Meguro Production Center, Tohoku tour for employee and their families, providing Tohoku menus at the employee cafeteria and etc. Furthermore, in regard to the earthquakes in Kumamoto prefecture in April 2016, Shinsei Bank Group would like to express our sincere sympathy to the people affected by the disaster. Shinsei Bank together with Showa Leasing, APLUS FINANCIAL, Shinsei Financial, donated a total of 10 million JPY to the Kumamoto earthquake disaster as a contribution from Shinsei Bank Group. Shinsei Bank will continue to support disaster relief efforts and will continue to proactively engage in activities that respond to the needs of the affected areas.

Shinsei Bank and Showa Leasing employees volunteering at the "Service Dog Festival"

Music and comedy live showcase hosted by Shinsei Bank and Asahi Mutual Life Insurance Company held in Minamisanrikucho in September 2015

Christmas concert hosted by Shinsei Bank held in Higashimatsushima in December 2015

Great East Japan Earthquake Disaster Relief Volunteer Gathering

As a 5 year memorial event from the Great East Japan Earthquake, Shinsei Bank held a volunteer gathering inviting guest speakers (Mr. Eiichi Abe, Executive Director/ Secretary-General, Higashimatsushima Council of Social Welfare, Mr. Takahiro Inomata, Secretary-General/Head of Volunteer Center, Minamisanrikucho Council of Social Welfare) from Higashimatsushima and Minamisanrikucho of Miyagi Prefecture to learn about the current condition of the disaster affected areas, seeing slide shows of past activities held by Shinsei Bank, and to think about the future of the regions and disaster relief efforts going forward. It was a great opportunity to hear stories from the guest speakers and to network amongst employees that took part in disaster relief volunteer activities in the past and for those that are thinking of taking part in the future.

Contributing to Society: Environment

Forest Conservation Volunteer Activity

From fiscal year 2015, "Forest Conservation Volunteer Activity" became a new addition to Shinsei Bank Group's CSR activities. With support from the environmental NPO SHU, Shinsei Financial organizes the "Forest Conservation Volunteer Activity" twice a year in the wooded area of TAMAZO (Lion Forest) in Tama Zoological Park. This activity is aimed to foster interest in nature and environmental conservation through participation in forest maintenance activities. Volunteers took part in shiitake mushroom cultivation, gathering fallen leaves to breed beetles, and mowing bamboo grass to maintain the environmental sustainability of the forest.

Employees and their children mowing the bamboo grass

Our Commitment to Environmental Sustainability

Measures to Conserve Electricity and Reduce Our Impact on the Environment

Shinsei Bank continues to make every effort to conserve electricity in our head office through initiatives such as turning off lights in communal spaces and using motion sensors to control lighting in conference and reception rooms throughout the year. In the summer season when demand for electricity increases, Shinsei Bank implements additional measures to minimize the use of electricity, such as reducing ceiling lighting in communal spaces in its head office by approximately 75%, implementing a "cool biz" uniform policy, optimization of air conditioning temperatures and operating hours, automatic illumination control which reacts to the levels of natural light and automatic control of the quantity of fresh air introduction depending upon indoor CO_2 concentration. Additionally, Shinsei Bank is actively pursuing the further reduction of the environmental impact of its offices by relocating the to advanced energy-efficient buildings[1], and transitioning from PCs to VDI (virtual desktop interface)[2] from 2014 in all branches.

1 Shinsei Bank headquarters in January 2011, the Meguro Production Center in February 2012, the Osaka Branch in October 2013 and the Nagoya Branch in February 2016. The Nihonbashi Muromachi Nomura Building where the head office is located is certified as a "top-level installation" by the "TOKYO Green Building Program" of the Tokyo Metropolitan Environmental Security Ordinance.

2 The migration of desktop computers to VDI, describes the shift to the storing of the standard desktop interface commonly used by businesses and storing them virtually on a server. The power consumption by this infrastructure is low, and this migration is thought to result in a reduction in power usage in comparison to a traditional desktop computer system.

Environmental Impact Data

	Unit	FY2012	FY2013	FY2014	FY2015
CO_2 Emissions	t	3,106	3,748	3,395	2,806
Electricity Usage	kWh	6,159,462	6,658,612	6,029,536	5,163,522
Gas Usage	m^3	112,000	114,000	90,000	90,000
Clean Water Usage	t	1,290	1,481	1,638	1,569

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

Amount of Waste Generated / Recycling Rate

	Unit	FY2012	FY2013	FY2014	FY2015
Waste Generated	t	184	238	220	215
Amount Recycled	t	111	148	131	126
Amount of Waste Disposal	t	73	90	88	89
Recycling Rate	%	60.4%	62.1%	59.9%	58.6%

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

Data Section

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

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

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

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

Financial and operational data that are stated in multiples of ¥0.1 billion have been truncated. All percentages have been rounded to the nearest 0.1%.

Fiscal year 2015 refers to the consolidated accounting period from April 1, 2015 to March 31, 2016 and other fiscal years are also stated in the same manner.

Additionally, "this fiscal year" refers to fiscal year 2015.

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 Group, the Global Markets Group and the Individual Group.

- 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 Group engages in the finance and advisory businesses primarily catering to corporations, public corporations and financial institutions and the Global Markets Group engages in the various financial markets businesses. The Institutional Group consists of these businesses promoted through the Bank and Showa Leasing Co., Ltd. (Showa Leasing).
- The Individual Group 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 various 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 SHINKI Co., Ltd. (SHINKI) 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, 2016

In the fiscal year ended March 31, 2016, we recorded a consolidated profit attributable to owners of the parent of ¥60.9 billion, decreased ¥6.9 billion compared to ¥67.8 billion recorded in the previous fiscal year. This decrease compared to the previous fiscal year was the result of factors such as the non-recurrence of significant dividend income from securities investments recorded in the Institutional Group in the previous fiscal year and the recording a loss due to the reassessment of a fund investment in the fiscal year ended March 31, 2016, despite progress made in strengthening the revenue base of the consumer finance business.

Total revenue was ¥216.6 billion for the fiscal year ended March 31, 2016. Of this amount, net interest income was ¥122.3 billion, decreased ¥4.1 billion from ¥126.4 billion recorded in the previous fiscal year. This was due to a decline in revenues resulting from the non-recurrence of major dividend income from securities investments recorded in the Institutional Group in the previous fiscal year and a decrease in revenues resulting from spread compression, mainly affecting the Institutional Group, which exceeded the effects of revenue growth in the consumer finance business achieved due to an increased loan balance as well as a reduction in funding costs. Additionally, noninterest income was ¥94.2 billion, decreased ¥14.6 billion compared to ¥108.8 billion recorded in the previous fiscal year. This decrease compared to the previous fiscal year was due to factors such as the non-recurrence of significant revenues recorded in the principal transactions business in the previous fiscal year, the recording of a loss due to the reassessment of a fund investment and a soft performance in the markets related business.

OVERVIEW (continued)

General and administrative expenses excluding amortization of goodwill and intangible assets was ¥141.3 billion in the fiscal year ended March 31, 2016, reduced from ¥144.2 billion recorded in the previous fiscal year 2015. While the Bank has continued to undertake the investment of management resources necessary to strengthen its business base such as increasing personnel and launching advertising campaigns, factors such as the Bank's promotion of operational efficiency and a reduction in deposit insurance premiums resulted in this outcome.

Net credit costs was ¥3.7 billion in the fiscal year ended March 31, 2016, improved ¥8.1 billion from ¥11.8 billion recorded in the previous fiscal year. While the Bank made additional provisions of general reserves for loan losses as a result of the growth of the consumer finance business loan balance, a portion of these costs being offset due to the recording of significant credit recoveries in the Institutional Group resulted in this outcome.

Regarding reserves for losses on interest repayments, total additional reserves of ¥2.7 billion were provisioned in the fiscal year ended March 31, 2016, reduced from ¥4.0 billion provisioned in the previous fiscal year.

The balance of loans and bills discounted as of March 31, 2016, was ¥4,562.9 billion, increased ¥101.6 billion from ¥4,461.2 billion as of March 31, 2015. While competition to meet the funding needs of customers remained fierce the balance of loans to institutional customers has increased as a result of steady growth in the real estate related lending and project finance balances. In lending to individuals, in addition to the housing loan balance continuing to experience robust growth, the loan balance of the consumer finance business continued to grow steadily from the previous fiscal year.

A net interest margin of 2.40% was recorded for the fiscal year ended March 31, 2016, increased from 2.38% recorded in the previous fiscal year. This was the result of a decline in the rate on deposits, including negotiable certificates of deposit ("NCDs"), exceeding the effect of a decline in the yield on interest-earning assets, particularly the yield on securities.

The Basel III domestic standard (grandfathered basis) consolidated core capital adequacy ratio declined from 14.86% as of March 31, 2015, to 14.20% as of March 31, 2016, due to a reduction in core capital resulting from the early redemption of preferred securities and subordinated term debt as well as an increase in risk assets resulting from new originations and purchases of major real estate nonrecourse loans and heightened market risk. Additionally, our Basel III international standard (fully loaded basis) common equity tier 1 capital ratio increased from 11.9% as of March 31, 2015, to 12.9%.

The balance of nonperforming loans ("NPLs") under the Financial Revitalization Law (nonconsolidated basis) as of March 31, 2016, was ¥34.7 billion, reduced ¥26.2 billion this fiscal year due to factors such as disposals of and collections on NPLs and improvements in obligor classifications of existing borrowers. In addition, the proportion of NPLs to the overall loan balance improved from 1.42% as of March 31, 2015, to 0.79% as of March 31, 2016.

SIGNIFICANT EVENTS

ISSUANCE OF UNSECURED CORPORATE BONDS

Shinsei Bank issued ¥5.0 billion of unsecured corporate bonds (with an inter-bond pari passu clause) on October 27, 2015.

BUYBACK OF SHARES

Shinsei Bank approved a resolution to undertake a buyback of common shares with purchase limits of up to 100 million shares and a maximum aggregate value of ¥10.0 billion with a purchase period from May 12, 2016, until May 11, 2017, in a meeting of the Bank's Board of Directors held on May 11, 2016.

SELECTED FINANCIAL DATA (CONSOLIDATED)

Shinsei Bank, Limited and its Consolidated Subsidiaries
As of or for the fiscal years ended March 31, 2016, 2015, 2014, 2013 and 2012

	Billions of yen (except per share data and percentages)				
	2016	2015	2014	2013	2012
Statements of income data:					
Net interest income	**¥ 122.3**	¥ 126.4	¥ 110.5	¥ 111.6	¥ 116.9
Net fees and commissions	**25.4**	24.6	22.4	19.1	25.1
Net trading income	**8.4**	11.5	13.9	20.0	13.6
Net other business income	**60.3**	72.6	56.1	48.1	47.2
Total revenue	**216.6**	235.3	203.0	199.0	202.9
General and administrative expenses	**141.3**	144.2	135.0	130.9	130.3
Amortization of goodwill and intangible assets acquired in business combinations	**7.4**	8.6	9.7	10.8	11.9
Total general and administrative expenses	**148.7**	152.8	144.8	141.7	142.3
Net credit costs	**3.7**	11.8	0.2	5.5	12.2
Net business profit after net credit costs	**64.0**	70.5	57.9	51.6	48.3
Other gains (losses), net	**(1.2)**	2.1	(11.9)	2.1	(32.9)
Income before income taxes	**62.8**	72.7	46.0	53.8	15.3
Current income taxes	**1.9**	2.4	2.4	0.5	2.9
Deferred income taxes (benefit)	**(0.5)**	0.9	(0.7)	(1.3)	2.4
Profit attributable to noncontrolling interests	**0.3**	1.5	2.9	3.5	3.5
Profit attributable to owners of the parent	**¥ 60.9**	¥ 67.8	¥ 41.3	¥ 51.0	¥ 6.4
Balance sheet data:					
Trading assets	**¥ 336.3**	¥ 317.3	¥ 249.1	¥ 287.9	¥ 202.6
Securities	**1,227.8**	1,477.3	1,557.0	1,842.3	1,873.4
Loans and bills discounted	**4,562.9**	4,461.2	4,319.8	4,292.4	4,136.8
Customers' liabilities for acceptances and guarantees	**280.6**	291.7	358.4	511.0	562.6
Reserve for credit losses	**(91.7)**	(108.2)	(137.3)	(161.8)	(180.6)
Total assets	**8,928.7**	8,889.8	9,321.1	9,029.3	8,609.6
Deposits, including negotiable certificates of deposit	**5,800.9**	5,452.7	5,850.4	5,457.5	5,362.4
Trading liabilities	**294.3**	267.9	218.5	240.0	176.0
Borrowed money	**801.7**	805.2	643.4	719.2	476.7
Acceptances and guarantees	**280.6**	291.7	358.4	511.0	562.6
Total liabilities	**8,135.6**	8,136.0	8,598.5	8,345.6	7,982.0
Common stock	**512.2**	512.2	512.2	512.2	512.2
Total equity	**793.1**	753.7	722.5	683.6	627.6
Total liabilities and equity	**¥ 8,928.7**	¥ 8,889.8	¥ 9,321.1	¥ 9,029.3	¥ 8,609.6
Per share data:					
Common equity[1]	**¥ 294.41**	¥ 275.45	¥ 247.82	¥ 233.65	¥ 212.67
Basic earnings per share	**22.96**	25.57	15.59	19.24	2.42
Diluted earnings per share	**22.96**	—	15.59	—	—
Capital adequacy data:					
Capital ratio (Basel III, Domestic Standard)	**14.2%**	14.9%	13.6%	—	—
Total capital adequacy ratio (Basel II)	**—**	—	13.8%	12.2%	10.3%
Tier I capital ratio (Basel II)	**—**	—	12.2%	10.4%	8.8%
Average balance data:					
Securities	**¥ 1,336.9**	¥ 1,604.9	¥ 1,892.7	¥ 2,014.3	¥ 2,394.6
Loans and bills discounted	**4,434.2**	4,326.8	4,241.5	4,246.2	4,159.8
Total assets	**8,909.3**	9,105.5	9,175.2	8,819.5	9,420.6
Interest-bearing liabilities	**7,142.7**	7,346.4	7,465.5	7,054.0	7,237.5
Total liabilities	**8,135.9**	8,367.3	8,472.1	8,163.8	8,801.2
Total equity	**773.4**	738.2	703.1	655.6	619.4
Other data:					
Return on assets	**0.7%**	0.7%	0.5%	0.6%	0.1%
Return on equity[1]	**8.1%**	9.8%	6.5%	8.6%	1.2%
Ratio of deposits, including negotiable certificates of deposit, to total liabilities	**71.3%**	67.0%	68.0%	65.4%	67.2%
Expense-to-revenue ratio[2]	**65.3%**	61.3%	66.5%	65.8%	64.2%
Nonperforming claims, nonconsolidated	**¥ 34.7**	¥ 60.9	¥ 164.7	¥ 242.6	¥ 295.9
Ratio of nonperforming claims to total claims, nonconsolidated	**0.8%**	1.4%	3.8%	5.3%	6.7%

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)

SUPPLEMENTAL FINANCIAL DATA AND RECONCILIATIONS TO JAPANESE GAAP MEASURES

Shinsei Bank, Limited and its Consolidated Subsidiaries

For the fiscal year ended March 31, 2016	Billions of yen (except per share data and percentages)
Amortization of goodwill and intangible assets acquired in business combinations	
Amortization of intangible assets acquired in business combinations	¥ 2.1
Associated deferred tax income	(0.6)
Amortization of goodwill	5.2
Total amortization of goodwill and intangible assets acquired in business combinations, net of tax benefit	¥ 6.7
Reconciliation of profit attributable to owners of the parent to cash basis profit attributable to owners of the parent	
Profit attributable to owners of the parent	¥ 60.9
Amortization of goodwill and intangible assets acquired in business combinations, net of tax benefit	6.7
Cash basis profit attributable to owners of the parent	¥ 67.6
Reconciliation of basic earnings per share to cash basis basic earnings per share	
Basic earnings per share	¥ 22.96
Effect of amortization of goodwill and intangible assets acquired in business combinations, net of tax benefit	2.54
Cash basis basic earnings per share	¥ 25.50
Reconciliation of return on assets to cash basis return on assets	
Return on assets	0.7%
Effect of amortization of goodwill and intangible assets acquired in business combinations, net of tax benefit	0.1%
Cash basis return on assets	0.8%
Reconciliation of return on equity to cash basis return on equity	
Return on equity	8.1%
Effect of amortization of goodwill and intangible assets acquired in business combinations, net of tax benefit	0.9%
Cash basis return on equity	9.0%
Reconciliation of return on equity to return on tangible equity	
Return on equity	8.1%
Effect of goodwill and intangible assets acquired in business combinations	1.2%
Return on tangible equity[1]	9.2%

1 Profit attributable to owners of the parent excludes Amortization of goodwill and intangible assets acquired in business combinations, net of tax benefit. Average equity excludes goodwill and intangible assets acquired in business combinations, net of associated deferred tax liability.

NET INTEREST INCOME

Net interest income was ¥122.3 billion in the fiscal year ended March 31, 2016, decreased ¥4.1 billion from ¥126.4 billion recorded in the previous fiscal year. This performance was due to the decline in revenue resulting from the non-recurrence of major dividend income from securities investments recorded in the Institutional Group in the previous fiscal year and a decrease in revenue resulting from spread compression, mainly affecting the Institutional Group, exceeding the effects of revenue growth in the consumer finance business achieved due to an increased loan balance as well as a reduction in funding costs.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

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)

	2016			2015		
Fiscal years ended March 31	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Interest-earning assets:						
Loans and bills discounted	**¥ 4,434.2**	**¥ 124.9**	**2.82%**	¥ 4,326.8	¥ 125.0	2.89%
Lease receivables and leased investment assets/ installment receivables	**717.1**	**39.2**	**5.47**	678.3	38.0	5.62
Securities	**1,336.9**	**13.3**	**0.99**	1,604.9	20.7	1.29
Other interest-earning assets[1]	**277.8**	**2.5**	**n.m.[3]**	357.8	2.8	n.m.[3]
Total revenue on interest-earning assets (A)	**¥ 6,766.2**	**¥ 179.9**	**2.66%**	¥ 6,968.0	¥ 186.7	2.68%
Interest-bearing liabilities:						
Deposits, including negotiable certificates of deposit	**¥ 5,624.2**	**¥ 8.4**	**0.15%**	¥ 5,654.5	¥ 10.8	0.19%
Borrowed money	**775.6**	**4.7**	**0.62**	722.1	4.7	0.66
Subordinated debt	**56.9**	**1.6**	**2.88**	61.7	1.7	2.78
Other borrowed money	**718.7**	**3.1**	**0.44**	660.3	3.0	0.46
Corporate bonds	**130.8**	**2.8**	**2.20**	181.7	5.1	2.85
Subordinated bonds	**74.7**	**2.5**	**3.41**	149.9	4.9	3.29
Other corporate bonds	**56.0**	**0.3**	**0.58**	31.7	0.2	0.76
Other interest-bearing liabilities[1]	**611.9**	**2.2**	**n.m.[3]**	787.9	1.4	n.m.[3]
Total expense on interest-bearing liabilities (B)	**¥ 7,142.7**	**¥ 18.3**	**0.26%**	¥ 7,346.4	¥ 22.1	0.30%
Net interest margin (A) - (B)	**—**	**161.5**	**2.40%**	—	164.5	2.38%
Non interest-bearing sources of funds:						
Non interest-bearing (assets) liabilities, net	**¥(1,133.5)**	**—**	**—**	¥(1,074.0)	—	—
Total equity excluding noncontrolling interest[2]	**757.0**	**—**	**—**	695.5	—	—
Total non interest-bearing sources of funds (C)	**¥ (376.4)**	**—**	**—**	¥ (378.4)	—	—
Total interest-bearing liabilities and non interest-bearing sources of funds (D) = (B)+(C)	**¥ 6,766.2**	**¥ 18.3**	**0.27%**	¥ 6,968.0	¥ 22.1	0.32%
Net revenue on interest-earning assets/ yield on interest-earning assets (A) - (D)	**—**	**¥ 161.5**	**2.39%**	—	¥ 164.5	2.36%
Reconciliation of total revenue on interest-earning assets to total interest income						
Total revenue on interest-earning assets	**¥ 6,766.2**	**¥ 179.9**	**2.66%**	¥ 6,968.0	¥ 186.7	2.68%
Less: Income on lease transactions and installment receivables	**717.1**	**39.2**	**5.47**	678.3	38.0	5.62
Total interest income	**¥ 6,049.0**	**¥ 140.7**	**2.33%**	¥ 6,289.6	¥ 148.6	2.36%
Total interest expenses	**—**	**18.3**	**—**	—	22.1	—
Net interest income	**—**	**¥ 122.3**	**—**	—	¥ 126.4	—

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.

Net interest income presented in the preceding table includes income on lease receivables and 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 one of the 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.

Net interest margin increased from 2.38% recorded in the previous fiscal year to 2.40% in fiscal year 2015. This was primarily the effect of a decline in the rate on deposits, including NCDs, from 0.19% to 0.15% exceeding the effect of a decline in the yield on interest-earning assets, particularly the yield on securities, from 2.68% to 2.66%. Net interest income including income on leasing and installment receivables for the fiscal

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

year ended March 31, 2016, was ¥161.5 billion, decreased from ¥164.5 billion recorded in the previous fiscal year. This was the result of total interest income from interest-earning assets decreasing from ¥186.7 billion in the previous fiscal year to ¥179.9 billion in fiscal year 2015 in addition to the total interest expense on interest-bearing liabilities decreasing from ¥22.1 billion in the previous fiscal year to ¥18.3 billion in fiscal year 2015.

NET FEES AND COMMISSIONS

Net fees and commissions consists mainly of fee income associated with domestic real estate nonrecourse finance, servicing fee income such as those associated with specialty finance and principal transactions, fee income associated with the credit guarantee and other businesses in the consumer finance business and fee income associated with sales of products such as mutual funds and insurance products. Net fees and commissions of ¥25.4 billion was recorded in the fiscal year ended March 31, 2016, increased from ¥24.6 billion recorded in the previous fiscal year, mainly due to factors such as an increase in revenue associated with the installment sales finance businesses of consumer finance subsidiaries.

NET TRADING INCOME

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

TABLE 2. NET TRADING INCOME (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2016**	2015	Change (Amount)
Income from trading securities	**¥ 3.4**	¥ 6.1	¥ (2.6)
Income (loss) from securities held to hedge trading transactions	**0.3**	(0.1)	0.4
Income from trading-related financial derivatives	**4.7**	5.6	(0.8)
Other, net	**(0.1)**	(0.0)	(0.1)
Net trading income	**¥ 8.4**	¥ 11.5	¥ (3.1)

Net trading income consists of revenue from derivatives associated with transactions with customers as well as revenue from proprietary trading performed by the Bank. Net trading income of ¥8.4 billion was recorded for the fiscal year ended March 31, 2016, decreased from ¥11.5 billion recorded in the previous fiscal year.

NET OTHER BUSINESS INCOME

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

TABLE 3. NET OTHER BUSINESS INCOME (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2016**	2015	Change (Amount)
Net gain on monetary assets held in trust	**¥ 6.6**	¥ 7.4	¥ (0.8)
Net gain on foreign exchanges	**5.6**	6.3	(0.7)
Net gain on securities	**2.0**	8.4	(6.4)
Net gain on other monetary claims purchased	**2.7**	7.3	(4.6)
Other, net:	**4.0**	4.9	(0.8)
Income (loss) from derivatives entered into for banking purposes, net	**0.5**	(0.2)	0.8
Equity in net income (loss) of affiliates	**2.1**	4.0	(1.9)
Gain on lease cancellation and other lease income (loss), net	**0.7**	0.6	0.1
Other, net	**0.5**	0.4	0.1
Net other business income before income on lease transactions and installment receivables, net	**21.0**	34.5	(13.4)
Income on lease transactions and installment receivables, net	**39.2**	38.0	1.1
Net other business income	**¥ 60.3**	¥ 72.6	¥ (12.3)

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

Net other business income in the fiscal year ended March 31, 2016 was ¥60.3 billion, compared to ¥72.6 billion recorded in the previous fiscal year. This was due to factors such as the recording of a loss due to the reassessment of a fund investment in the principal transactions business and the non-recurrence of major gains on the sale of equity investments recorded in the previous fiscal year in the Institutional Group, as well as a soft performance in the markets related business of the Global Markets Group resulting in significant market volatility.

TOTAL REVENUE

As a result of the preceding factors, total revenue in the fiscal year ended March 31, 2016, was ¥216.6 billion, as compared to ¥235.3 billion recorded in the previous fiscal year.

GENERAL AND ADMINISTRATIVE EXPENSES

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

TABLE 4. GENERAL AND ADMINISTRATIVE EXPENSES (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2016**	2015	Change (Amount)
Personnel expenses	**¥ 57.8**	¥ 59.6	¥ (1.8)
Premises expenses	**19.3**	19.4	(0.0)
Technology and data processing expenses	**19.3**	18.8	0.4
Advertising expenses	**10.4**	11.4	(0.9)
Consumption and property taxes	**8.6**	7.8	0.7
Deposit insurance premium	**2.0**	3.5	(1.4)
Other general and administrative expenses	**23.7**	23.4	0.2
General and administrative expenses	**141.3**	144.2	(2.9)
Amortization of goodwill and intangible assets acquired in business combinations	**7.4**	8.6	(1.1)
Total general and administrative expenses	**¥ 148.7**	¥ 152.8	¥ (4.1)

General and administrative expenses excluding amortization of goodwill and intangible assets of ¥141.3 billion was recorded for the fiscal year ended March 31, 2016, reduced from ¥144.2 billion recorded in the previous fiscal year. This was a result of efforts to improve the efficiency of business operations, an improvement in deposit insurance premiums and the deferral of the recording of some expenses, even as the Bank continued to allocate management resources in order to further expand its business base.

Personnel expenses of ¥57.8 billion were recorded for the fiscal year ended March 31, 2016, reduced from ¥59.6 billion recorded in the previous fiscal year ended. 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 ¥83.5 billion were recorded in the fiscal year ended March 31, 2016, reduced from ¥84.6 billion recorded in the previous fiscal year. This was the result of exercising strict controls in the continued pursuit of operational rationalization across all businesses while also allocating the resources necessary to grow our business base. The components of fiscal year 2015 nonpersonnel expenses include: 1) Premises expenses of ¥19.3 billion, reduced marginally from ¥19.4 billion recorded in the previous fiscal year as a result of a continuing focus on efficient operations; 2) Technology and data processing expenses of ¥19.3 billion, increased from ¥18.8 billion recorded in the previous fiscal year as maintenance costs related to investments aimed at stabilizing our information technology infrastructure becoming fully realized increased; 3) Advertising expenses of ¥10.4 billion, reduced from ¥11.4 billion recorded in the previous fiscal year as a

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

result of the streamlining of business operations through the integration of Group companies; 4) Consumption and property tax expenses of ¥8.6 billion, increased from ¥7.8 billion recorded in the previous fiscal year due primarily to the effects of pro-forma standard taxation, 5) Deposit insurance premium expenses of ¥2.0 billion, sharply reduced from ¥3.5 billion recorded in the previous fiscal year as a result of a change in the insurance premium rate, and 6) Other general and administrative expenses of ¥23.7 billion, increased from ¥23.4 billion recorded in the previous fiscal year due in part to an increase in outsourcing expenses recorded in Individual Group businesses.

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 ¥7.4 billion for the fiscal year ended March 31, 2016, compared to ¥8.6 billion recorded for the previous fiscal year. This reduction is attributable to factors such as the utilization of the sum-of-the-years' digits method in recording amortization of goodwill and intangible assets acquired in business combinations related to Shinsei Financial.

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

	Billions of yen		
Fiscal years ended March 31	**2016**	2015	Change (Amount)
Shinsei Financial	**¥ 4.1**	¥ 5.2	¥ (1.0)
SHINKI	**(0.3)**	(0.3)	—
APLUS FINANCIAL	**0.8**	0.8	(0.0)
Showa Leasing	**2.6**	2.7	(0.0)
Others	**0.1**	0.1	(0.0)
Amortization of goodwill and intangible assets acquired in business combinations	**¥ 7.4**	¥ 8.6	¥ (1.1)

NET CREDIT COSTS

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

TABLE 6. NET CREDIT COSTS (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2016**	2015	Change (Amount)
Losses on write-off or sales of loans	**¥ 1.3**	¥ 4.9	¥ (3.6)
Net provision of reserve for loan losses:			
Net provision of general reserve for loan losses	**21.8**	14.3	7.4
Net provision (reversal) of specific reserve for loan losses	**(11.0)**	0.6	(11.6)
Subtotal	**10.8**	15.0	(4.2)
Other credit costs (recoveries) relating to leasing business	**(0.2)**	(0.1)	(0.1)
Recoveries of written-off claims	**(8.1)**	(8.0)	(0.1)
Net credit costs	**¥ 3.7**	¥ 11.8	¥ (8.1)

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

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, SHINKI and Showa Leasing also maintain general and specific reserves for loan losses.

Net credit costs of ¥3.7 billion were recorded for the fiscal year ended March 31, 2016, improved compared to ¥11.8 billion recorded in the previous fiscal year. This was primarily the result of the recording of significant credit recoveries in the Institutional Group even as the provisioning of reserves in the consumer finance business increased due to the growth of the loan balance.

Recoveries of written-off claims of ¥8.1 billion was recorded in the fiscal year ended March 31, 2016, compared to ¥8.0 billion recorded in the previous fiscal year. Major components of the ¥8.1 billion of recoveries of written-off claims recorded in fiscal year 2015 include ¥3.5 billion of recoveries from Shinsei Bank (nonconsolidated basis), ¥4.0 billion of recoveries from Shinsei Financial and ¥0.7 billion of recoveries from SHINKI. It should be noted that net credit costs excluding recoveries of written-off claims in fiscal year 2015 were ¥11.8 billion, compared to ¥19.9 billion recorded in the previous fiscal year.

OTHER GAINS (LOSSES), NET

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

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

	Billions of yen		
Fiscal years ended March 31	**2016**	2015	Change (Amount)
Net gain on disposal of premises and equipment	**¥ 0.4**	¥ 0.9	¥ (0.5)
Gains on write-off of unclaimed debentures	**0.4**	0.5	(0.1)
Provision for reimbursement of debentures	**(2.9)**	—	(2.9)
Gains on write-off of unclaimed deposits	**0.5**	0.3	0.2
Gains on sale of nonperforming loans	**1.1**	5.1	(4.0)
Gain on liquidation of subsidiaries	**0.4**	0.0	0.3
Provision of reserve for losses on interest repayments	**(2.7)**	(4.0)	1.3
Loss on sale of affiliate's stock	**(0.2)**	—	(0.2)
Impairment losses on long-lived assets	**(0.6)**	(1.4)	0.7
Gain on reversal of stock acquisition rights	**0.6**	0.0	0.6
Other, net	**1.5**	0.4	1.0
Total	**¥ (1.2)**	¥ 2.1	¥ (3.4)

Other losses of ¥1.2 billion were recorded in the fiscal year ended March 31, 2016, including an additional provision of reserves for losses on interest repayments of ¥2.7 billion for APLUS FINANCIAL.

INCOME BEFORE INCOME TAXES

As a result of the preceding factors income before income taxes totaled ¥62.8 billion for the fiscal year ended March 31, 2016, compared to ¥72.7 billion recorded 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 ¥1.4 billion for the fiscal year ended March 31, 2016, compared to a net expense of ¥3.3 billion recorded in the previous fiscal year. In fiscal year 2015 current tax expense totaled ¥1.9 billion and deferred tax benefit totaled ¥0.5 billion. In the previous fiscal year, current tax expense totaled ¥2.4 billion and deferred income tax expense totaled ¥0.9 billion.

PROFIT ATTRIBUTABLE TO NONCONTROLLING INTERESTS (CONSOLIDATED)

Profit attributable to noncontrolling interests consists primarily of interest payments received on perpetual preferred securities issued by the Bank's subsidiaries and profit attributable to noncontrolling interests of other consolidated subsidiaries in the current fiscal year. Profit attributable to noncontrolling interests in the fiscal year ended March 31, 2016, totaled ¥0.3 billion, decreased from ¥1.5 billion recorded in the previous fiscal year.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

TABLE 8. PROFIT ATTRIBUTABLE TO NONCONTROLLING INTERESTS (CONSOLIDATED)

Fiscal years ended March 31	Billions of yen 2016	2015	Change (Amount)
Dividends on preferred securities (hybrid Tier I capital) issued by foreign SPCs	**¥ 0.6**	¥ 1.6	¥ (1.0)
Others	**(0.2)**	(0.1)	(0.1)
Profit attributable to noncontrolling interests	**¥ 0.3**	¥ 1.5	¥ (1.1)

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

As a result of the preceding factors, in the fiscal year ended March 31, 2016, we recorded a consolidated profit attributable to owners of the parent of ¥60.9 billion, compared to ¥67.8 billion recorded in the previous fiscal year. Cash basis profit attributable to owners of the parent in the fiscal year ended March 31, 2016, totaled ¥67.6 billion, compared to ¥75.4 billion recorded in the previous fiscal year. It should be noted that cash basis profit attributable to owners of the parent is calculated by excluding amortization and impairment of goodwill and intangible assets acquired in business combinations, net of tax benefit, from profit attributable to owners of the parent calculated in accordance with Japanese GAAP.

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

TABLE 9. RECONCILIATION FROM REPORTED-BASIS RESULTS TO OPERATING-BASIS RESULTS (CONSOLIDATED)

	Billions of yen					
	2016			2015		
Fiscal years ended March 31	**Reported-basis**	**Reclassifications**	**Operating-basis**	Reported-basis	Reclassifications	Operating-basis
Revenue:						
Net interest income	**¥ 122.3**	**¥ —**	**¥ 122.3**	¥ 126.4	¥ —	¥ 126.4
Noninterest income	**94.2**	**—**	**94.2**	108.8	—	108.8
Total revenue	**216.6**	**—**	**216.6**	235.3	—	235.3
General and administrative expenses[1,3]	**141.3**	**(0.8)**	**140.5**	144.2	(2.5)	141.6
Amortization of goodwill and intangible assets acquired in business combinations[2,3]	**7.4**	**(7.4)**	**—**	8.6	(8.6)	—
Total general and administrative expenses	**148.7**	**(8.2)**	**140.5**	152.8	(11.2)	141.6
Net business profit/Ordinary business profit[2]	**67.8**	**8.2**	**76.0**	82.4	11.2	93.6
Net credit costs	**3.7**	**—**	**3.7**	11.8	—	11.8
Amortization of goodwill and intangible assets acquired in business combinations[2]	**—**	**7.2**	**7.2**	—	8.4	8.4
Other gains (losses), net[1]	**(1.2)**	**(0.9)**	**(2.1)**	2.1	(2.7)	(0.5)
Income before income taxes	**62.8**	**—**	**62.8**	72.7	—	72.7
Income taxes and profit attributable to noncontrolling interests	**1.8**	**—**	**1.8**	4.8	—	4.8
Profit attributable to owners of the parent	**¥ 60.9**	**¥ —**	**¥ 60.9**	¥ 67.8	¥ —	¥ 67.8

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

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

BUSINESS LINES RESULTS

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

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

	Billions of yen		
Fiscal years ended March 31	**2016**	2015	Change (Amount)
Institutional Group[1,2]:			
Net interest income	**¥ 25.3**	¥ 35.0	¥ (9.6)
Noninterest income	**31.6**	44.3	(12.7)
Total revenue	**56.9**	79.4	(22.4)
General and administrative expenses	**29.7**	29.0	0.7
Ordinary business profit	**27.2**	50.4	(23.2)
Net credit costs (recoveries)	**(19.8)**	(3.9)	(15.9)
Ordinary business profit after net credit costs (recoveries)	**¥ 47.0**	¥ 54.3	¥ (7.2)
Global Markets Group[1]:			
Net interest income	**¥ 1.8**	¥ 2.2	¥ (0.4)
Noninterest income	**6.0**	10.2	(4.2)
Total revenue	**7.8**	12.5	(4.6)
General and administrative expenses	**7.5**	7.1	0.3
Ordinary business profit	**0.3**	5.3	(5.0)
Net credit costs (recoveries)	**(0.3)**	0.0	(0.4)
Ordinary business profit after net credit costs (recoveries)	**¥ 0.7**	¥ 5.3	¥ (4.5)
Individual Group:			
Net interest income	**¥ 90.7**	¥ 88.8	¥ 1.9
Noninterest income	**48.5**	47.8	0.7
Total revenue	**139.3**	136.6	2.6
General and administrative expenses	**102.5**	103.1	(0.6)
Ordinary business profit	**36.7**	33.4	3.3
Net credit costs	**23.9**	15.7	8.2
Ordinary business profit after net credit costs	**¥ 12.7**	¥ 17.7	¥ (4.9)
Corporate/Other[2,3]:			
Net interest income	**¥ 4.3**	¥ 0.3	¥ 4.0
Noninterest income	**8.0**	6.4	1.6
Total revenue	**12.4**	6.7	5.6
General and administrative expenses	**0.7**	2.3	(1.6)
Ordinary business profit	**11.6**	4.3	7.2
Net credit costs (recoveries)	**(0.0)**	(0.0)	(0.0)
Ordinary business profit after net credit costs (recoveries)	**¥ 11.6**	¥ 4.3	¥ 7.2
Total:			
Net interest income	**¥ 122.3**	¥ 126.4	¥ (4.1)
Noninterest income	**94.2**	108.8	(14.6)
Total revenue	**216.6**	235.3	(18.7)
General and administrative expenses	**140.5**	141.6	(1.1)
Ordinary business profit	**76.0**	93.6	(17.6)
Net credit costs	**3.7**	11.8	(8.1)
Ordinary business profit after net credit costs	**¥ 72.3**	¥ 81.8	¥ (9.4)

1 In accordance with organizational changes effective April 1, 2015, and May 1, 2015, revenues associated with the "Financial Institutions Sub-Group," previously included in the Global Markets Group, are now included in the "Institutional Business" on a management accounting basis.
2 In accordance with organizational changes effective April 1, 2015, and May 1, 2015, revenues associated with the corporate planning and controlling functions of the "Overseas Finance Department," previously included in the Institutional Group, are now included in "Corporate/Other" on a management accounting basis.
3 Includes company-wide accounts, allocation variance of indirect expense and elimination amount of inter-segment transactions.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

INSTITUTIONAL GROUP

The Institutional Group consists of: 1) the Institutional 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.

It should be noted that effective April 1, 2015, the Financial Institutions Sub-Group of the Global Markets Group was integrated with the Institutional Business Sub-Group of the Institutional Group. Furthermore, the Bank has implemented organizational changes effective May 1 and October 1, 2015, such as the retirement of the Sub-Group system within the Institutional Group. As part of these organizational changes, the corporate rehabilitation support business, previously part of Structured Finance of the Institutional Group, and the Asset-Backed Investment Division and the New Energy and PFI Department, previously part of Other Institutional Business, have been transferred to Principal Transactions, and similarly, the corporate planning and controlling functions of the Overseas Finance Department have been transferred from Other Institutional Business of the Institutional Group to Corporate/Other. Additionally, effective July 15, 2015, the Bank has established the Business Succession Finance Division in order to enhance the Bank's capability to provide solutions to its institutional clients such as resolving unprofitable businesses and the Syndicated Finance Division to strengthen ties with regional financial institutions through the marketing of loans and to collaboratively engage in the syndication of loans.

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

	Billions of yen		
Fiscal years ended March 31	**2016**	2015	Change (Amount)
Institutional Business[2]:			
Net interest income	**¥ 10.2**	¥ 11.6	¥ (1.4)
Noninterest income	**4.0**	5.7	(1.6)
Total revenue	**14.2**	17.3	(3.0)
General and administrative expenses	**10.4**	9.4	0.9
Ordinary business profit	**3.8**	7.8	(4.0)
Net credit costs	**0.6**	2.2	(1.5)
Ordinary business profit after net credit costs	**¥ 3.1**	¥ 5.6	¥ (2.5)
Structured Finance[3]:			
Net interest income	**¥ 12.7**	¥ 12.7	¥ (0.0)
Noninterest income	**6.2**	5.5	0.7
Total revenue	**19.0**	18.3	0.7
General and administrative expenses	**5.5**	5.1	0.4
Ordinary business profit	**13.5**	13.1	0.3
Net credit costs (recoveries)	**(20.4)**	(6.6)	(13.8)
Ordinary business profit after net credit costs (recoveries)	**¥ 33.9**	¥ 19.8	¥ 14.1
Principal Transactions[3]:			
Net interest income	**¥ 4.5**	¥ 12.8	¥ (8.2)
Noninterest income	**2.8**	15.9	(13.1)
Total revenue	**7.3**	28.7	(21.3)
General and administrative expenses	**5.1**	6.2	(1.0)
Ordinary business profit	**2.1**	22.5	(20.3)
Net credit costs	**0.3**	1.7	(1.4)
Ordinary business profit after net credit costs	**¥ 1.8**	¥ 20.7	¥ (18.9)
Showa Leasing:			
Net interest income	**¥ (2.1)**	¥ (2.1)	¥ (0.0)
Noninterest income	**18.4**	17.1	1.2
Total revenue	**16.2**	14.9	1.2
General and administrative expenses	**8.5**	8.1	0.3
Ordinary business profit	**7.6**	6.8	0.8
Net credit costs (recoveries)	**(0.4)**	(1.2)	0.8
Ordinary business profit after net credit costs (recoveries)	**¥ 8.0**	¥ 8.0	¥ 0.0
Institutional Group:			
Net interest income	**¥ 25.3**	¥ 35.0	¥ (9.6)
Noninterest income	**31.6**	44.3	(12.7)
Total revenue	**56.9**	79.4	(22.4)
General and administrative expenses	**29.7**	29.0	0.7
Ordinary business profit	**27.2**	50.4	(23.2)
Net credit costs (recoveries)	**(19.8)**	(3.9)	(15.9)
Ordinary business profit after net credit costs (recoveries)	**¥ 47.0**	¥ 54.3	¥ (7.2)

1 Figures include consolidation adjustments.
2 In accordance with organizational changes effective April 1, 2015, and May 1, 2015, revenues associated with the "Financial Institutions Sub-Group," previously included in the Global Markets Group, are now included in the "Institutional Business" on a management accounting basis.
3 In accordance with organizational changes effective April 1, 2015, May 1, 2015, and October 1, 2015, revenues associated with the Corporate Rehabilitation Support Business, previously included in "Structured Finance" and revenues associated with the Asset Backed Investment Department and the New Energy and PFI Department, previously part of "Others," have been included in "Principal Transactions," and the revenues associated with the corporate planning and controlling functions of the Overseas Finance Department, previously included in "Others," are now included in "Corporate/Other" on a management accounting basis.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

Total revenue for the Institutional Group was ¥56.9 billion in the fiscal year ended March 31, 2016, compared to ¥79.4 billion recorded in the previous fiscal year. Of this amount, net interest income was ¥25.3 billion in the fiscal year ended March 31, 2016, decreased from ¥35.0 billion recorded in the previous fiscal year. This was primarily due to the non-recurrence of significant dividend income from securities investments recorded in the previous fiscal year. Additionally, noninterest income was ¥31.6 billion in the fiscal year ended March 31, 2016, decreased from ¥44.3 billion recorded in the previous fiscal year. This performance is the result of the recording a loss due to a reassessment of a fund investment in the Principal Transactions business and the non-recurrence of significant gains from the sale of securities recorded in the previous fiscal year.

Within the Institutional Group, the Institutional Business recorded total revenue of ¥14.2 billion in the fiscal year ended March 31, 2016, compared to ¥17.3 billion recorded in the previous fiscal year. This decrease compared to the previous fiscal year was due to factors such as the non-recurrence of major dividend income from securities investments recorded in the previous fiscal year, despite the Bank's continued efforts from the previous period to expand its base of core clients by attracting new loan customers and growing relationships with existing customers.

The Structured Finance Business recorded total revenue of ¥19.0 billion in the fiscal year ended March 31, 2016, compared to ¥18.3 billion recorded in the previous fiscal year. This increase compared to the previous fiscal year was due to factors such as the recording of major dividend income as well as an asset balance increase resulting from initiatives undertaken in a diverse range of properties including commercial, office and logistical facilities in the real estate finance business, as well as the recording of firm results in the project finance business, including renewable energy projects.

The Principal Transactions Business recorded total revenue of ¥7.3 billion in the fiscal year ended March 31, 2016, compared to ¥28.7 billion recorded in the previous fiscal year. Total revenue declined as a result of factors such as the recording of a loss due to the reassessment of a fund investment during fiscal year 2015 in addition to the non-recurrence of significant gains from the sale of securities recorded in the previous fiscal year in the private equity business.

Showa Leasing recorded total revenue of ¥16.2 billion in the fiscal year ended March 31, 2016, increased compared to ¥14.9 billion recorded in the previous fiscal year. This was primarily due to gains on the redemption of equity holdings.

General and administrative expenses in the fiscal year ended March 31, 2016, totaled ¥29.7 billion, compared to ¥29.0 billion recorded in the previous fiscal year. While continuing to promote operational efficiency across all business lines, this slight expense increase was due to the investment of management resources necessary in order to expand our business base.

Net credit costs in the fiscal year ended March 31, 2016, was a recovery of ¥19.8 billion, a significant improvement compared to a recovery of ¥3.9 billion recorded in the previous fiscal year. This was due to the Bank recording significant gains on the reversal of reserves for loan losses as a result of progression in the disposal of NPLs.

As a result of the preceding factors, the Institutional Group recorded an ordinary business profit after net credit costs of ¥47.0 billion in the fiscal year ended March 31, 2016, compared to ¥54.3 billion recorded in the previous fiscal year.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

GLOBAL MARKETS GROUP

The Global Markets Group consists of: 1) the Markets Sub-Group, 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.

It should be noted that as a result of organizational changes effective on April 1, 2015, and May 1, 2015, the Financial Institutions Sub-Group of the Global Markets Group was integrated with the Institutional Business of the Institutional Group.

TABLE 12. GLOBAL MARKETS GROUP ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS (RECOVERIES) BY BUSINESS (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2016**	2015	Change (Amount)
Markets Sub-Group:			
Net interest income	**¥ 1.7**	¥ 2.0	¥ (0.3)
Noninterest income	**3.3**	7.2	(3.8)
Total revenue	**5.1**	9.2	(4.1)
General and administrative expenses	**3.4**	3.3	0.1
Ordinary business profit	**1.6**	5.9	(4.3)
Net credit costs (recoveries)	**(0.1)**	0.0	(0.1)
Ordinary business profit after net credit costs (recoveries)	**¥ 1.7**	¥ 5.9	¥ (4.1)
Others:			
Net interest income	**¥ 0.0**	¥ 0.1	¥ (0.0)
Noninterest income	**2.6**	3.0	(0.3)
Total revenue	**2.7**	3.2	(0.4)
General and administrative expenses	**4.0**	3.7	0.2
Ordinary business profit (loss)	**(1.2)**	(0.5)	(0.6)
Net credit costs (recoveries)	**(0.2)**	0.0	(0.2)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ (0.9)**	¥ (0.5)	¥ (0.4)
Global Markets Group[1]:			
Net interest income	**¥ 1.8**	¥ 2.2	¥ (0.4)
Noninterest income	**6.0**	10.2	(4.2)
Total revenue	**7.8**	12.5	(4.6)
General and administrative expenses	**7.5**	7.1	0.3
Ordinary business profit	**0.3**	5.3	(5.0)
Net credit costs (recoveries)	**(0.3)**	0.0	(0.4)
Ordinary business profit after net credit costs (recoveries)	**¥ 0.7**	¥ 5.3	¥ (4.5)

1 In accordance with the organizational changes on April 1 and May 1, 2015, the Financial Institutions Sub-Group, previously a part of the Global Markets Group, were transferred to Institutional Business in the Institutional Group on a management accounting basis.

The Global Markets Group recorded total revenue of ¥7.8 billion in the fiscal year ended March 31, 2016, compared to ¥12.5 billion recorded in the previous fiscal year. Total revenue declined due to factors such as sluggish performances in the markets related business and the securities business despite initiatives undertaken in order to develop and provide products which satisfied the needs of customers and to grow the customer base.

The Markets Sub-Group recorded total revenue of ¥5.1 billion in the fiscal year ended March 31, 2016, decreased compared to ¥9.2 billion recorded in the previous fiscal year. This was the due to a soft performance in the markets related business as a result of considerable market volatility, despite an increase in revenues associated with customer transactions, primarily derivatives transactions.

Others of the Global Markets Group recorded total revenue of ¥2.7 billion in the fiscal year ended March 31, 2016, decreased compared to ¥3.2 billion recorded in the previous fiscal year.

General and administrative expenses for the Global Markets Group in the fiscal year ended March 31, 2016, totaled ¥7.5 billion, compared to ¥7.1 billion recorded in the previous fiscal year. While having continued to promote efficiency across each business line, the investment of resources into key business area in order to augment market transaction capabilities and reestablish the customer base has resulted in this increase compared to the previous fiscal year.

Net credit recoveries for the Global Markets Group totaled ¥0.3 billion in the fiscal year ended March 31, 2016, compared with net credit costs of ¥0.0 billion (¥40 million) recorded in the previous fiscal year.

As a result of the preceding factors, the Global Markets Group recorded an ordinary business profit after net credit costs of ¥0.7 billion in the fiscal year ended March 31, 2016, compared to ¥5.3 billion recorded in the previous fiscal year.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

INDIVIDUAL GROUP

The Individual Group consists of: 1) Retail Banking, Shinsei Bank Card Loan Lake ("Shinsei Bank Lake") and other subsidiaries (Shinsei Financial Co., Ltd., SHINKI Co., Ltd., APLUS FINANCIAL Co., Ltd., and Shinsei Property Finance Co., Ltd.).

TABLE 13. INDIVIDUAL GROUP TOTAL REVENUE BY PRODUCT/ENTITY (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2016**	2015	Change (Amount)
Retail Banking:	**¥ 27.0**	¥ 30.3	¥ (3.3)
Deposits etc Net Interest Income	**11.1**	13.5	(2.3)
Deposits etc Noninterest Income	**0.5**	2.4	(1.9)
Asset management	**6.1**	5.1	1.0
Loans	**9.0**	9.1	(0.0)
Shinsei Financial and Shinsei Bank Lake[1,2]	**52.6**	48.1	4.5
SHINKI	**6.4**	6.2	0.1
APLUS FINANCIAL[2]	**51.7**	50.4	1.3
Others[3]	**1.3**	1.4	(0.0)
Total revenue	**¥ 139.3**	¥ 136.6	¥ 2.6

1 Results for Shinsei Financial and Shinsei Bank Lake in the Lake business (started on October 1, 2011) are combined on a management accounting basis.
2 In accordance with a Group internal restructuring of the consumer finance business, a portion of the profit and loss of "Shinsei Financial and Shinsei Bank Lake" has been recombined into "APLUS FINANCIAL."
3 Includes Shinsei Property Finance and unallocated consumer finance business financials.

TABLE 14. INDIVIDUAL GROUP ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS (RECOVERIES) BY BUSINESS/SUBSIDIARY (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2016**	2015	Change (Amount)
Retail Banking:			
Net interest income	**¥ 21.5**	¥ 23.8	¥ (2.2)
Noninterest income	**5.4**	6.5	(1.1)
Total revenue	**27.0**	30.3	(3.3)
General and administrative expenses	**33.3**	34.4	(1.1)
Ordinary business profit (loss)	**(6.3)**	(4.1)	(2.2)
Net credit costs (recoveries)	**0.1**	(0.2)	0.3
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ (6.4)**	¥ (3.9)	¥ (2.5)
Shinsei Financial and Shinsei Bank Lake[1,2]:			
Net interest income	**¥ 54.3**	¥ 50.2	¥ 4.0
Noninterest income	**(1.6)**	(2.1)	0.5
Total revenue	**52.6**	48.1	4.5
General and administrative expenses	**28.9**	27.7	1.1
Ordinary business profit	**23.7**	20.4	3.3
Net credit costs	**13.7**	8.9	4.8
Ordinary business profit after net credit costs	**¥ 10.0**	¥ 11.5	¥ (1.4)
SHINKI:			
Net interest income	**¥ 6.9**	¥ 6.7	¥ 0.1
Noninterest income	**(0.4)**	(0.5)	0.0
Total revenue	**6.4**	6.2	0.1
General and administrative expenses	**3.3**	4.4	(1.1)
Ordinary business profit	**3.0**	1.7	1.2
Net credit costs	**1.4**	1.1	0.3
Ordinary business profit after net credit costs	**¥ 1.6**	¥ 0.6	¥ 0.9
APLUS FINANCIAL[2]:			
Net interest income	**¥ 6.8**	¥ 6.7	¥ 0.1
Noninterest income	**44.9**	43.7	1.1
Total revenue	**51.7**	50.4	1.3
General and administrative expenses	**36.1**	35.8	0.2
Ordinary business profit	**15.6**	14.6	1.0
Net credit costs	**8.7**	6.1	2.6
Ordinary business profit after net credit costs	**¥ 6.8**	¥ 8.4	¥ (1.6)
Others[3]:			
Net interest income	**¥ 1.1**	¥ 1.2	¥ (0.1)
Noninterest income	**0.2**	0.2	0.0
Total revenue	**1.3**	1.4	(0.0)
General and administrative expenses	**0.7**	0.6	0.1
Ordinary business profit	**0.5**	0.7	(0.1)
Net credit costs (recoveries)	**(0.1)**	(0.1)	0.0
Ordinary business profit after net credit costs (recoveries)	**¥ 0.7**	¥ 0.9	¥ (0.2)
Individual Group:			
Net interest income	**¥ 90.7**	¥ 88.8	¥ 1.9
Noninterest income	**48.5**	47.8	0.7
Total revenue	**139.3**	136.6	2.6
General and administrative expenses	**102.5**	103.1	(0.6)
Ordinary business profit	**36.7**	33.4	3.3
Net credit costs	**23.9**	15.7	8.2
Ordinary business profit after net credit costs	**¥ 12.7**	¥ 17.7	¥ (4.9)

1 Results for Shinsei Financial and "Shinsei Bank Card Loan–Lake" in the Lake business (started on October 1, 2011) are combined on a management accounting basis.
2 In accordance with a Group internal restructuring of the consumer finance business, a portion of the profit and loss of "Shinsei Financial and Shinsei Bank Lake" has been recombined into "APLUS FINANCIAL."
3 Includes Shinsei Property Finance and unallocated consumer finance business financials.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

The Individual Group recorded an ordinary business profit after net credit costs of ¥12.7 billion in the fiscal year ended March 31, 2016, compared to ¥17.7 billion recorded in the previous fiscal year.

RETAIL BANKING

Retail Banking recorded total revenue of ¥27.0 billion in the fiscal year ended March 31, 2016, compared to ¥30.3 billion recorded in the previous fiscal year.

Of this amount, net interest income was ¥21.5 billion in the fiscal year ended March 31, 2016, compared to ¥23.8 billion recorded in the previous fiscal year.

New housing loan originations continued to be robust and while the overall balance experienced a net increase and revenues grew, the continuing decline in market interest rates led to lower interest income from deposits, including deposits held for liquidity purposes, resulting in a net interest income decline compared to the previous fiscal year. Noninterest income was ¥5.4 billion in the fiscal year ended March 31, 2016, compared to ¥6.5 billion recorded in the previous fiscal year due to an increase in ATM-related expenses such as fees in addition to a decline in the sale of investment products.

General and administrative expenses of ¥33.3 billion were recorded in the fiscal year ended March 31, 2016, reduced from ¥34.4 billion recorded in the previous fiscal year. This was the result of a reduced deposit insurance premium burden, including the effect of reduced rates, in addition to continuing to pursue efficiency and rationalization across all businesses even as initiatives to grow the customer base were aggressively deployed.

Net credit costs of ¥0.1 billion were recorded in the fiscal year ended March 31, 2016, compared to recoveries of ¥0.2 billion recorded in the previous fiscal year.

As a result of the preceding factors, an ordinary business loss after net credit costs of ¥6.4 billion was recorded in the fiscal year ended March 31, 2016, compared to an ordinary business loss after net credit costs of ¥3.9 billion recorded in the previous fiscal year.

SHINSEI FINANCIAL AND SHINSEI BANK LAKE

Shinsei Financial and Shinsei Bank Lake recorded a combined ordinary business profit after net credit costs after related consolidation adjustments of ¥10.0 billion in the fiscal year ended March 31, 2016, compared to ¥11.5 billion recorded in the previous fiscal year.

Total revenue was ¥52.6 billion in the fiscal year ended March 31, 2016, compared to ¥48.1 billion recorded in the previous fiscal year, primarily as a result of the growth of the loan balance.

Net credit costs were ¥13.7 billion in the fiscal year ended March 31, 2016, increased from ¥8.9 billion recorded in the previous fiscal year. While the Bank continued to engage in a gradual strengthening of its credit controls and loan collections frameworks, net credit costs increased as a result of factors such as the increased loan balance compared to the previous year.

SHINKI

SHINKI recorded an ordinary business profit after net credit costs after related consolidation adjustments of ¥1.6 billion in the fiscal year ended March 31, 2016, compared to ¥0.6 billion recorded in the previous fiscal year.

APLUS FINANCIAL

APLUS FINANCIAL recorded an ordinary business profit after net credit costs after related consolidation adjustments of ¥6.8 billion in the fiscal year ended March 31, 2016, decreased from ¥8.4 billion recorded in the previous fiscal year. Total revenue in the fiscal year ended March 31, 2016, was ¥51.7 billion, increased from ¥50.4 billion recorded in the previous fiscal year. Of this amount, net interest income was ¥6.8 billion in the fiscal year ended March 31, 2016, increased from ¥6.7 billion recorded in the previous fiscal year due to a firm asset balance. Noninterest income was ¥44.9 billion in the fiscal year ended March 31, 2016, increased from ¥43.7 billion recorded in the previous fiscal year as a result of recording robust installment sales revenues. General and administrative expenses were ¥36.1 billion in the fiscal year ended March 31, 2016, increased from ¥35.8 billion recorded in the previous fiscal year. This increase was due to the deployment of a variety of initiatives in order to enhance customer service resulting in increased expenses despite the continued pursuit of efficiency and rationalization in businesses. Net credit costs were ¥8.7 billion in the fiscal year ended March 31, 2016, compared to ¥6.1 billion recorded 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 ¥4.0 billion in reserves for losses on interest repayments in the fiscal year ended March 31, 2015, in fiscal year 2015, 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 ¥2.7 billion of reserves for losses on interest repayments has been provisioned for APLUS FINANCIAL.

Shinsei Financial's usage of reserves for losses on interest repayments (interest repayments and related principal amortization) was ¥31.2 billion in the fiscal year ended March 31, 2016, compared to ¥32.8 billion utilized in the previous fiscal year. In fiscal year 2015, no additional provisions of reserves for losses on interest repayment were made and the total balance of reserves for losses on interest repayments as of March 31, 2016, was ¥116.0 billion, compared to ¥147.3 billion as of March 31, 2015.

SHINKI's usage of reserves for losses on interest repayments (interest repayments and related principal amortization) in the fiscal year ended March 31, 2016, was ¥3.5 billion, compared to ¥4.1 billion utilized in the previous fiscal year.

APLUS FINANCIAL and its consolidated subsidiaries' usage of reserves for losses on interest repayments (interest repayments and related principal amortization) was ¥4.4 billion in the fiscal year ended March 31, 2016, compared to ¥5.0 billion utilized in the previous fiscal year. In fiscal year 2015 an additional ¥2.7 billion has been provisioned as reserves for losses on interest repayments and the total balance of reserves for losses on interest repayments was ¥9.1 billion as of March 31, 2016, compared to ¥10.8 billion as of March 31, 2015.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

CORPORATE/OTHER

Corporate/Other consists of the Treasury Sub-Group, which engages in the ALM and fundraising operations, as well as 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 ¥11.6 billion in the fiscal year ended March 31, 2016.

TABLE 15. CORPORATE/OTHER ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS (RECOVERIES) BY BUSINESS (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2016**	2015	Change (Amount)
Treasury Sub-Group:			
Net interest income	**¥ 4.3**	¥ 0.3	¥ 4.0
Noninterest income	**7.1**	6.1	1.0
Total revenue	**11.5**	6.4	5.0
General and administrative expenses	**1.6**	1.6	0.0
Ordinary business profit	**9.8**	4.8	4.9
Net credit costs (recoveries)	**—**	—	—
Ordinary business profit after net credit costs (recoveries)	**¥ 9.8**	¥ 4.8	¥ 4.9
Others[1]:			
Net interest income	**¥ (0.0)**	¥ (0.0)	¥ (0.0)
Noninterest income	**0.8**	0.3	0.5
Total revenue	**0.8**	0.3	0.5
General and administrative expenses	**(0.9)**	0.7	(1.7)
Ordinary business profit (loss)	**1.8**	(0.4)	2.2
Net credit costs (recoveries)	**(0.0)**	(0.0)	(0.0)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 1.8**	¥ (0.4)	¥ 2.2
Corporate/Other[1]:			
Net interest income	**¥ 4.3**	¥ 0.3	¥ 4.0
Noninterest income	**8.0**	6.4	1.6
Total revenue	**12.4**	6.7	5.6
General and administrative expenses	**0.7**	2.3	(1.6)
Ordinary business profit	**11.6**	4.3	7.2
Net credit costs (recoveries)	**(0.0)**	(0.0)	(0.0)
Ordinary business profit after net credit costs (recoveries)	**¥ 11.6**	¥ 4.3	¥ 7.2

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

Total revenue for the Treasury Sub-Group was ¥11.5 billion in the fiscal year ended March 31, 2016, compared to ¥6.4 billion recorded in the previous fiscal year. The Treasury Sub-Group holds liquidity reserves and Japanese national government bonds for ALM operations and in the fiscal year ended March 31, 2016, total revenue increased due to factors such as firm gains on the sale of bonds including Japanese national government bonds and reductions in market funding costs.

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 ¥41.5 billion on a nonconsolidated basis for the fiscal year ended March 31, 2016. 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 SHINKI, 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 16. COMPARISON OF TARGETS AND RESULTS FOR KEY MEASURES IN THE REVITALIZATION PLAN (NONCONSOLIDATED)

Billions of yen (except percentages)

	2016		2015	
Fiscal years ended March 31	**Target**	**Actual**	Target	Actual
Net income	**¥ 42.0**	**¥ 41.5**	¥ 42.0	¥ 45.7
Total expenses (without taxes)[1]	**72.5**	**70.1**	72.0	70.7
Return on equity based on net business profit[2]	**5.5%**	**4.5%**	5.5%	5.9%

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, 2016 and 2015.

RESULTS OF OPERATIONS (NONCONSOLIDATED) (continued)

TABLE 17. SUPPLEMENTAL MEASURES (NONCONSOLIDATED)

	Billions of yen	
Fiscal years ended March 31	**2016**	2015
Gross business profit (*gyomu sorieki*):		
Net interest income	**¥ 93.7**	¥ 91.8
Net fees and commissions[1]	**(0.3)**	10.1
Net trading income	**4.8**	4.5
Net other business income	**10.9**	11.0
Total gross business profit	**109.2**	117.5
Expenses[2]	**75.2**	75.2
Net business profit (*jisshitsu gyomu jun-eki*)	**33.9**	42.3
Net credit costs (recoveries)	**(20.1)**	(4.1)
Other, net[3]	**(4.7)**	1.4
Net operating income (*keijo rieki*)	**49.3**	47.8
Extraordinary income (loss)	**(6.5)**	(1.4)
Income before income taxes	**42.8**	46.3
Current income taxes (benefit)	**(0.6)**	(0.4)
Deferred income taxes (benefit)	**1.8**	1.0
Net income	**¥ 41.5**	¥ 45.7

1 Includes net gain (loss) on monetary assets held in trust of ¥4.4 billion in the fiscal year ended March 31, 2016 and ¥9.0 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 condition 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.

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

CRITICAL ACCOUNTING POLICIES (continued)

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

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

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

APLUS FINANCIAL establishes loan loss reserves based on the historical loss ratio for delinquent and non delinquent accounts. The amount of reserves in the case of delinquent accounts primarily depends on the number of months for which a particular account is past due. In addition, APLUS FINANCIAL writes off the entire amount of any claims it deems uncollectible, either as a result of personal bankruptcy or otherwise. Shinsei Financial and SHINKI 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.

REVERSE FOR REIMBURSEMENT OF DEBENTURES

Even though the debentures derecognized from liabilities had been recorded as a loss when reimbursement requests were made, from current fiscal year reserve for reimbursement of debentures is recorded due to the availability of a reasonable estimate as a result of the development and analysis of past reimbursement requests.

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

In October, 2006, the Japanese Institute of Certified Public Accountants (the "JICPA") issued "Audit Guidelines on Consumer Finance Companies' Provisions for Possible Losses on Reimbursements of Excess Interest Payments." 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.

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

CRITICAL ACCOUNTING POLICIES (continued)

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. To determine whether an other-than-temporary impairment has occurred, we apply the following rule, which depends on the obligor classification of the security issuer based on our self-assessment guidelines:

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.

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 guidelines of the JICPA. Under the JICPA guidelines for the valuation of deferred tax assets, if a company records a material amount of tax loss carry-forwards, in most cases, it is deemed difficult to reasonably estimate future

CRITICAL ACCOUNTING POLICIES (continued)

"Taxable Income" (which, for the purpose of utilizing deferred tax assets, is treated as taxable income before adjustments for existing temporary differences and tax loss carry-forwards). If, however, a company is able to reasonably estimate future Taxable Income for the next fiscal year, it may record deferred tax assets based on deductible temporary differences and tax loss carry-forwards to the extent that it is probable that those differences or carry-forwards would be used during the next fiscal year. In addition, the JICPA guidelines provide that a company with a material amount of tax loss carry-forwards could recognize deferred tax assets as realizable based on future Taxable Income, reasonably estimated, for up to the next five fiscal years if the tax loss carry-forwards had been incurred due to certain non recurring events, such as the restructuring of businesses, and there was not necessarily any significant doubt as to the company's ability to earn Taxable Income in the future.

As a result of Taxable Income (as defined in the previous paragraph) recorded in recent periods, we could have recorded deferred tax assets realizable based on a reasonable estimate of income for at least a part of the next five fiscal years if we would have demonstrated that we would record actual Taxable Income for the foreseeable future. We have evaluated the available evidence concerning our future Taxable Income and other possible sources of the realization of deferred tax assets, and have concluded that we should record deferred tax assets that are realizable only in the following fiscal year for Shinsei and most of its subsidiaries. We have recorded a valuation allowance to reduce deferred tax assets accordingly. The actual Taxable Income amount for the fiscal year ended March 31, 2017 may be different from our estimate, which would result in a larger or smaller amount of deferred tax assets that should have been recognized.

"Act for Partial Reform of the Income Tax Act, etc." (Law No. 15 for 2016) and "Act for Partial Reform of the Local Tax Act, etc." (Law No. 13 for 2016) were enacted in March 29, 2016 and the tax rates for corporate income taxes will be reduced from the fiscal year beginning on or after April 1, 2016. In connection with this change, the effective statutory tax rate for calculating deferred tax assets and deferred tax liabilities will be changed from the existing 32.30% to 30.86% for temporary differences and tax loss carryforwards that are expected to be realized in the fiscal year beginning on April 1, 2016 and April 1, 2017, and to 30.62% for temporary differences and tax loss carryforwards that are expected to be realized in the fiscal year beginning on or after April 1, 2018. With these tax rate changes, the deferred tax assets (after deduction of the deferred tax liabilities) have decreased by ¥286 million, the unrealized gain (loss) on available-for-sale securities has increased by ¥197 million, the deferred gain (loss) on derivatives under hedge accounting has increased by ¥139 million, the defined retirement benefit plans have decreased by ¥17 million and the income taxes (benefit)—deferred have increased by ¥606 million.

The deduction of carried forward tax losses will be limited to 60% of the taxable income before applying the tax loss deduction from the fiscal year beginning on April 1, 2016, to 55% of the taxable income before applying the tax loss deduction from the fiscal year beginning on April 1, 2017, and to 50% of the taxable income before applying the tax loss deduction from the fiscal year beginning on or after April 1, 2018. With this change, the deferred tax assets have decreased by ¥23 million and the income taxes (benefit)—deferred have increased by ¥23 million.

EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN ASSETS

The Bank and Showa Leasing have a noncontributory defined benefit pension plan. APLUS Co., Ltd.("APLUS") has 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. Net assets or liabilities for employees' retirement benefits of each retirement benefit and pension plan is held for the payment of employees' retirement benefits by netting off the estimated amounts of the projected benefit obligation against the estimated value of pension plan assets. We follow the revised accounting standard and guideline for employees' retirement benefit plans issued by the Accounting Standards Board of Japan ("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. No retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

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 attributing expected benefits to periods 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

CRITICAL ACCOUNTING POLICIES (continued)

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, in 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, in 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 fund swap and certain currency swap transactions. Fund swap transactions are foreign exchange swaps, and consist of spot foreign exchange contracts bought or sold and forward foreign exchange contracts sold or bought. Such transactions are contracted for the purpose of lending or borrowing in a different currency and converting the corresponding principal equivalents and foreign currency equivalents to pay and receive, whose amounts and due dates are predetermined at the time of the transactions, into forward foreign exchange contracts sold or bought. Under deferral hedge accounting, hedged items are identified by grouping the foreign currency-denominated financial assets and liabilities by currencies and designating derivative transactions such as currency swap transactions and forward exchange contracts as hedging instruments. Hedge effectiveness is assessed by confirming that the total foreign currency position of the hedged items is equal to or larger than that of hedging instruments.

In accordance with Industry Audit Committee Report No. 25 of the JICPA, Shinsei also applies deferral hedge accounting and fair value hedge accounting to translation gains or losses from foreign currency assets of net investments in foreign 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 discounted cash flows from the continued 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. On December 13, 2007, we acquired a controlling interest in SHINKI, 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, SHINKI and Shinsei Financial, we recognized the assets (including intangibles) and liabilities of those entities primarily at their fair values. We used quoted market prices in active markets as the best evidence of fair value, where available. If quoted market prices were not available, the estimate of fair value was based on the best information available, including prices for similar assets and liabilities and the results using other fair value measurement methodologies. We adopted the following methodologies based on the nature of the assets and liabilities being valued and the availability of information:

CRITICAL ACCOUNTING POLICIES (continued)

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

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

We also recognized certain identifiable intangible assets in connection with the acquisition of Showa Leasing, Shinsei Financial and their consolidated subsidiaries, because they were separable such as contractual or other legal rights. The identified intangible assets consist of trade names and customer and/or merchant relationships, among others, which are valued using variations of the income approach and which are being amortized over various periods and using different methodologies depending on the nature of the asset. See Note 2 (C) 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 undertaken before April 1, 2010, accounted for under 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 is recorded as negative goodwill and primarily amortized on a straight-line basis over 20 years, which is the maximum period allowed under the previous accounting standards. Any unamortized balances of identified intangible assets and goodwill are subject to impairment testing periodically.

IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS ACQUIRED IN BUSINESS COMBINATIONS

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

- An expectation of an operating loss or negative cash flow for two consecutive years
- Impairment of underlying investment securities is recognized
- A significant adverse change in the environment surrounding the business operations of the subsidiary, such as a change in law which significantly impacts the business in a negative way
- Management decisions that could have an adverse effect on the value of goodwill and intangible assets acquired in business combinations

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 combinations, 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 (Discounted Cash Flows, "DCF"), with the net asset book value which includes unamortized balances of goodwill and intangible assets acquired in business combinations. 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 combinations, 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 combinations is determined in DCF method, in the same manner 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

Effective April 1, 2010, the Group has applied ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations."

Under this accounting standard, 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 and 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 increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See "(AD) NEW ACCOUNTING PRONOUNCEMENTS" in Note 2 "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" to the Consolidated Financial Statements.

FINANCIAL CONDITION

TOTAL ASSETS

As of March 31, 2016, we had consolidated total assets of ¥8,928.7 billion, representing a 0.4% increase from March 31, 2015.

The balance of loans and bills discounted as of March 31, 2016 was ¥4,562.9 billion, increased by ¥101.6 billion from ¥4,461.2 billion as of March 31, 2015. In loans to institutional customers, despite the fiercely competitive business environment, the balance of the Structured Finance business increased. In loans to individuals, housing loans continued to steadily increase, and the consumer finance loan balance continued to grow compared to the fiscal year ended March 31, 2015. As a result, the overall balance of loans and bills discounted for the Bank grew.

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, 2016. As reflected below, 54.4% of the securities will mature during the next five years. The balance of securities as of March 31, 2016 was ¥1,227.8 billion, decreased compared to the balance of ¥1,477.3 billion as of March 31, 2015. Over 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 ¥750.0 billion as of March 31, 2016, as compared to ¥990.8 billion as of March 31, 2015.

TABLE 18. SECURITIES BY MATURITY (CONSOLIDATED)

Billions of yen

	As of March 31, 2016							
	1 year or less	**Over 1 year to 3 years**	**Over 3 years to 5 years**	**Over 5 years to 7 years**	**Over 7 years to 10 years**	**Over 10 years**	**Unspecified term**	**Total**
Japanese national government bonds	**¥ 40.0**	**¥ 130.5**	**¥ 275.5**	**¥ 121.2**	**¥ 134.8**	**¥ 47.9**	**¥ —**	**¥ 750.0**
Japanese local government bonds	**0.5**	**—**	**—**	**—**	**—**	**—**	**—**	**0.5**
Japanese corporate bonds	**13.7**	**20.7**	**28.0**	**5.1**	**—**	**1.5**	**—**	**69.1**
Japanese equity securities	**—**	**—**	**—**	**—**	**—**	**—**	**27.5**	**27.5**
Foreign bonds and other	**40.1**	**77.0**	**42.1**	**72.6**	**40.4**	**31.0**	**77.2**	**380.5**
Total securities	**¥ 94.4**	**¥ 228.2**	**¥ 345.6**	**¥ 199.0**	**¥ 175.2**	**¥ 80.4**	**¥ 104.7**	**¥ 1,227.8**

Billions of yen

	As of March 31, 2015							
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years	Unspecified term	Total
Japanese national government bonds	¥ 80.0	¥ 50.3	¥ 512.6	¥ 234.7	¥ 113.0	¥ —	¥ —	¥ 990.8
Japanese local government bonds	—	0.5	—	—	—	—	—	0.5
Japanese corporate bonds	3.9	28.5	46.3	5.2	—	—	—	84.0
Japanese equity securities	—	—	—	—	—	—	31.5	31.5
Foreign bonds and other	50.7	67.3	57.0	38.0	54.5	5.4	97.2	370.4
Total securities	¥ 134.6	¥ 146.7	¥ 615.9	¥ 278.0	¥ 167.5	¥ 5.4	¥ 128.7	¥ 1,477.3

FINANCIAL CONDITION (continued)

LOAN PORTFOLIO

As of March 31, 2016, loans and bills discounted totaled ¥4,562.9 billion. This represented 51.1% 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 25.8% of total loans as of March 31, 2016. Loans to the real estate industry consisted in part of non recourse and project finance loans. Loans to others of ¥2,157.9 billion as of March 31, 2016 included loans extended to Shinsei's retail banking, Shinsei Bank Lake, Shinsei Financial's, APLUS FINANCIAL's and SHINKI's individual customers amounting, in aggregate, to ¥1,806.4 billion.

TABLE 19. LOANS BY BORROWER INDUSTRY (CONSOLIDATED)

	Billions of yen (except percentages)			
As of March 31	**2016**		2015	
Domestic offices (excluding Japan offshore market account):				
Manufacturing	**¥ 197.3**	**4.4%**	¥ 197.8	4.5%
Agriculture and forestry	**0.0**	**0.0**	0.1	0.0
Fishery	**0.1**	**0.0**	0.0	0.0
Mining, quarrying and gravel extraction	**0.2**	**0.0**	0.1	0.0
Construction	**10.5**	**0.2**	10.7	0.2
Electric power, gas, heat supply and water supply	**235.6**	**5.3**	204.6	4.7
Information and communications	**37.3**	**0.8**	39.6	0.9
Transportation, postal service	**181.4**	**4.1**	187.9	4.3
Wholesale and retail	**104.3**	**2.4**	99.2	2.3
Finance and insurance	**541.4**	**12.1**	628.6	14.4
Real estate	**608.1**	**13.6**	549.0	12.5
Services	**308.2**	**6.9**	344.4	7.9
Local government	**79.4**	**1.8**	94.2	2.1
Others	**2,157.9**	**48.4**	2,023.4	46.2
Total domestic (A)	**¥ 4,462.2**	**100.0%**	¥ 4,380.2	100.0%
Overseas offices (including Japan offshore market accounts):				
Governments	**¥ 0.7**	**0.8%**	¥ 1.1	1.4%
Financial institutions	**8.5**	**8.5**	—	—
Others	**91.3**	**90.7**	79.8	98.6
Total overseas (B)	**¥ 100.6**	**100.0%**	¥ 81.0	100.0%
Total (A+B)	**¥ 4,562.9**		¥ 4,461.2	

FINANCIAL CONDITION (continued)

LOAN MATURITY

The following table sets forth the composition of Shinsei's nonconsolidated loan portfolio by type of interest rate and maturity as of the dates indicated. In the fiscal year ended March 31, 2016, the increase in total loans resulted from an increase in both variable-interest rate loans and fixed-interest rate loans.

TABLE 20. LOAN MATURITY (NONCONSOLIDATED)

As of March 31	Billions of yen 2016	2015
Fixed-interest loans:		
One year or less[1]	**¥ —**	¥ —
Over one year to three years	**17.6**	14.8
Over three years to five years	**16.4**	14.1
Over five years to seven years	**31.9**	20.4
Over seven years	**855.0**	796.9
Indefinite term	**216.7**	177.0
Variable-interest loans:		
One year or less[1]	**¥ —**	¥ —
Over one year to three years	**673.3**	706.0
Over three years to five years	**793.3**	695.5
Over five years to seven years	**215.3**	225.1
Over seven years	**757.5**	728.7
Indefinite term	**11.9**	12.1
Total loans:		
One year or less	**¥ 710.6**	¥ 831.6
Over one year to three years	**691.0**	720.9
Over three years to five years	**809.8**	709.7
Over five years to seven years	**247.2**	245.6
Over seven years	**1,612.6**	1,525.6
Indefinite term	**228.7**	189.1
Total loans	**¥ 4,300.1**	¥ 4,222.9

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, 2016, 36.4% 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 SHINKI. For a discussion of the nonperforming claims of Shinsei Financial, APLUS FINANCIAL, Showa Leasing and SHINKI see "—Asset Quality of Shinsei Financial, APLUS FINANCIAL, Showa Leasing and SHINKI."

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, 2016:

FINANCIAL CONDITION (continued)

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

(Billions of yen)

Obligor Classifications	Internal Ratings	Reserve Ratios for Borrowers Type	Claims Classified under the Financial Revitalization Law[2,3] (Total loans and bills discounted: 4,300.1; Other 75.4)	Risk-monitored Loans[2] (Total loans and bills discounted: 4,300.1)
Legally bankrupt	9E	100.0% for unsecured portion	Claims against bankrupt and quasi-bankrupt obligors 4.9 (Amount of coverage, coverage ratio) (4.9*, 100.0%) *Amount of reserve for loan losses is –, collateral and guarantees is 4.9	Loans to bankrupt obligors 1.3
Virtually bankrupt	9D	100.0% for unsecured portion		Non accrual delinquent loans 30.7
Possibly bankrupt	9C	292.6% for unsecured portion	Doubtful claims 27.0 (Amount of coverage, coverage ratio) (26.9*, 99.5%) *Amount of reserve for loan losses is 1.9, collateral and guarantees is 24.9	
Need caution: Substandard	9B	56.2% for unsecured portion	Substandard claims (loan account only) 2.6 (Amount of coverage, coverage ratio) (2.0*, 78.0%) *Amount of reserve for loan losses is 0.4, collateral and guarantees is 1.5	Loans past due for three months or more Restructured loans 2.6
Need caution: Other need caution	9A	6.4% for total claims	Normal claims 4,340.9	Normal 4,265.4
Normal	0A–6C	0.4% for total claims		
			Total nonperforming claims and ratio to total claims 34.7, 0.8% (Total amount of coverage, coverage ratio) (33.9*, 97.9%) *Total amount of reserve for loan losses is 2.4, collateral and guarantees is 31.5	Total risk-monitored loans and ratio to total loans and bills discounted 34.6, 0.8%

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

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

FINANCIAL CONDITION (continued)

SELF-ASSESSMENT GUIDELINES AND RESERVE POLICIES

DEFINITION OF OBLIGOR CLASSIFICATIONS

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

DEFINITIONS OF CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

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

DEFINITIONS OF RISK-MONITORED LOANS

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

FINANCIAL CONDITION (continued)

RESERVE POLICIES

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

CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

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

DISCLOSURE OF CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

Our current management team has consistently emphasized the monitoring of nonperforming loans. Shinsei's total amount of nonperforming claims as disclosed pursuant to the Financial Revitalization Law decreased by ¥26.2 billion, or 43.0%, to ¥34.7 billion, between March 31, 2015 and 2016. During the fiscal year ended March 31, 2016, claims against bankrupt and quasi-bankrupt obligors increased from ¥4.2 billion to ¥4.9 billion, doubtful claims decreased from ¥52.1 billion to ¥27.0 billion, and substandard claims decreased from ¥4.5 billion to ¥2.6 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, 2016 decreased to 0.8%, compared to 1.4% as of March 31, 2015.

Shinsei's claims against other need caution obligors, excluding substandard claims, totaled ¥60.0 billion as of March 31, 2016, a 19.6% decrease from ¥74.6 billion as of March 31, 2015. These include private placement bonds guaranteed by Shinsei and classified as claims against other need caution obligors. These claims represented 1.4% of total nonconsolidated claims as of March 31, 2016, down from 1.7% as of March 31, 2015.

TABLE 21. CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW (NONCONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2016	2015
Claims against bankrupt and quasi-bankrupt obligors	**¥ 4.9**	¥ 4.2
Doubtful claims	**27.0**	52.1
Substandard claims	**2.6**	4.5
Total claims disclosed under the Financial Revitalization Law[1]	**34.7**	60.9
Normal claims and claims against other need caution obligors, excluding substandard claims	**4,340.9**	4,238.8
Total claims	**¥ 4,375.6**	¥ 4,299.8
Ratio of total claims disclosed under the Financial Revitalization Law to total claims	**0.8%**	1.4%

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, 2016, 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, 99.5% for doubtful claims and 78.0% for substandard claims. For all claims classified under the Financial Revitalization Law, the coverage ratio was 97.9%, a increase from 96.9% as of March 31, 2015.

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, 2016 and 2015, ¥34.0 billion and ¥54.8 billion, respectively, of such claims were written off on a nonconsolidated basis.

TABLE 22. COVERAGE RATIOS FOR NONPERFORMING CLAIMS DISCLOSED UNDER THE FINANCIAL REVITALIZATION LAW (NONCONSOLIDATED)

Billions of yen (except percentages)

	Amount of claims	Amounts of coverage: Reserve for loan losses	Collateral and guarantees	Total	Coverage ratio
As of March 31, 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%**
As of March 31, 2015:					
Claims against bankrupt and quasi-bankrupt obligors	¥ 4.2	¥ —	¥ 4.2	¥ 4.2	100.0%
Doubtful claims	52.1	23.6	27.7	51.4	98.6
Substandard claims	4.5	1.1	2.1	3.3	74.6
Total	¥ 60.9	¥ 24.8	¥ 34.1	¥ 59.0	96.9%

CHANGES IN AMOUNT OF NONPERFORMING CLAIMS

The table below sets forth Shinsei's experience since March 31, 2014 with the removal of nonperforming claims and the emergence of new claims on a nonconsolidated basis:

TABLE 23. 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, 2014	¥ 4.8	¥ 146.6	¥ 13.2	¥ 164.7
Claims newly added April 1, 2014 to March 31, 2015	2.4	0.8	1.5	4.8
Claims removed April 1, 2014 to March 31, 2015	(2.2)	(84.2)	(22.1)	(108.6)
Claims migrating between classifications April 1, 2014 to March 31, 2015	(0.5)	(11.0)	11.5	—
Net change	(0.3)	(94.5)	(8.9)	(103.8)
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**

In 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. Of the newly added nonperforming claims, ¥1.1 billion were classified as substandard claims, and ¥3.5 billion were claims against bankrupt and quasi-bankrupt obligors.

For the fiscal year ended March 31, 2015, ¥4.8 billion of claims were newly classified as substandard or worse, while Shinsei removed ¥108.6 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 24. RESERVE FOR CREDIT LOSSES (NONCONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2016	2015
General reserve for loan losses	¥ 21.6	¥ 19.3
Specific reserve for loan losses	2.7	24.4
Reserve for loans to restructuring countries	0.0	0.0
Subtotal of reserve for loan losses	24.3	43.8
Specific reserve for other credit losses	3.9	3.9
Total reserve for credit losses	¥ 28.2	¥ 47.7
Total claims[1]	¥ 4,375.6	¥ 4,299.8
Ratio of total reserve for loan losses to total claims	0.6%	1.0%
Ratio of total reserve for credit losses to total claims	0.6%	1.1%

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, 2016 and 2015, Shinsei's total reserve for credit losses on a nonconsolidated basis was ¥28.2 billion and ¥47.7 billion, respectively, constituting 0.6% and 1.1%, respectively, of total claims.

TABLE 25. RESERVE RATIOS BY BORROWERS' CATEGORY (NONCONSOLIDATED)

Percentages

As of March 31		2016	2015
Legally and virtually bankrupt	(unsecured portion)	100.0%	100.0%
Possibly bankrupt	(unsecured portion)	292.6%	97.4%
Substandard	(unsecured portion)	56.2%	54.4%
Other need caution	(total claims)	6.4%	4.0%
	(unsecured portion)	11.1%	8.9%
Normal	(total claims)	0.4%	0.4%

RISK-MONITORED LOANS

Consolidated risk-monitored loans decreased by 21.5% during the fiscal year ended March 31, 2016 to ¥95.3 billion. The decrease of ¥25.4 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 26. RISK-MONITORED LOANS (CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2016	2015
Total loans and bills discounted	¥ 4,562.9	¥ 4,461.2
Loans to bankrupt obligors (A)	4.3	3.2
Nonaccrual delinquent loans (B)	62.3	87.7
Subtotal (A)+(B)	¥ 66.6	¥ 91.0
Ratio to total loans and bills discounted	1.5%	2.0%
Loans past due for three months or more (C)	¥ 1.6	¥ 1.3
Restructured loans (D)	26.9	29.1
Total risk-monitored loans (A)+(B)+(C)+(D)	¥ 95.3	¥ 121.5
Ratio to total loans and bills discounted	2.1%	2.7%
Reserve for credit losses	¥ 91.7	¥ 108.2

FINANCIAL CONDITION (continued)

TABLE 27. RISK-MONITORED LOANS (NONCONSOLIDATED)

As of March 31	2016	2015
	Billions of yen (except percentages)	
Total loans and bills discounted	**¥ 4,300.1**	¥ 4,222.9
Loans to bankrupt obligors (A)	**1.3**	0.7
Nonaccrual delinquent loans (B)	**30.7**	55.6
Subtotal (A)+(B)	**¥ 32.0**	¥ 56.3
Ratio to total loans and bills discounted	**0.7%**	1.3%
Loans past due for three months or more (C)	**¥ 1.4**	¥ 1.1
Restructured loans (D)	**1.1**	3.3
Total risk-monitored loans (A)+(B)+(C)+(D)	**¥ 34.6**	¥ 60.8
Ratio to total loans and bills discounted	**0.8%**	1.4%
Reserve for credit losses	**¥ 28.2**	¥ 47.7

TABLE 28. RISK-MONITORED LOANS BY BORROWER INDUSTRY (NONCONSOLIDATED)

As of March 31	2016	2015
	Billions of yen	
Domestic offices (excluding Japan offshore market account):		
Manufacturing	**¥ 0.7**	¥ 0.9
Agriculture and forestry	**—**	—
Fishery	**—**	—
Mining, quarrying and gravel extraction	**—**	—
Construction	**—**	—
Electric power, gas, heat supply and water supply	**—**	—
Information and communications	**0.0**	0.5
Transportation and postal service	**1.1**	—
Wholesale and retail	**0.3**	1.0
Finance and insurance	**—**	—
Real estate	**26.1**	26.3
Services	**0.6**	25.2
Local government	**—**	—
Individual	**2.6**	3.4
Overseas yen loan and overseas loans booked domestically	**2.9**	3.1
Total domestic (A)	**¥ 34.6**	¥ 60.8
Overseas offices (including Japan offshore market accounts):		
Governments	**¥ —**	¥ —
Financial institutions	**—**	—
Commerce and industry	**—**	—
Others	**—**	—
Total overseas (B)	**¥ —**	¥ —
Total (A+B)	**¥ 34.6**	¥ 60.8

FINANCIAL CONDITION (continued)

ASSET QUALITY OF SHINSEI FINANCIAL, APLUS FINANCIAL, SHOWA LEASING AND SHINKI

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

TABLE 29. RISK-MONITORED LOANS BREAKDOWN FOR LARGE ENTITIES (CONSOLIDATED)

	Billions of yen					
	Shinsei	Shinsei Financial	APLUS FINANCIAL	SHINKI	Other subsidiaries	Total
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**
As of March 31, 2015:						
Loans to bankrupt obligors	¥ 0.7	¥ 1.8	¥ 0.1	¥ 0.0	¥ 0.5	¥ 3.2
Nonaccrual delinquent loans	55.6	7.8	13.3	1.0	9.9	87.7
Loans past due for three months or more	1.1	0.0	0.1	—	0.0	1.3
Restructured loans	3.3	15.5	8.4	1.7	—	29.1
Total	¥ 60.8	¥ 25.1	¥ 22.0	¥ 2.7	¥ 10.6	¥ 121.5

TABLE 30. RISK-MONITORED INSTALLMENT RECEIVABLES INCLUDED IN OTHER ASSETS (CONSOLIDATED)[1]

	Billions of yen				
	Shinsei Financial	APLUS FINANCIAL	Showa Leasing	Other subsidiaries	Total
As of March 31, 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**
As of March 31, 2015:					
Credits to bankrupt obligors	¥ —	¥ 0.0	¥ 0.0	¥ 0.1	¥ 0.1
Nonaccrual delinquent credits	—	5.7	3.2	0.0	9.0
Credits past due for three months or more	—	0.7	0.0	—	0.8
Restructured credits	—	0.4	0.0	—	0.5
Total	¥ —	¥ 6.9	¥ 3.3	¥ 0.1	¥ 10.4

1 Neither Shinsei nor SHINKI had any such installment receivables.

FUNDING AND LIQUIDITY

We continues to optimize its funding base through deposits from retail customers. Total deposits and negotiable certificates of deposit decrease from ¥5,452.7 billion as of March 31, 2015 to ¥5,800.9 billion as of March 31, 2016. The retail deposits balance totaled ¥4,820.6 billion as of March 31, 2016, a decrease of ¥35.5 billion compared to March 31, 2015. Retail Banking constitutes 83.1% 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 and debentures in our Retail and Institutional Banking businesses.

FINANCIAL CONDITION (continued)

TABLE 31. DIVERSIFICATION BY FUNDING TYPE (CONSOLIDATED)

As of March 31	Billions of yen 2016	2015
Retail deposits	**¥ 4,820.6**	¥ 4,856.2
Institutional deposits	**980.3**	596.5
Total	**¥ 5,800.9**	¥ 5,452.7

DEPOSITS

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

TABLE 32. MATURITY SCHEDULE OF TIME DEPOSITS (CONSOLIDATED)

As of March 31	Billions of yen 2016	2015
Less than three months[1]	**¥ 1,655.8**	¥ 1,604.3
Three months or more, but less than six months	**286.9**	172.4
Six months or more, but less than one year	**107.2**	202.3
One year or more, but less than two years	**240.5**	162.4
Two years or more, but less than three years	**539.6**	237.8
Three years or more	**175.3**	574.5
Total	**¥ 3,005.6**	¥ 2,954.1

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 33. MATURITY SCHEDULE OF CORPORATE BONDS (CONSOLIDATED)

Corporate Bonds

Fiscal year ending March 31	Billions of yen
2017	¥ 10.3
2018	21.7
2019	10.7
2020	5.6
2021 and thereafter	46.6
Total	¥ 95.1

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 34. SHINSEI'S CREDIT RATINGS AS OF JULY 2016

Rating agency	Long-term (Outlook)	Short-term
Moody's	Baa3 (Positive)	Prime-3
Standard & Poor's (S&P)	BBB+ (Stable)	A-2
Japan Credit Rating Agency (JCR)	BBB+ (Stable)	J-2
Rating and Investment Information, Inc. (R&I)	BBB+ (Positive)	a-2

OTHER CONTRACTUAL CASH OBLIGATIONS

We use other contractual cash obligations for funding purposes. The following table sets forth a summary of our primary consolidated other contractual cash obligations as of March 31, 2016 and 2015:

TABLE 35. OTHER CONTRACTUAL CASH OBLIGATIONS (CONSOLIDATED)

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

	Billions of yen		
Payments due by period as of March 31, 2015	1 year or less	Over 1 year	Total
Borrowed money	¥ 407.4	¥ 397.7	¥ 805.2
Obligations under finance leases	0.5	2.1	2.7
Total	¥ 407.9	¥ 399.9	¥ 807.9

FINANCIAL CONDITION (continued)

TAXATION

SCHEDULE OF TAX LOSS CARRYFORWARDS

As of March 31, 2016, Shinsei had ¥246.7 billion of tax loss carryforwards based on the consolidated corporate tax system.

TABLE 36. SCHEDULE OF TAX LOSS CARRY-FORWARDS

	Billions of yen	
Year tax loss carry-forwards generated/renewed	Amount	Date of expiry
Shinsei Bank		
March 31, 2009	¥ 107.4	March 31, 2018
March 31, 2011	20.0	March 31, 2020
March 31, 2012	16.7	March 31, 2021
March 31, 2013	23.2	March 31, 2022
March 31, 2014	18.5	March 31, 2023
March 31, 2015	34.7	March 31, 2024
March 31, 2016	26.0	March 31, 2025
Total	¥ 246.7	
APLUS FINANCIAL		
March 31, 2011	¥ 0.9	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
Total	¥ 19.3	

The table above sets forth a schedule of tax loss carryforwards of Shinsei Bank and APLUS FINANCIAL as of March 31, 2016. Because APLUS FINANCIAL is not wholly-owned subsidiaries, we are not supported 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 income 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 JICPA guidelines. See "—Critical Accounting Policies— Valuation of Deferred Tax Assets" on page 95.

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 October 1, 2015, Shinsei Financial and SHINKI were included in the Shinsei Bank consolidated tax group.

Showa Leasing and APLUS FINANCIAL have also adopted the consolidated corporate tax system beginning with the fiscal year ended March 31, 2007 and 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, 2016 and 2015:

TABLE 37. EQUITY (CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2016	2015
Common stock	**¥ 512.2**	¥ 512.2
Capital surplus	**79.4**	79.4
Stock acquisition rights	**0.5**	1.2
Retained earnings	**267.7**	209.4
Treasury stock, at cost	**(72.5)**	(72.5)
Accumulated other comprehensive income:		
Unrealized gain (loss) on available-for-sale securities	**11.9**	10.8
Deferred gain (loss) on derivatives under hedge accounting	**(14.7)**	(11.5)
Foreign currency translation adjustments	**0.3**	3.6
Defined retirement benefit plans	**(2.9)**	(0.5)
Total	**¥ 781.8**	¥ 732.2
Noncontrolling interests	**11.2**	21.5
Total equity	**¥ 793.1**	¥ 753.7
Ratio of total equity to total assets	**8.9%**	8.5%

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, 2016 was 14.2%, compared with 14.9% as of March 31, 2015.

See "COMPOSITION OF CAPITAL DISCLOSURE (CONSOLIDATED)" on Page 192.

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, 2016 and 2015, we held ¥30.7 billion and ¥39.3 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, 2016 and 2015, the total principal amount of participation interests in loans transferred to third-parties removed from the loan account was ¥8.3 billion and ¥8.1 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 ¥3,569.4 billion and ¥3,571.4 billion as of March 31, 2016 and 2015, out of which the amounts with commitment of within-one-year original agreement and with unconditionally cancelable commitment were ¥3,352.2 billion and ¥3,343.7 billion as of March 31, 2016 and 2015, 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, 2016 and 2015, we had ¥280.6 billion and ¥291.7 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, 2016 and 2015, ¥234.7 billion and ¥269.4 billion of our outstanding acceptances or guarantees, respectively, were attributable to its guarantee business.

CONSOLIDATED BALANCE SHEETS

Shinsei Bank, Limited, and its Consolidated Subsidiaries
As of March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
ASSETS			
Cash and due from banks (Notes 3, 22, 23 and 37)	¥ 1,129,213	¥ 881,776	$ 10,051,752
Call loans (Note 37)	—	30,000	—
Receivables under resale agreements (Note 37)	—	53,216	—
Receivables under securities borrowing transactions (Note 37)	4,243	8,750	37,772
Other monetary claims purchased (Notes 4 and 37)	81,763	93,412	727,825
Trading assets (Notes 5, 22, 37 and 38)	336,345	317,399	2,993,996
Monetary assets held in trust (Notes 6, 22 and 37)	255,526	233,918	2,274,580
Securities (Notes 7, 22, 23 and 37)	1,227,859	1,477,352	10,929,851
Loans and bills discounted (Notes 8, 22, 23 and 37)	4,562,923	4,461,281	40,617,091
Foreign exchanges (Note 9)	17,024	18,537	151,543
Lease receivables and leased investment assets (Notes 22, 34 and 37)	211,453	227,047	1,882,266
Other assets (Notes 10, 22, 23, 37 and 38)	799,420	788,647	7,116,079
Premises and equipment (Notes 11, 22 and 34)	48,781	46,285	434,228
Intangible assets (Notes 12 and 34)	48,897	49,655	435,261
Assets for retirement benefits (Note 20)	2,394	3,625	21,314
Deferred issuance expenses for debentures	3	12	29
Deferred tax assets (Note 31)	14,050	15,373	125,069
Customers' liabilities for acceptances and guarantees (Note 21)	280,620	291,795	2,497,961
Reserve for credit losses (Note 13)	(91,732)	(108,232)	(816,558)
Total assets	¥ 8,928,789	¥ 8,889,853	$ 79,480,059
LIABILITIES AND EQUITY			
Liabilities:			
Deposits, including negotiable certificates of deposit (Notes 14, 22 and 37)	¥ 5,800,994	¥ 5,452,733	$ 51,637,836
Debentures (Notes 15 and 37)	16,740	32,300	149,014
Call money (Notes 22 and 37)	40,000	230,000	356,062
Payables under repurchase agreements (Notes 22 and 37)	23,779	29,152	211,675
Payables under securities lending transactions (Notes 22 and 37)	118,139	103,369	1,051,621
Trading liabilities (Notes 16, 37 and 38)	294,326	267,976	2,619,962
Borrowed money (Notes 17, 22, 23 and 37)	801,742	805,217	7,136,749
Foreign exchanges (Note 9)	75	27	671
Short-term corporate bonds (Note 37)	129,400	96,000	1,151,860
Corporate bonds (Notes 18, 22, 23 and 37)	95,121	157,505	846,728
Other liabilities (Notes 19, 22, 37 and 38)	380,458	481,359	3,386,668
Accrued employees' bonuses	8,419	8,774	74,944
Accrued directors' bonuses	77	88	691
Liabilities for retirement benefits (Note 20)	8,791	8,749	78,262
Reserve for directors' retirement benefits	—	95	—
Reserve for reimbursement of debentures	2,903	—	25,849
Reserve for losses on interest repayments	133,695	170,250	1,190,098
Deferred tax liabilities (Note 31)	378	694	3,371
Acceptances and guarantees (Notes 21, 22 and 37)	280,620	291,795	2,497,961
Total liabilities	8,135,665	8,136,091	72,420,022
Equity:			
Common stock (Note 25)	512,204	512,204	4,559,414
Capital surplus	79,461	79,461	707,333
Stock acquisition rights (Note 26)	512	1,211	4,563
Retained earnings	267,716	209,419	2,383,093
Treasury stock, at cost (Note 25)	(72,559)	(72,558)	(645,889)
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities (Note 7)	11,911	10,830	106,034
Deferred gain (loss) on derivatives under hedge accounting	(14,770)	(11,501)	(131,484)
Foreign currency translation adjustments	362	3,682	3,225
Defined retirement benefit plans (Note 20)	(2,970)	(515)	(26,438)
Total	781,869	732,234	6,959,851
Noncontrolling interests (Note 24)	11,254	21,528	100,186
Total equity	793,124	753,762	7,060,037
Total liabilities and equity	¥ 8,928,789	¥ 8,889,853	$ 79,480,059

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

CONSOLIDATED STATEMENTS OF INCOME

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Interest income:			
Interest on loans and bills discounted	**¥ 124,988**	¥ 125,227	**$ 1,112,590**
Interest and dividends on securities	**13,300**	20,713	**118,395**
Interest on deposits with banks	**1,119**	1,289	**9,961**
Other interest income	**1,331**	1,395	**11,855**
Total interest income	**140,739**	148,626	**1,252,801**
Interest expenses:			
Interest on deposits, including negotiable certificates of deposit	**8,436**	10,856	**75,098**
Interest and discounts on debentures	**24**	48	**220**
Interest on other borrowings	**4,912**	4,910	**43,733**
Interest on corporate bonds	**2,877**	5,175	**25,617**
Other interest expenses	**2,142**	1,172	**19,071**
Total interest expenses	**18,394**	22,164	**163,739**
Net interest income	**122,345**	126,462	**1,089,062**
Fees and commissions income	**47,357**	45,869	**421,553**
Fees and commissions expenses	**21,864**	21,171	**194,626**
Net fees and commissions	**25,493**	24,698	**226,927**
Net trading income (loss) (Note 27)	**8,427**	11,527	**75,016**
Other business income (loss), net:			
Income on lease transactions and installment receivables, net	**39,250**	38,096	**349,392**
Net gain (loss) on monetary assets held in trust	**6,606**	7,448	**58,808**
Net gain (loss) on foreign exchanges	**5,661**	6,366	**50,396**
Net gain (loss) on securities	**2,007**	8,473	**17,869**
Net gain (loss) on other monetary claims purchased	**2,742**	7,366	**24,417**
Other, net (Note 28)	**4,069**	4,902	**36,221**
Net other business income (loss)	**60,338**	72,653	**537,103**
Total revenue	**216,603**	235,342	**1,928,108**
General and administrative expenses:			
Personnel expenses	**57,824**	59,669	**514,724**
Premises expenses	**19,355**	19,433	**172,290**
Technology and data processing expenses	**19,308**	18,861	**171,875**
Advertising expenses	**10,460**	11,437	**93,111**
Consumption and property taxes	**8,638**	7,874	**76,900**
Deposit insurance premium	**2,077**	3,527	**18,495**
Other general and administrative expenses	**23,709**	23,477	**211,051**
General and administrative expenses	**141,373**	144,282	**1,258,446**
Amortization of goodwill and intangible assets acquired in business combinations	**7,417**	8,612	**66,029**
Total general and administrative expenses	**148,791**	152,895	**1,324,475**
Net business profit (loss)	**67,811**	82,446	**603,633**
Net credit costs (recoveries) (Note 29)	**3,730**	11,852	**33,210**
Other gains (losses), net (Note 30)	**(1,264)**	2,165	**(11,252)**
Income (loss) before income taxes	**62,817**	72,760	**559,171**
Income taxes (benefit) (Note 31):			
Current	**1,999**	2,450	**17,801**
Deferred	**(511)**	908	**(4,555)**
Profit	**61,329**	69,402	**545,925**
Profit attributable to noncontrolling interests	**378**	1,528	**3,365**
Profit attributable to owners of the parent	**¥ 60,951**	¥ 67,873	**$ 542,560**

	Yen		U.S. dollars (Note 1)
Basic earnings per share (Note 32)	**¥ 22.96**	¥ 25.57	**$ 0.20**
Diluted earnings per share (Note 32)	**¥ 22.96**	¥ —	**$ 0.20**

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Profit	**¥ 61,329**	¥ 69,402	**$ 545,925**
Other comprehensive income (Note 33):			
Unrealized gain (loss) on available-for-sale securities	**993**	4,559	**8,843**
Deferred gain (loss) on derivatives under hedge accounting	**(3,269)**	(2,731)	**(29,105)**
Foreign currency translation adjustments	**(1,474)**	1,556	**(13,125)**
Defined retirement benefit plans	**(2,475)**	5,329	**(22,035)**
Share of other comprehensive income in affiliates	**(2,415)**	3,251	**(21,499)**
Total other comprehensive income	**(8,641)**	11,966	**(76,921)**
Comprehensive income	**¥ 52,687**	¥ 81,368	**$ 469,004**
Total comprehensive income attributable to:			
Owners of the parent	**¥ 52,988**	¥ 78,426	**$ 471,677**
Noncontrolling interests	**(300)**	2,941	**(2,673)**

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal years ended March 31, 2016 and 2015

	Millions of yen											
						Accumulated other comprehensive income						
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock, at cost	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Noncontrolling interests	Total equity
BALANCE, March 31, 2014 (April 1, 2014, as previously reported)	¥512,204	¥79,461	¥1,221	¥146,002	¥ (72,558)	¥ 6,288	¥ (8,769)	¥ 267	¥ (5,195)	¥658,923	¥ 63,667	¥722,590
Cumulative effect of accounting change				(1,799)					(648)	(2,447)		(2,447)
BALANCE, April 1, 2014 (as restated)	512,204	79,461	1,221	144,203	(72,558)	6,288	(8,769)	267	(5,844)	656,475	63,667	720,142
Dividends				(2,653)						(2,653)		(2,653)
Profit attributable to owners of the parent				67,873						67,873		67,873
Purchase of treasury stock					(0)					(0)		(0)
Changes in ownership interest of the parent related to transactions with noncontrolling interests		—								—		—
Changes by inclusion of consolidated subsidiaries				(0)						(0)		(0)
Changes by exclusion of consolidated subsidiaries				(2)						(2)		(2)
Net change during the year			(10)			4,541	(2,731)	3,414	5,328	10,543	(42,139)	(31,595)
BALANCE, March 31, 2015 (April 1, 2015, as previously reported)	**512,204**	**79,461**	**1,211**	**209,419**	**(72,558)**	**10,830**	**(11,501)**	**3,682**	**(515)**	**732,234**	**21,528**	**753,762**
Cumulative effect of accounting change				**—**					**—**	**—**		**—**
BALANCE, April 1, 2015 (as restated)	**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)**
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**

	Thousands of U.S. dollars (Note 1)											
						Accumulated other comprehensive income						
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock, at cost	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Noncontrolling interests	Total equity
BALANCE, March 31, 2015 (April 1, 2015, as previously reported)	**$ 4,559,414**	**$ 707,334**	**$ 10,785**	**$1,864,158**	**$ (645,887)**	**$ 96,412**	**$ (102,379)**	**$ 32,779**	**$ (4,593)**	**$6,518,023**	**$ 191,636**	**$ 6,709,659**
Cumulative effect of accounting change				**—**					**—**	**—**		**—**
BALANCE, April 1, 2015 (as restated)	**4,559,414**	**707,334**	**10,785**	**1,864,158**	**(645,887)**	**96,412**	**(102,379)**	**32,779**	**(4,593)**	**6,518,023**	**191,636**	**6,709,659**
Dividends				**(23,624)**						**(23,624)**		**(23,624)**
Profit attributable to owners of the parent				**542,560**						**542,560**		**542,560**
Purchase of treasury stock					**(2)**					**(2)**		**(2)**
Changes in ownership interest of the parent related to transactions with noncontrolling interests		**(1)**								**(1)**		**(1)**
Changes by inclusion of consolidated subsidiaries				**(1)**						**(1)**		**(1)**
Changes by exclusion of consolidated subsidiaries				**—**						**—**		**—**
Net change during the year			**(6,222)**			**9,622**	**(29,105)**	**(29,554)**	**(21,845)**	**(77,104)**	**(91,450)**	**(168,554)**
BALANCE, March 31, 2016	**$ 4,559,414**	**$ 707,333**	**$ 4,563**	**$2,383,093**	**$ (645,889)**	**$106,034**	**$ (131,484)**	**$ 3,225**	**$ (26,438)**	**$6,959,851**	**$ 100,186**	**$ 7,060,037**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Cash flows from operating activities:			
Income (loss) before income taxes	**¥ 62,817**	¥ 72,760	**$ 559,171**
Adjustments for:			
Income taxes paid	**(2,620)**	(3,360)	**(23,325)**
Depreciation (other than leased assets as lessor)	**10,436**	10,460	**92,900**
Amortization of goodwill and intangible assets acquired in business combinations	**7,417**	8,612	**66,029**
Impairment losses on long-lived assets	**636**	1,415	**5,665**
Net change in reserve for credit losses	**(16,500)**	(29,126)	**(146,880)**
Net change in reserve for losses on interest repayments	**(36,555)**	(37,950)	**(325,398)**
Net change in other reserves	**2,442**	986	**21,745**
Interest income	**(140,739)**	(148,626)	**(1,252,801)**
Interest expenses	**18,394**	22,164	**163,739**
Investment (gains) losses	**(7,435)**	(11,972)	**(66,186)**
Net exchange (gain) loss	**20,111**	(20,123)	**179,021**
Net change in trading assets	**(18,946)**	(68,283)	**(168,653)**
Net change in trading liabilities	**26,349**	49,391	**234,554**
Net change in loans and bills discounted	**(101,633)**	(141,544)	**(904,693)**
Net change in deposits, including negotiable certificates of deposit	**348,239**	(397,715)	**3,099,874**
Net change in debentures	**(15,560)**	(9,446)	**(138,509)**
Net change in borrowed money (other than subordinated debt)	**4,139**	173,896	**36,848**
Net change in corporate bonds (other than subordinated corporate bonds)	**22,875**	17,567	**203,628**
Net change in interest-bearing deposits with banks (other than due from the Bank of Japan)	**5,755**	30,826	**51,237**
Net change in call loans, receivables under resale agreements, receivables under securities borrowing transactions and other monetary claims purchased	**96,858**	37,904	**862,193**
Net change in call money, payables under repurchase agreements, payables under securities lending transactions, and short-term corporate bonds (liabilities)	**(147,203)**	(125,977)	**(1,310,338)**
Net change in foreign exchange assets and liabilities	**1,560**	7,109	**13,894**
Interest received	**137,928**	139,005	**1,227,780**
Interest paid	**(17,039)**	(45,443)	**(151,681)**
Net change in securities for trading purposes	**38**	85	**343**
Net change in monetary assets held in trust for trading purposes	**16,217**	17,669	**144,364**
Net change in lease receivables and leased investment assets	**15,623**	734	**139,076**
Other, net	**(117,809)**	(60,050)	**(1,048,683)**
Total adjustments	**112,985**	(581,789)	**1,005,743**
Net cash provided by (used in) operating activities	**175,802**	(509,029)	**1,564,914**
Cash flows from investing activities:			
Purchase of investments	**(4,283,191)**	(7,518,832)	**(38,127,040)**
Proceeds from sales of investments	**4,258,832**	7,175,611	**37,910,201**
Proceeds from maturity of investments	**225,688**	411,204	**2,008,979**
Purchase of premises and equipment (other than leased assets as lessor)	**(3,982)**	(4,002)	**(35,452)**
Purchase of intangible assets (other than leased assets as lessor)	**(11,279)**	(6,602)	**(100,408)**
Purchase of investments in subsidiaries	**—**	(28)	**—**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**(1,479)**	—	**(13,171)**
Other, net	**1,587**	3,046	**14,135**
Net cash provided by (used in) investing activities	**186,174**	60,395	**1,657,244**
Cash flows from financing activities:			
Repayment of subordinated debt	**(7,400)**	(11,000)	**(65,871)**
Payment for redemption of subordinated corporate bonds	**(87,849)**	(33,200)	**(781,996)**
Proceeds from noncontrolling shareholders	**1**	1,165	**12**
Payment for capital returned to noncntrolling shareholders	**(9,000)**	(42,962)	**(80,114)**
Dividends paid	**(2,653)**	(2,653)	**(23,624)**
Dividends paid to noncontrolling shareholders	**(987)**	(3,238)	**(8,788)**
Payment for purchase of treasury stock	**(0)**	(0)	**(2)**
Purchase of investments in subsidiaries not resulting in change in scope of consolidation	**(0)**	—	**(1)**
Net cash provided by (used in) financing activities	**(107,889)**	(91,889)	**(960,384)**
Foreign currency translation adjustments on cash and cash equivalents	**(95)**	178	**(854)**
Net change in cash and cash equivalents	**253,991**	(540,345)	**2,260,920**
Cash and cash equivalents at beginning of year	**826,365**	1,366,710	**7,355,931**
Cash and cash equivalents at end of year (Note 3)	**¥ 1,080,357**	¥ 826,365	**$ 9,616,851**

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 years ended March 31, 2016 and 2015

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 with 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 ¥112.34 to U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2016. 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 based upon the concepts of control and influence. 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, the results of operations, etc. of the subsidiary 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, the result of operations, etc.

The number of subsidiaries and affiliates as of March 31, 2016 and 2015 was as follows:

	2016	2015
Consolidated subsidiaries	**160**	179
Unconsolidated subsidiaries	**90**	91
Affiliates accounted for by the equity method	**20**	19
Affiliates accounted for not applying the equity method	**1**	1

TOZAI BOEKI Co., Ltd was newly consolidated due to the acquisition of shares and SL MU CO., LTD. was newly consolidated due to its increased materiality.

Additionally, Shinsei Corporate Investment PE No.1 Limited Liability Partnership and 13 other companies were excluded from the scope of consolidation due to liquidation, SIA Wind Second Co., Ltd. was excluded from the scope of consolidation due to the loss of controlling interest, Shinsei Sales Finance Co., Ltd. and 1 other company were excluded from the scope of consolidation due to mergers with APLUS Co., Ltd. and Minakami Godo Kaisha and 3 other companies were excluded from the scope of consolidation due to decreased materiality during the fiscal year ended March 31, 2016.

Shinsei Creation Partners Investment Limited Partnership III and 3 other companies were newly included in the scope of application of the equity method due to their formation. Additionally, SN Corporation was excluded from the scope of application of the equity method due to liquidation and Comox Holdings Ltd. and 1 other company were excluded from the scope of application of the equity method due to the sale of shares during the fiscal year ended March 31, 2016.

Unconsolidated subsidiaries are primarily operating companies that are engaged in the leasing business under the Tokumei Kumiai (anonymous partnership) system. Under the Tokumei Kumiai system assets, profits and losses essentially do not belong to individual operating companies or their parent companies but to the members of the anonymous partnership, and furthermore, as the Group does not have any material transactions with these subsidiaries, pursuant to Article 5, Paragraph 1, Section 2 and Article 10, Paragraph 1, Section 2 of the regulations concerning consolidated financial statements, respectively, these subsidiaries are excluded from the scope of consolidation and the scope of application of the equity method.

Other unconsolidated subsidiaries are excluded from the scope of consolidation and the scope of application of the equity method due to their immateriality to the financial condition or operational results of the Group.

TGM CO., LTD. was excluded from the scope of application of the equity method due to its immateriality to the financial condition or operational results, such as profit (the Group's interest portion), retained earnings (the Group's interest portion), accumulated other comprehensive income (the Group's interest portion), etc., of the Group.

Major consolidated subsidiaries as of March 31, 2016 were as listed below:

Name	Location	Percentage ownership
APLUS FINANCIAL Co., Ltd.	Japan	95.0%
Showa Leasing Co., Ltd.	Japan	97.8%
SHINKI 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, 2016, the fiscal year ending dates were March 31 for 121 subsidiaries, September 30 for 3 subsidiaries, November 30 for 1 subsidiary, December 31 for 33 subsidiaries and February 29 for 2 subsidiaries. Regarding the 6 companies of the Bank's consolidated subsidiaries which have fiscal year end dates other than March 31, consolidations were performed utilizing 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 fiscal year-end statements. Appropriate adjustments have been performed for significant transactions occurring between the consolidated fiscal year-end and the afore mentioned year-ends, etc.

Major affiliates accounted for by the equity method as of March 31, 2016 were as listed below:

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

(B) BUSINESS COMBINATIONS

In October 2003, the Business Accounting Council (the "BAC") issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures.

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (i) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling of interests method of accounting is no longer allowed. (ii) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

Under the previous standard, the Group accounted for the acquisitions of APLUS FINANCIAL Co., Ltd. ("APLUS FINANCIAL"), Showa Leasing Co., Ltd. ("Showa Leasing"), SHINKI Co., Ltd. ("SHINKI"), Shinsei Financial Co., Ltd. ("Shinsei Financial") and their consolidated subsidiaries by the purchase method of accounting.

In September 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements."

Major accounting changes are as follows:

(a) Transactions with noncontrolling interests

A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interests is adjusted to reflect the change in the parent's ownership interests in its subsidiary while the parent retains its controlling interests in its subsidiary. Under the previous accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference is accounted for as capital surplus as long as the parent retains control over its subsidiary.

(b) Presentation of the consolidated balance sheet

In the consolidated balance sheet, "minority interests" under the previous accounting standard is changed to "noncontrolling interests" under the revised accounting standard.

(c) Presentation of the consolidated statement of income

In the consolidated statement of income, "income before minority interests" under the previous accounting standard is changed to "profit" under the revised accounting standard, and "net income" under the previous accounting standard is changed to "profit attributable to owners of the parent" under the revised accounting standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

(d) Provisional accounting treatments for a business combination
If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisioned amounts for the items for which the accounting is incomplete. Under the previous accounting standard guidance, the effect of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

(e) Acquisition-related costs
Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the previous accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for (a) transactions with noncontrolling interests, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs are effective for the beginning of the fiscal year beginning on or after April 1, 2015. Earlier application is permitted from the beginning of the fiscal year beginning on or after April 1, 2014, except for (c) presentation of the consolidated statement of income. In the case of earlier application, all accounting standards and guidance above, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interests and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interests and (e) acquisition-related costs which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application. In prospective application, the new standards and guidance shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for (d) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after the beginning of the fiscal year beginning on or after April 1, 2015. Earlier application is permitted for a business combination which occurs on or after the beginning of the fiscal year beginning on or after April 1, 2014.

The Group has applied the revised accounting standards and guidance for (a), (b), (c) and (e) above from April 1, 2015, and for (d) above for a business combination which occurred on or after April 1, 2015.

With respect to (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, the applicable line items in the 2015 consolidated financial statements have been accordingly reclassified and presented in line with those in 2016.

In the consolidated statement of cash flows for the fiscal year ended March 31, 2016, cash flows for purchases or sales of investments in subsidiaries not resulting in change in scope of consolidation are presented in cash flows from financial activities, and cash flows for costs related to purchases of investments in subsidiaries resulting in change in scope of consolidation and cash flows for costs related to purchases or sales of investments not resulting in change in scope of consolidation are presented in cash flows from operating activities.

As a result, the effect on "income (loss) before income taxes" for the fiscal year ended March 31, 2016 and "capital surplus" as of March 31, 2016 is immaterial.

(C) 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 undertaken before April 1, 2010, accounted for under 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 is recorded as negative goodwill and primarily amortized on a straight-line basis over 20 years, which is the maximum period allowed under the previous accounting standard.

(D) 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:

- An expectation of an operating loss or negative cash flow for two consecutive years
- Impairment of underlying investment securities is recognized
- A significant adverse change in the environment surrounding the business operations of the subsidiary, such as a change in law which significantly impacts the business in a negative way
- Management decisions that could have an adverse effect on the value of goodwill and intangible assets acquired in business combinations

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 combinations, 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 (Discounted Cash Flows, "DCF"), with the net asset book value which includes unamortized balances of goodwill and intangible assets acquired in business combinations.

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 combinations, 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 combinations is determined in DCF method, in the same manner 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.

(E) 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.

(F) CASH AND CASH EQUIVALENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) CONSOLIDATED

(G) 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."

(H) 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.

(I) 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.

(J) SECURITIES

Securities other than securities in (H) VALUATION OF TRADING ACCOUNT ACTIVITIES are classified into four categories, based principally on the Group'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 for which the Group 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) Securities available for sale are securities other than (i) trading securities and (ii) securities being held to maturity. Securities available for sale are carried at fair value with the corresponding unrealized gains and losses, net of applicable taxes, recorded directly in a separate component of equity, after deducting the amount charged to profit or loss by applying fair value hedge accounting. The cost of these securities upon sale is determined by the moving average method. Securities available for sale 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.

Individual securities, other than trading securities, are written down when a decline in fair value is significant as compared to the cost of such securities since the decline in fair value is deemed to be other than temporary.

(K) 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. Principal estimated useful lives of buildings and equipment as of March 31, 2016 were as follows:

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

(L) SOFTWARE

Capitalized software for internal use is depreciated using the straight-line method based on the Group's estimated useful lives (primarily 5 years).

(M) 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 discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

(N) 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.

(O) 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 legally bankrupt due to bankruptcy, special liquidation proceedings or similar legal proceedings ("legally bankrupt obligors") or to obligors who are effectively in similar conditions ("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 bankrupt but are experiencing 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 discounted cash flow 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 (discounted cash flow 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, a reserve for loans to restructuring countries is provided by estimating losses on consideration of 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. The Credit Assessment Division, which is independent from 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 ¥123,460 million (U.S.$1,098,990 thousand) and ¥133,001 million as of March 31, 2016 and 2015, respectively.

(P) 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.

(Q) EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN ASSETS

The Bank and Showa Leasing have a noncontributory defined benefit pension plan. APLUS Co., Ltd.("APLUS") has 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. Net assets or liabilities for employees' retirement benefits of each retirement benefit and pension plan is held for the payment of employees' retirement benefits by netting off the estimated amounts of the projected benefit obligation against the estimated value of pension plan assets. Actuarial gains and losses and past service costs which have not yet been charged to profit or loss are amortized using the straight-line method over the average remaining service period primarily from the period of occurrence. Certain consolidated subsidiaries recognized retirement benefit obligations at the amount that would be payable if members retired voluntarily as of the end of period.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income, and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period, are treated as reclassification adjustments (see Note 33).

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods, the discount rate, and expected future salary increases.

The Group applied (i) the method of attributing the expected benefit to periods using a benefit formula basis and (ii) the method of determining the discount rate based on a single weighted average discount rate reflecting the estimated timing and amount of benefit payments.

(R) RESERVE FOR DIRECTORS' RETIREMENT BENEFITS

Retirement allowances for directors and audit & supervisory board members are recorded to state the liability at the amount that would be required if all directors and audit & supervisory board members retired at each balance sheet date.

The Bank and certain consolidated subsidiaries resolved to make a lump-sum payment equivalent to the retirement allowance, due to the abolition of the Officer Retirement Allowance Program, at their general shareholders' meeting held in June 2015. Accordingly, reserve for directors' retirement benefits was reversed and the outstanding payable amount of ¥131 million (U.S.$1,172 thousand) was recorded in 'Other liabilities' as of March 31, 2016.

(S) REVERSE FOR REIMBURSEMENT OF DEBENTURES

The reserve for reimbursement of debentures is provided for estimated losses on future reimbursement requests of debentures derecognized from liabilities.

Even though the debentures derecognized from liabilities had been recorded as a loss when reimbursement requests were made, from current fiscal year reserve for reimbursement of debentures is recorded due to the availability of a reasonable estimate as a result of the development and analysis of past reimbursement requests. Accordingly, income before income taxes and profit of ¥2,903 million (U.S.$25,849 thousand) decreased.

(T) 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.

(U) ASSET RETIREMENT OBLIGATIONS

In March 2008, the ASBJ issued ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations."

Under this accounting standard, 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 and 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.

(V) STOCK OPTIONS

In December 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006. This standard requires companies to measure the cost of employee stock options based on the fair value at the date of grant and recognize 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 as a separate component of equity until exercised.

(W) LEASE TRANSACTIONS

In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions.

Effective April 1, 2008, the Bank and its consolidated subsidiaries applied the revised accounting standard for lease transactions.

(As lessee)

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the consolidated balance sheets.

Depreciation of lease assets from finance lease transactions that deem 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 do not deem to transfer ownership of the leased property to the lessee is computed using the straight-line method over the leasing period. Residual values of lease assets are the guaranteed value determined in the lease contracts or zero for assets without such guaranteed value.

With regard to finance lease transactions entered into prior to April 1, 2008, that do not deem to transfer ownership of the leased property to the lessee, lease assets are recognized at the amount of lease obligations as of March 31, 2008.

(As lessor)

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were treated as sales. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if sold" information was disclosed in the note to the lessor's financial statements. The revised accounting standard requires that all finance leases that are deemed to transfer ownership of the leased property to the lessee be recognized as lease receivables, and that all finance leases that are not deemed to transfer ownership of the leased property to the lessee be recognized 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 do not deem to transfer ownership of the leased property to the lessee, leased investment assets are recognized at the amount of book values of those leased properties as of March 31, 2008.

As a result of this transitional treatment, income before income taxes increased by ¥125 million (U.S.$1,113 thousand) and ¥183 million for the fiscal years ended March 31, 2016 and 2015, respectively, as compared to what would have been reported if the revised accounting standard was applied retroactively to all finance lease transactions as lessor.

(X) 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 either by the sum-of-the-months digits method, the straight-line method or the credit-balance method over the contract terms.

(Y) 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.

(Z) 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 recognized for any portion of the deferred tax assets where it is considered more likely than not that it will not be realized.

(AA) DERIVATIVES AND HEDGE ACCOUNTING

Derivatives are stated at fair value. Except for derivatives in (H) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

(a) Hedge of interest rate risks
Derivative transactions that meet the hedge accounting criteria for mitigating interest rate risks of the Bank's financial assets and liabilities are accounted for using the deferral method. The Bank adopted portfolio hedging to determine the effectiveness of its hedging instruments in accordance with Industry Audit Committee Report No. 24 issued, in 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, in 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.

Fund 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, fund 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.

(AB) PER SHARE INFORMATION

Basic earnings per share ("EPS") calculations represent profit attributable to owners of the parent which are 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.

(AC) ACCOUNTING CHANGES AND ERROR CORRECTIONS

In December 2009, the ASBJ issued ASBJ Statement No. 24 "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24 "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:

(a) Changes in accounting policies
When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(b) Changes in presentation
When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(c) Changes in accounting estimates
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(d) Corrections of prior-period errors
When an error in prior-period financial statements is discovered, those statements are restated.

(AD) NEW ACCOUNTING PRONOUNCEMENTS

Tax Effect Accounting

On December 28, 2015, the ASBJ issued ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," which included certain revisions of the previous accounting and auditing guidance issued by the Japanese Institute of Certified Public Accountants. While the new guidance continues to follow the basic framework of the previous guidance, it 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.

The new guidance is effective for the beginning of the fiscal year beginning on or after April 1, 2016. Earlier application is permitted for the fiscal year ending on or after March 31, 2016. The new guidance shall not be applied retrospectively and any adjustments from the application of the new guidance at the beginning of the reporting period shall be reflected within retained earnings or accumulated other comprehensive income at the beginning of the reporting period.

The Group expects to apply the new guidance on recoverability of deferred tax assets effective April 1, 2016, and is in the process of measuring the effects of applying the new guidance in future applicable periods.

3. 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, 2016 and 2015 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Cash and due from banks	**¥ 1,129,213**	¥ 881,776	**$ 10,051,752**
Interest-bearing deposits included in due from banks (other than due from the Bank of Japan)	**(48,856)**	(55,411)	**(434,901)**
Cash and cash equivalents	**¥ 1,080,357**	¥ 826,365	**$ 9,616,851**

4. OTHER MONETARY CLAIMS PURCHASED CONSOLIDATED

(a) Other monetary claims purchased as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Trading purposes	**¥ 17,076**	¥ 40,473	**$ 152,011**
Other	**64,686**	52,938	**575,814**
Total	**¥ 81,763**	¥ 93,412	**$ 727,825**

(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, 2016 and 2015 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2016		2015		**2016**	
	Fair value	**Unrealized loss**	Fair value	Unrealized loss	**Fair value**	**Unrealized loss**
Trading purposes	**¥ 17,076**	**¥ 6,267**	¥ 40,473	¥ 6,239	**$ 152,011**	**$ 55,788**

5. TRADING ASSETS CONSOLIDATED

Trading assets as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Trading securities	**¥ 22,489**	¥ 35,828	**$ 200,193**
Derivatives for trading securities	**1,255**	1,573	**11,173**
Derivatives for securities held to hedge trading transactions	**24,651**	64,599	**219,437**
Trading-related financial derivatives	**287,176**	213,272	**2,556,312**
Other	**772**	2,125	**6,881**
Total	**¥ 336,345**	¥ 317,399	**$ 2,993,996**

6. MONETARY ASSETS HELD IN TRUST CONSOLIDATED

(a) Monetary assets held in trust as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Trading purposes	**¥ 34,066**	¥ 50,284	**$ 303,247**
Other	**221,459**	183,633	**1,971,333**
Total	**¥ 255,526**	¥ 233,918	**$ 2,274,580**

6. MONETARY ASSETS HELD IN TRUST (CONTINUED)

CONSOLIDATED

(b) The fair value and the unrealized gain and loss which is included in net gain (loss) on monetary assets held in trust for trading purposes as of March 31, 2016 and 2015 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2016		2015		**2016**	
	Fair value	**Unrealized loss**	Fair value	Unrealized gain	**Fair value**	**Unrealized loss**
Trading purposes	**¥ 34,066**	**¥ 262**	¥ 50,284	¥ 143	**$ 303,247**	**$ 2,337**

(c) The acquisition cost and the carrying amount of monetary assets held in trust for other than trading purposes as of March 31, 2016 and 2015 were as follows:

	Millions of yen							
	2016				2015			
	Acquisition cost	**Gross unrealized gain**	**Gross unrealized loss**	**Carrying amount**	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying amount
Other	**¥ 222,476**	**¥ —**	**¥ 1,016**	**¥ 221,459**	¥ 184,880	¥ —	¥ 1,246	¥ 183,633

	Thousands of U.S. dollars			
	2016			
	Acquisition cost	**Gross unrealized gain**	**Gross unrealized loss**	**Carrying amount**
Other	**$ 1,980,381**	**$ —**	**$ 9,048**	**$ 1,971,333**

7. SECURITIES

CONSOLIDATED

(a) Securities as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Trading securities	**¥ 7**	¥ 46	**$ 70**
Securities being held to maturity	**559,567**	644,533	**4,981,015**
Securities available for sale:			
Securities carried at fair value	**574,738**	720,533	**5,116,061**
Securities carried at cost whose fair value cannot be reliably determined	**43,452**	58,542	**386,797**
Investments in unconsolidated subsidiaries and affiliates	**50,093**	53,697	**445,908**
Total	**¥ 1,227,859**	¥ 1,477,352	**$ 10,929,851**

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, 2016 and 2015 were ¥8,520 million (U.S.$75,845 thousand) and ¥32,187 million, respectively. In addition, ¥1,717 million (U.S.$15,292 thousand) and ¥41,003 million of those securities were further pledged as of March 31, 2016 and 2015, 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, 2016 and 2015 were nil due to the redemption and ¥3,897 million, respectively.

7. SECURITIES (CONTINUED)

CONSOLIDATED

(b) The amortized/acquisition cost and the fair values of securities (other than trading securities) as of March 31, 2016 and 2015 were as follows:

	Millions of yen							
	2016				2015			
	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	¥ 535,841	¥ 8,387	¥ —	¥ 544,229	¥ 605,530	¥ 2,427	¥ 64	¥ 607,893
Other	23,725	709	—	24,434	39,002	2,644	—	41,647
Total	¥ 559,567	¥ 9,097	¥ —	¥ 568,664	¥ 644,533	¥ 5,071	¥ 64	¥ 649,541
Securities available for sale:								
Equity securities	¥ 13,328	¥ 8,969	¥ 220	¥ 22,077	¥ 13,162	¥ 12,703	¥ 247	¥ 25,618
Japanese national government bonds	211,411	2,955	124	214,242	386,037	34	791	385,279
Japanese local government bonds	500	5	—	505	501	13	—	514
Japanese corporate bonds	67,918	1,528	280	69,166	84,459	586	1,044	84,001
Other, primarily foreign debt securities	283,510	3,033	883	285,661	226,100	4,840	151	230,790
Total	¥ 576,669	¥ 16,492	¥ 1,508	¥ 591,653	¥ 710,261	¥ 18,178	¥ 2,235	¥ 726,204

	Thousands of U.S. dollars			
	2016			
	Amortized/ Acquisition cost	Gross unrealized gain	Gross unrealized loss	Fair value
Securities being held to maturity:				
Japanese national government bonds	$ 4,769,823	$ 74,663	$ —	$ 4,844,486
Other	211,192	6,315	—	217,507
Total	$ 4,981,015	$ 80,978	$ —	$ 5,061,993
Securities available for sale:				
Equity securities	$ 118,645	$ 79,843	$ 1,961	$ 196,527
Japanese national government bonds	1,881,887	26,307	1,106	1,907,088
Japanese local government bonds	4,456	45	—	4,501
Japanese corporate bonds	604,576	13,609	2,493	615,692
Other, primarily foreign debt securities	2,523,684	27,007	7,865	2,542,826
Total	$ 5,133,248	$ 146,811	$ 13,425	$ 5,266,634

Note: "Other, primarily foreign debt securities" includes other monetary claims purchased whose fair value can be reliably determined.

Individual securities (except for those whose fair value cannot be reliably determined), other than trading securities, are written down when a decline in fair value is significant as compared to the cost of such securities since the decline in fair value is deemed to be other than temporary.

The amount written down is accounted for as an impairment loss. Impairment loss on such securities for the fiscal year ended March 31, 2016 was ¥439 million (U.S.$3,911 thousand), which consisted of ¥439 million (U.S.$3,911 thousand) for equity securities.

Impairment loss on such securities for the fiscal year ended March 31, 2015 was ¥2,072 million, which consisted of ¥2,069 million for Japanese corporate bonds and ¥2 million for other securities.

To determine whether an other-than-temporary impairment has occurred, the Group applies the following rule, by the obligor classification of the security issuer based on the Group's self-assessment guidelines:

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

7. 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 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" obligors are those who are not yet bankrupt but are in financial difficulties and are very likely to go bankrupt in the future.
"Need caution" obligors are those who require 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 terms of their financial position.

(c) Unrealized gain (loss) on available-for-sale securities as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Unrealized gain (loss) before deferred tax on:			
Available-for-sale securities	**¥ 14,984**	¥ 15,942	**$ 133,386**
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	**2,297**	1,150	**20,455**
Securities being held to maturity, reclassified from available-for-sale in the past, under extremely illiquid market conditions	**(789)**	(2,122)	**(7,026)**
Other monetary assets held in trust	**(1,016)**	(1,246)	**(9,048)**
Deferred tax liabilities	**(3,614)**	(2,855)	**(32,178)**
Unrealized gain (loss) on available-for-sale securities before interest adjustments	**11,861**	10,868	**105,589**
Noncontrolling interests	**(76)**	(103)	**(676)**
The Group's interests in unrealized gain (loss) on available-for-sale securities held by affiliates to which the equity method is applied	**125**	65	**1,121**
Unrealized gain (loss) on available-for-sale securities	**¥ 11,911**	¥ 10,830	**$ 106,034**

(d) Available-for-sale securities sold during the fiscal year ended March 31, 2016 and 2015 were as follows:

	Millions of yen					
	2016			2015		
	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	**¥ 5,338**	**¥ 4,541**	**¥ —**	¥ 8,941	¥ 6,344	¥ —
Japanese national government bonds	**3,445,868**	**4,464**	**294**	6,825,522	4,090	432
Japanese local government bonds	**26,535**	**2**	**45**	30,988	6	39
Japanese corporate bonds	**42,418**	**123**	**9**	49,004	9	4
Other	**610,596**	**3,770**	**4,448**	158,491	2,033	125
Total	**¥ 4,130,756**	**¥ 12,902**	**¥ 4,797**	¥ 7,072,948	¥ 12,484	¥ 601

	Thousands of U.S. dollars		
	2016		
	Proceeds from sales	**Gains on sales**	**Losses on sales**
Available-for-sale securities sold:			
Equity securities	**$ 47,517**	**$ 40,422**	**$ —**
Japanese national government bonds	**30,673,564**	**39,745**	**2,618**
Japanese local government bonds	**236,204**	**18**	**407**
Japanese corporate bonds	**377,591**	**1,100**	**82**
Other	**5,435,253**	**33,565**	**39,602**
Total	**$ 36,770,129**	**$ 114,850**	**$ 42,709**

8. LOANS AND BILLS DISCOUNTED

CONSOLIDATED

Loans and bills discounted as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Loans on deeds	**¥ 3,822,431**	¥ 3,734,059	**$ 34,025,560**
Loans on bills	**25,694**	33,963	**228,725**
Bills discounted	**5,766**	4,921	**51,330**
Overdrafts	**709,031**	688,337	**6,311,476**
Total	**¥ 4,562,923**	¥ 4,461,281	**$ 40,617,091**

(a) Risk-monitored loans

Loans and bills discounted include loans to bankrupt obligors of ¥4,310 million (U.S.$38,372 thousand) and ¥3,248 million as of March 31, 2016 and 2015, respectively, as well as nonaccrual delinquent loans of ¥62,352 million (U.S.$555,031 thousand) and ¥87,796 million as of March 31, 2016 and 2015, 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 exclude loans to bankrupt obligors and nonaccrual delinquent loans. The balances of loans past due for three months or more as of March 31, 2016 and 2015 were ¥1,699 million (U.S.$15,124 thousand) and ¥1,366 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 exclude 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, 2016 and 2015 were ¥26,978 million (U.S.$240,149 thousand) and ¥29,114 million, respectively.

(b) Loan participations

The total outstanding amounts deducted from the loan account for loan participations as of March 31, 2016 and 2015 were ¥8,384 million (U.S.$74,639 thousand) and ¥8,129 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 ¥6,756 million (U.S.$60,143 thousand) and ¥7,927 million as of March 31, 2016 and 2015, 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, 2016 and 2015 were ¥5,766 million (U.S.$51,330 thousand) and ¥4,963 million, respectively.

(d) Loan commitments

The Bank and certain consolidated subsidiaries establish credit lines for overdrafts and issue commitments to extend credit to meet the financing needs of customers. The unfulfilled amounts of these commitments were ¥3,569,428 million (U.S.$31,773,445 thousand) and ¥3,571,470 million as of March 31, 2016 and 2015, out of which the amounts with commitment of within-one-year original agreement and with unconditionally cancelable commitment were ¥3,352,221 million (U.S.$29,839,967 thousand) and ¥3,343,715 million as of March 31, 2016 and 2015, respectively. Since a large majority of these commitments expire without being drawn upon, the unfulfilled amounts do not necessarily represent future cash requirements. Many such agreements include conditions granting the Bank and its consolidated subsidiaries the right to reject the drawdown or to reduce the amount on the basis of changes in the financial circumstances of the borrower or other reasonable grounds.

In addition, the Bank obtains collateral when necessary to reduce credit risk related to these commitments.

9. FOREIGN EXCHANGES

CONSOLIDATED

Foreign exchange assets and liabilities as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Foreign exchange assets:			
Foreign bills bought	**¥ —**	¥ 42	**$ —**
Foreign bills receivable	**1,596**	3,113	**14,215**
Due from foreign banks	**15,427**	15,380	**137,328**
Total	**¥ 17,024**	¥ 18,537	**$ 151,543**
Foreign exchange liabilities:			
Foreign bills payable	**¥ 75**	¥ 24	**$ 671**
Due to foreign banks	**—**	2	**—**
Total	**¥ 75**	¥ 27	**$ 671**

10. OTHER ASSETS

CONSOLIDATED

Other assets as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Accrued income	**¥ 15,090**	¥ 15,912	**$ 134,328**
Prepaid expenses	**3,567**	3,632	**31,755**
Fair value of derivatives	**98,367**	146,163	**875,622**
Accounts receivable	**43,213**	51,601	**384,667**
Installment receivables	**516,336**	459,133	**4,596,196**
Security deposits	**12,975**	14,611	**115,506**
Suspense payments	**18,079**	16,337	**160,933**
Margin deposits for futures transactions	**4,280**	7,139	**38,100**
Cash collateral paid for financial instruments	**38,961**	14,482	**346,819**
Other	**48,458**	59,631	**432,153**
Total	**¥ 799,420**	¥ 788,647	**$ 7,116,079**

Installment receivables in other assets as of March 31, 2016 and 2015 include credits to bankrupt obligors of ¥117 million (U.S.$1,042 thousand) and ¥151 million, nonaccrual delinquent credits of ¥9,937 million (U.S.$88,463 thousand) and ¥9,027 million, credits past due for three months or more of ¥554 million (U.S.$4,936 thousand) and ¥807 million, and restructured credits of ¥319 million (U.S.$2,847 thousand) and ¥506 million, respectively.

11. PREMISES AND EQUIPMENT

CONSOLIDATED

Premises and equipment as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Buildings	**¥ 29,850**	¥ 29,415	**$ 265,716**
Land	**3,336**	3,949	**29,697**
Tangible leased assets as lessor	**45,687**	44,155	**406,687**
Other	**24,561**	23,441	**218,635**
Subtotal	**103,435**	100,961	**920,735**
Accumulated depreciation	**(54,654)**	(54,676)	**(486,507)**
Net book value	**¥ 48,781**	¥ 46,285	**$ 434,228**

12. INTANGIBLE ASSETS — CONSOLIDATED

Intangible assets as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Software			
Software	**¥ 13,424**	¥ 14,351	**$ 119,500**
Software in progress[1]	**12,464**	5,085	**110,952**
Goodwill, net:			
Goodwill	**22,286**	27,732	**198,380**
Negative goodwill	**(4,171)**	(4,534)	**(37,134)**
Intangible assets acquired in business combinations	**4,188**	6,350	**37,286**
Intangible leased assets as lessor	**1**	3	**14**
Other	**703**	667	**6,263**
Total	**¥ 48,897**	¥ 49,655	**$ 435,261**

1 Software in progress which has been included in "Software," is separately presented in the notes due to the materiality of its balance.

13. RESERVE FOR CREDIT LOSSES — CONSOLIDATED

Reserve for credit losses as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Reserve for loan losses:			
General reserve for loan losses	**¥ 64,543**	¥ 60,283	**$ 574,540**
Specific reserve for loan losses	**23,280**	44,041	**207,236**
Reserve for loan losses to restructuring countries	**0**	0	**5**
Subtotal	**87,825**	104,325	**781,781**
Specific reserve for other credit losses	**3,906**	3,906	**34,777**
Total	**¥ 91,732**	¥ 108,232	**$ 816,558**

14. DEPOSITS, INCLUDING NEGOTIABLE CERTIFICATES OF DEPOSIT — CONSOLIDATED

Deposits, including negotiable certificates of deposit, as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Current	**¥ 13,915**	¥ 12,387	**$ 123,872**
Ordinary	**2,015,195**	2,023,206	**17,938,358**
Notice	**20,095**	12,749	**178,885**
Time	**3,005,648**	2,954,160	**26,754,930**
Negotiable certificates of deposit	**301,001**	85,565	**2,679,380**
Other	**445,137**	364,662	**3,962,411**
Total	**¥ 5,800,994**	¥ 5,452,733	**$ 51,637,836**

15. DEBENTURES

CONSOLIDATED

(a) Debentures as of March 31, 2016 and 2015 consisted of the following:

Issuer	Description	Issue	Maturity	Interest Rate (%)	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Shinsei Bank, Limited	Five-year coupon debentures[1]	Apr. 2010 to Apr. 2013	Apr. 2015 to Apr. 2018	0.08 to 0.20	**¥ 16,740**	¥ 32,300	**$ 149,014**
	Total				**¥ 16,740**	¥ 32,300	**$ 149,014**

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

(b) Annual maturities of debentures as of March 31, 2016 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2017	**¥ 9,709**	**$ 86,428**
2018	**6,524**	**58,076**
2019	**506**	**4,510**
2020	**—**	**—**
2021 and thereafter	**—**	**—**
Total	**¥ 16,740**	**$ 149,014**

16. TRADING LIABILITIES

CONSOLIDATED

Trading liabilities as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Derivatives for trading securities	**¥ 797**	¥ 996	**$ 7,100**
Derivatives for securities held to hedge trading transactions	**22,564**	56,833	**200,858**
Trading-related financial derivatives	**268,452**	199,797	**2,389,645**
Trading securities sold for short sales	**2,511**	10,349	**22,359**
Total	**¥ 294,326**	¥ 267,976	**$ 2,619,962**

17. BORROWED MONEY

CONSOLIDATED

(a) Borrowed money as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Subordinated debt	**¥ 51,000**	¥ 58,400	**$ 453,979**
Other	**750,742**	746,817	**6,682,770**
Total	**¥ 801,742**	¥ 805,217	**$ 7,136,749**

(b) The weighted average interest rate applicable to the total balance of borrowed money as of March 31, 2016 was 0.75%.

(c) Annual maturities of borrowed money as of March 31, 2016 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2017	**¥ 383,249**	**$ 3,411,512**
2018	**137,786**	**1,226,511**
2019	**103,427**	**920,662**
2020	**51,260**	**456,299**
2021 and thereafter	**126,019**	**1,121,765**
Total	**¥ 801,742**	**$ 7,136,749**

18. CORPORATE BONDS

CONSOLIDATED

(a) Corporate bonds as of March 31, 2016 and 2015 consisted of the following:

Issuer	Description	Issue	Maturity	Interest Rate (%)	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Shinsei Bank, Limited	Unsecured straight bonds, payable in Euroyen[1]	Oct. 2006 to May 2007	Oct. 2036 to May 2037	0.00 to 3.505[5]	**¥ 200**	¥ 350	**$ 1,780**
	Unsecured subordinated bonds, payable in Yen[2]	Oct. 2005 to Dec. 2013	Oct. 2015 to Dec. 2023	2.01 to 4.00	**31,400**	67,200	**279,508**
	Unsecured subordinated notes, payable in Euro	Sept. 2010	Sept. 2020	7.375	**—**	44,959	**—**
	Unsecured perpetual subordinated notes, payable in Euroyen[3]	Oct. 2005	—	2.35 and 2.435	**—**	4,500	**—**
	Unsecured straight bond, payable in Yen[4]	Jul. 2014 to Oct. 2015	Jul. 2017 to Oct. 2020	0.326 to 0.416	**16,000**	11,000	**142,425**
Hotaka GK	Unsecured straight bond, payable in Yen	Dec. 2011	Dec. 2016	1.635	**3,000**	3,000	**26,705**
Marusei GK	Unsecured straight bond, payable in Yen	Jan. 2012	Dec. 2016	2.824	**500**	500	**4,451**
Tsumagoi GK	Unsecured straight bond, payable in Yen	Apr. 2012	Jun. 2017	2.25	**2,000**	2,000	**17,803**
AMOne GK	Unsecured straight bond, payable in Yen	Jan. 2009	Mar. 2020	2.18	**3,021**	4,995	**26,896**
Showa Leasing Co., Ltd.	Unsecured straight bond, payable in Yen[4]	Feb. 2014 to Aug. 2015	Feb. 2017 to Aug. 2018	0.48 to 0.70	**19,000**	9,000	**169,129**
APLUS FINANCIAL Co., Ltd.	Unsecured straight bond, payable in Yen	Sept. 2014 and Jun. 2015	Sept. 2017 and Jun. 2020	0.45 and 0.64	**20,000**	10,000	**178,031**
	Total				**¥ 95,121**	¥157,505	**$ 846,728**

1 This includes a series of straight bonds issued under Euro Note Programme.
2 This includes a series of subordinated bonds, payable in Yen.
3 This includes a series of perpetual subordinated notes issued under Euro Note Programme.
4 This includes a series of straight bonds, payable in Yen.
5 The maximum and minimum rates under contracts are presented if the interest rates are not decided as of March 31, 2016 and 2015.

(b) Annual maturities of corporate bonds as of March 31, 2016 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2017	**¥ 10,368**	**$ 92,296**
2018	**21,768**	**193,772**
2019	**10,718**	**95,407**
2020	**5,666**	**50,441**
2021 and thereafter	**46,600**	**414,812**
Total	**¥ 95,121**	**$ 846,728**

19. OTHER LIABILITIES
CONSOLIDATED

Other liabilities as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Accrued expenses	**¥ 23,245**	¥ 21,303	**$ 206,919**
Unearned income	**22,920**	23,456	**204,030**
Income taxes payable	**1,909**	1,989	**16,996**
Fair value of derivatives	**86,419**	192,866	**769,270**
Matured debentures, including interest	**7,057**	8,268	**62,819**
Trust account	**—**	162	**—**
Accounts payable	**66,136**	70,145	**588,718**
Deferred gains on installment receivables and credit guarantees	**32,584**	32,470	**290,052**
Asset retirement obligations	**8,890**	8,596	**79,136**
Deposits payable	**91,505**	88,260	**814,537**
Cash collateral received for financial instruments	**28,198**	26,227	**251,010**
Other	**11,591**	7,612	**103,181**
Total	**¥ 380,458**	¥ 481,359	**$ 3,386,668**

20. EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN ASSETS
CONSOLIDATED

(a) The changes in defined benefit obligation for the fiscal years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance at beginning of the year (as previously reported)	**¥ 86,381**	¥ 80,807	**$ 768,928**
Cumulative effect of accounting change	**—**	2,447	**—**
Balance at beginning of the year (as restated)	**86,381**	83,255	**768,928**
Current service cost	**4,363**	3,732	**38,844**
Interest cost	**1,010**	977	**8,995**
Actuarial (gains) losses	**109**	1,831	**973**
Benefits paid	**(3,953)**	(3,442)	**(35,192)**
Others	**14**	26	**128**
Balance at end of the year	**¥ 87,925**	¥ 86,381	**$ 782,676**

(b) The changes in plan assets for the fiscal years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance at beginning of the year	**¥ 81,257**	¥ 72,258	**$ 723,317**
Expected return on plan assets	**1,908**	1,696	**16,986**
Actuarial gains (losses)	**(3,391)**	5,074	**(30,190)**
Contributions from the employer	**5,247**	5,362	**46,711**
Benefits paid	**(3,493)**	(3,134)	**(31,096)**
Balance at end of the year	**¥ 81,528**	¥ 81,257	**$ 725,728**

20. 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, 2016 and 2015 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Defined benefit obligation	**¥ 80,455**	¥ 79,528	**$ 716,182**
Plan assets	**(81,528)**	(81,257)	**(725,728)**
Subtotal	**(1,072)**	(1,728)	**(9,546)**
Unfunded defined benefit obligation	**7,469**	6,852	**66,494**
Net liability (asset) arising from benefit obligation	**¥ 6,397**	¥ 5,123	**$ 56,948**

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Liability for retirement benefits	**¥ 8,791**	¥ 8,749	**$ 78,262**
Asset for retirement benefits	**(2,394)**	(3,625)	**(21,314)**
Net liability (asset) arising from benefit obligation	**¥ 6,397**	¥ 5,123	**$ 56,948**

(d) The components of net periodic retirement benefit cost for the fiscal years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Current service cost	**¥ 4,363**	¥ 3,732	**$ 38,844**
Interest cost	**1,010**	977	**8,995**
Expected return on plan assets	**(1,908)**	(1,696)	**(16,986)**
Amortization of past service cost	**(511)**	(511)	**(4,554)**
Recognized actuarial (gains) losses	**1,210**	1,992	**10,778**
Amortization of obligation at transition	**—**	605	**—**
Other (primarily consists of extraordinary severance benefit)	**116**	25	**1,040**
Net periodic retirement benefit cost	**¥ 4,282**	¥ 5,125	**$ 38,117**

(e) Other comprehensive income on defined retirement benefit plans (before adjusting for tax effects) for the fiscal years ended March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Past service cost	**¥ (511)**	¥ (511)	**$ (4,555)**
Actuarial gains (losses)	**(2,289)**	5,235	**(20,384)**
Obligation at transition	**—**	605	**—**
Total	**¥ (2,801)**	¥ 5,329	**$ (24,939)**

(f) Accumulated other comprehensive income on defined retirement benefit plans (before adjusting for tax effects) as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Unrecognized past service cost	**¥ 954**	¥ 1,466	**$ 8,498**
Unrecognized actuarial gains (losses)	**(4,257)**	(1,967)	**(37,900)**
Unrecognized obligation at transition	**—**	—	**—**
Total	**¥ (3,302)**	¥ (501)	**$ (29,402)**

20. EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN ASSETS (CONTINUED) CONSOLIDATED

(g) Plan assets

(i) Components of plan assets

Plan assets as of March 31, 2016 and 2015 consisted of the following:

	2016	2015
Domestic bonds	**25.7%**	25.2%
Foreign bonds	**11.4**	10.6
Domestic equity securities	**16.7**	18.6
Foreign equity securities	**16.4**	17.4
Life insurance company accounts (general accounts)	**19.4**	17.5
Other	**10.4**	10.7
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, 2016, 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, 2016 and 2015 were set forth as follows:

	2016	2015
Discount rate	**0.43-1.20%**	1.00-1.40%
Long-term expected rate of return on plan assets	**2.00-3.50%**	2.00-3.50%
Expected future salary increase rate	**1.00-7.06%**	1.00-7.06%

21. ACCEPTANCES AND GUARANTEES CONSOLIDATED

Acceptances and guarantees as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Guarantees	**¥ 280,620**	¥ 291,795	**$ 2,497,961**

22. ASSETS PLEDGED AS COLLATERAL CONSOLIDATED

Assets pledged as collateral and liabilities collateralized as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Assets pledged as collateral:			
Cash and due from banks	**¥ 1,158**	¥ 2,505	**$ 10,309**
Trading assets	**7,360**	26,377	**65,522**
Monetary assets held in trust	**3,706**	2,648	**32,995**
Securities	**488,083**	772,014	**4,344,702**
Loans and bills discounted	**113,979**	78,272	**1,014,594**
Lease receivables and leased investment assets	**42,024**	60,786	**374,081**
Other assets	**70,058**	56,331	**623,625**
Premises and equipment	**4,523**	5,071	**40,268**
Liabilities collateralized:			
Deposits, including negotiable certificates of deposit	**¥ 1,159**	¥ 1,206	**$ 10,321**
Call money	**—**	230,000	**—**
Payables under repurchase agreements	**23,779**	29,152	**211,675**
Payables under securities lending transactions	**116,409**	101,280	**1,036,223**
Borrowed money	**376,918**	447,328	**3,355,155**
Corporate bonds	**8,521**	10,495	**75,854**
Other liabilities	**10**	16	**95**
Acceptances and guarantees	**970**	963	**8,636**

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In addition, ¥62,559 million (U.S.$556,876 thousand) and ¥109,052 million of securities as of March 31, 2016 and 2015, were pledged as collateral for transactions, including exchange settlements, swap transactions and replacement of margin for futures transactions.

Also, ¥4,280 million (U.S.$38,102 thousand) and ¥7,139 million of margin deposits for futures transactions outstanding, ¥12,975 million (U.S.$115,506 thousand) and ¥14,611 million of security deposits, ¥38,961 million (U.S.$346,819 thousand) and ¥14,482 million of cash collateral paid for financial instruments, and ¥141 million (U.S.$1,260 thousand) and ¥8,581 million of guarantee deposits under resale agreements and repurchase agreements were included in other assets as of March 31, 2016 and 2015, respectively.

23. NONRECOURSE DEBTS

CONSOLIDATED

Nonrecourse debts in consolidated special purpose companies as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Nonrecourse debts:			
Borrowed money	**¥ 74,593**	¥ 90,700	**$ 663,996**
Corporate bonds	**8,521**	10,495	**75,854**
Assets corresponding to nonrecourse debts:			
Cash and due from banks	**¥ 1,038**	¥ 2,385	**$ 9,240**
Securities	**98,860**	115,815	**880,013**
Loans and bills discounted	**18,904**	30,713	**168,276**
Other assets	**7,604**	13,167	**67,692**

The above balances included certain amount of "Assets pledged as collateral" in Note 22.

24. 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, 2016 and 2015 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
							2016	2015	**2016**
Shinsei Finance (Cayman) Limited	Feb. 2006	U.S.$775	6.418%	Jul. 2016	step-up	Jul. 2016[2]	**¥ 3,398**	¥ 3,633	**$ 30,250**
Shinsei Finance II (Cayman) Limited	Mar. 2006	U.S.$700	7.16%	Jul. 2016	non step-up	Jul. 2016[3]	**1,930**	2,064	**17,187**
Shinsei Finance V (Cayman) Limited	Oct. 2009	¥4,000	5.5%	Jul. 2015	non step-up	Jul. 2015[2]	**—**	4,000	**—**
	Oct. 2009	¥5,000	floating	—	non step-up	Jul. 2015[2]	**—**	5,000	**—**
Total							**¥ 5,328**	¥ 14,697	**$ 47,437**

1 Fixed dividend rates shown in this column are to be changed to floating dividend rates on the dividend payment date shown in "Floating dividend start date" column.
2 These preferred securities are redeemable on any dividend payment date shown in this column or thereafter, at a price equal to the liquidation preference together with any dividends otherwise payable, subject to the prior approval of the Financial Services Agency of Japan ("FSA"). The preferred securities issued by Shinsei Finance V (Cayman) Limited were fully redeemed in July 2015.
3 The preferred securities issued by Shinsei Finance II (Cayman) Limited are redeemable on dividend payment date shown in this column or on each dividend payment date falling at ten year intervals thereafter, at a price equal to the liquidation preference together with any dividends otherwise payable, subject to the prior approval of the FSA.

These preferred securities are accounted for as noncontrolling interests in the consolidated balance sheets.

25. EQUITY

CONSOLIDATED

The authorized number of shares of common stock as of March 31, 2016 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, 2015:		
Beginning of year	2,750,346	96,427
Increase[1]	—	0
Decrease	—	—
End of year	2,750,346	96,428
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**

1 The increase of shares is associated with the acquisition of fractional shares.

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 a 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 stipulates 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.

26. STOCK ACQUISITION RIGHTS

CONSOLIDATED

The Bank issues stock acquisition rights as a stock option plan to directors, executive officers and employees of the Bank and its subsidiaries.

Stock acquisition rights provide eligible individuals (the "holders") with the right to purchase common stock of the Bank without any cash consideration at an exchange rate of one thousand common shares to one stock acquisition right. 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 common 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 into between the Bank and the holders to whom stock acquisition rights were allotted based on the resolution of the annual general meeting of shareholders and the meetings of the Board of Directors which resolves the issuance of stock acquisition rights subsequent to the shareholders' meeting.

In December 2005, the ASBJ issued "Accounting Standard for Stock Options" and related guidance, which requires companies to recognize compensation expense for stock acquisition rights based on the fair value at the date of grant and over the vesting periods for stock acquisition rights newly granted on and after May 1, 2006.

There were no material stock acquisition rights newly issued during the fiscal years ended March 31, 2016 and 2015.

(a) There were no stock-based compensation expenses for the fiscal years ended March 31, 2016 and 2015.

(b) Amount of profit by non-exercise of stock options for the fiscal years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Other gains (losses), net	**¥ 698**	¥ 10	**$ 6,222**

(c) Details of stock options

Stock options outstanding as of March 31, 2016 and 2015 were as follows:

	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)
5th	June 27, 2005	4,922,000	462	July 1, 2007 - June 23, 2015	601	—
6th	June 27, 2005	2,856,000	40	July 1, 2007 - June 23, 2015	601	—
7th	June 27, 2005	1,287,000	135	July 1, 2008 - June 23, 2015	601	—
8th	June 27, 2005	561,000	35	July 1, 2008 - June 23, 2015	601	—
9th	September 28, 2005	157,000	2	July 1, 2007 - June 23, 2015	697	—
10th	September 28, 2005	53,000	2	July 1, 2008 - June 23, 2015	697	—
13th	May 25, 2006	5,342,000	588	June 1, 2008 - June 23, 2015	825	163 or 173
14th	May 25, 2006	3,027,000	31	June 1, 2008 - June 23, 2015	825	163 or 173
15th	May 25, 2006	1,439,000	171	June 1, 2009 - June 23, 2015	825	173 or 192
16th	May 25, 2006	331,000	19	June 1, 2009 - June 23, 2015	825	173 or 192
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

26. 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:

	1st	4th	5th	6th
Fiscal year ended March 31, 2015				
Nonvested (share)				
Outstanding at the beginning of the year	—	—	—	—
Granted during the year	—	—	—	—
Forfeited during the year	—	—	—	—
Vested during the year	—	—	—	—
Outstanding at the end of the year	—	—	—	—
Vested (share)				
Outstanding at the beginning of the year	4,665,000	250,000	2,036,000	1,496,000
Vested during the year	—	—	—	—
Exercised during the year	—	—	—	—
Forfeited during the year	4,665,000	250,000	5,000	—
Exercisable at the end of the year	—	—	2,031,000	1,496,000
Exercise price (Yen)	684	551	601	601
Weighted average stock price at the date of exercise (Yen)	—	—	—	—
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	**—**	**—**	**2,031,000**	**1,496,000**
Vested during the year	**—**	**—**	**—**	**—**
Exercised during the year	**—**	**—**	**—**	**—**
Forfeited during the year	**—**	**—**	**2,031,000**	**1,496,000**
Exercisable at the end of the year	**—**	**—**	**—**	**—**
Exercise price (Yen)	**—**	**—**	**601**	**601**
Weighted average stock price at the date of exercise (Yen)	**—**	**—**	**—**	**—**

	7th	8th	9th	10th
Fiscal year ended March 31, 2015				
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	434,000	170,000	108,000	36,000
Vested during the year	—	—	—	—
Exercised during the year	—	—	—	—
Forfeited during the year	—	—	—	—
Exercisable at the end of the year	434,000	170,000	108,000	36,000
Exercise price (Yen)	601	601	697	697
Weighted average stock price at the date of exercise (Yen)	—	—	—	—
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	**434,000**	**170,000**	**108,000**	**36,000**
Vested during the year	**—**	**—**	**—**	**—**
Exercised during the year	**—**	**—**	**—**	**—**
Forfeited during the year	**434,000**	**170,000**	**108,000**	**36,000**
Exercisable at the end of the year	**—**	**—**	**—**	**—**
Exercise price (Yen)	**601**	**601**	**697**	**697**
Weighted average stock price at the date of exercise (Yen)	**—**	**—**	**—**	**—**

26. STOCK ACQUISITION RIGHTS (CONTINUED)

CONSOLIDATED

	13th	14th	15th	16th
Fiscal year ended March 31, 2015				
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	1,975,000	1,717,000	430,000	19,000
Vested during the year	—	—	—	—
Exercised during the year	—	—	—	—
Forfeited during the year	27,000	—	2,000	—
Exercisable at the end of the year	1,948,000	1,717,000	428,000	19,000
Exercise price (Yen)	825	825	825	825
Weighted average stock price at the date of exercise (Yen)	—	—	—	—
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	**1,948,000**	**1,717,000**	**428,000**	**19,000**
Vested during the year	**—**	**—**	**—**	**—**
Exercised during the year	**—**	**—**	**—**	**—**
Forfeited during the year	**1,948,000**	**1,717,000**	**428,000**	**19,000**
Exercisable at the end of the year	**—**	**—**	**—**	**—**
Exercise price (Yen)	**825**	**825**	**825**	**825**
Weighted average stock price at the date of exercise (Yen)	**—**	**—**	**—**	**—**

	17th	18th	19th	20th
Fiscal year ended March 31, 2015				
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	1,171,000
Vested during the year	—	—	—	—
Exercised during the year	—	—	—	—
Forfeited during the year	—	—	—	32,000
Exercisable at the end of the year	1,224,000	805,000	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, 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)	**—**	**—**	**—**	**—**

26. STOCK ACQUISITION RIGHTS (CONTINUED) CONSOLIDATED

	21st	22nd	23rd
Fiscal year ended March 31, 2015			
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	—	—	—
Exercisable at the end of the year	42,000	188,000	54,000
Exercise price (Yen)	416	407	221
Weighted average stock price at the date of exercise (Yen)	—	—	—
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)	**—**	**—**	**—**

(e) Measurement of the fair value of stock options

There were no stock options granted or whose fair value changed due to the modification of the terms and conditions during the fiscal years ended March 31, 2016 and 2015.

(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.

27. NET TRADING INCOME (LOSS) CONSOLIDATED

Net trading income (loss) for the fiscal years ended March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Income (loss) from trading securities	**¥ 3,477**	¥ 6,111	**$ 30,956**
Income (loss) from securities held to hedge trading transactions	**359**	(129)	**3,199**
Income (loss) from trading-related financial derivatives	**4,761**	5,604	**42,383**
Other, net	**(170)**	(60)	**(1,522)**
Total	**¥ 8,427**	¥ 11,527	**$ 75,016**

28. OTHER BUSINESS INCOME (LOSS), NET — CONSOLIDATED

"Other, Net" in other business income (loss), net, for the fiscal years ended March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Income (loss) from derivatives entered into for banking purposes, net	**¥ 579**	¥ (240)	**$ 5,156**
Equity in net income (loss) of affiliates	**2,126**	4,052	**18,931**
Gain on lease cancellation and other lease income (loss), net	**770**	630	**6,862**
Other, net	**592**	459	**5,272**
Total	**¥ 4,069**	¥ 4,902	**$ 36,221**

29. NET CREDIT COSTS — CONSOLIDATED

Net credit costs for the fiscal years ended March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Losses on write-off or sales of loans	**¥ 1,302**	¥ 4,952	**$ 11,598**
Net provision (reversal) of reserve for loan losses:			
Net provision (reversal) of general reserve for loan losses	**21,819**	14,395	**194,230**
Net provision (reversal) of specific reserve for loan losses	**(11,016)**	665	**(98,067)**
Subtotal	**10,802**	15,060	**96,163**
Other credit costs (recoveries) relating to leasing business	**(208)**	(104)	**(1,859)**
Recoveries of written-off claims	**(8,166)**	(8,056)	**(72,692)**
Total	**¥ 3,730**	¥ 11,852	**$ 33,210**

30. OTHER GAINS (LOSSES), NET — CONSOLIDATED

Other gains (losses), net for the fiscal years ended March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Net gain (loss) on disposal of premises and equipment	**¥ 473**	¥ 992	**$ 4,214**
Gains on write-off of unclaimed debentures	**431**	587	**3,840**
Provision for reimbursement of debentures	**(2,903)**	—	**(25,849)**
Gains on write-off of unclaimed deposits	**574**	345	**5,118**
Gains on sale of nonperforming loans	**1,100**	5,122	**9,798**
Gain on liquidation of subsidiaries	**446**	99	**3,976**
Provision of reserve for losses on interest repayments	**(2,700)**	(4,053)	**(24,034)**
Loss on sale of affiliate's stock	**(277)**	—	**(2,474)**
Impairment losses on long-lived assets	**(636)**	(1,415)	**(5,665)**
Gain on reversal of stock acquisition rights	**698**	10	**6,222**
Other, net	**1,528**	478	**13,602**
Total	**¥ (1,264)**	¥ 2,165	**$ (11,252)**

(a) Gain on reversal of stock acquisition rights

For the fiscal years ended March 31, 2016 and 2015, respectively, gain on reversal of stock acquisition rights of ¥698 million (U.S.$6,222 thousand) and ¥10 million were recognized due to expiration.

(b) Impairment losses on long-lived assets

For the fiscal years ended March 31, 2016 and 2015, respectively, impairment losses on long-lived assets of ¥636 million (U.S.$5,665 thousand) and ¥1,415 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.

31. 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 33.0% and 35.6% for the fiscal years ended March 31, 2016 and 2015, 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, 2016 and 2015 was as follows:

	2016	2015
Normal effective statutory tax rate	**33.0%**	35.6%
Increase (decrease) in taxes resulting from:		
Permanently tax-exempt income	**(0.0)**	(1.4)
Amortization and impairment of goodwill	**3.2**	2.8
Equity in net income/loss of affiliates	**(1.1)**	(1.9)
Other nondeductible expenses	**0.2**	0.1
Foreign tax	**0.1**	0.0
Change in valuation allowance	**(73.5)**	(44.0)
Effect of reduction of carried tax loss deduction limit	**0.0**	1.2
Effect of tax rate reduction	**0.9**	1.7
Expiration of tax loss carryforwards	**35.6**	11.8
Other	**3.8**	(1.3)
Actual effective tax rate	**2.3%**	4.6%

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2016, to approximately 30.8% and for the fiscal year beginning on or after April 1, 2018, to approximately 30.6%. The effect of these changes was to decrease deferred tax assets, net of deferred tax liabilities, by ¥286 million (U.S.$2,545 thousand) and increase accumulated other comprehensive income for unrealized gain (loss) on available-for-sale securities by ¥197 million (U.S.$1,753 thousand), deferred gain (loss) on derivatives under hedge accounting by ¥139 million (U.S.$1,237 thousand), decrease defined retirement benefit plans by ¥17 million (U.S.$151 thousand), in the consolidated balance sheet as of March 31, 2016, and to increase income taxes (benefits)—deferred in the consolidated statement of income for the year then ended by ¥606 million (U.S.$5,394 thousand).

The use of tax loss carryforwards has been limited to the equivalent of 60% of taxable income before deducting tax loss carryforwards since the fiscal year beginning on or after April 1, 2016, to the equivalent of 55% of taxable income before deducting tax loss carryforwards since the fiscal year beginning on or after April 1, 2017, and to the equivalent of 50% of taxable income before deducting tax loss carryforwards since the fiscal year beginning on or after April 1, 2018. The effect of these changes was to decrease deferred tax assets by ¥23 million (U.S.$204 thousand) in the consolidated balance sheet as of March 31, 2016, and to increase income taxes (benefits)—deferred in the consolidated statement of income for the year then ended by ¥23 million (U.S.$204 thousand).

31. 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, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Deferred tax assets:			
Tax loss carryforwards	**¥ 95,350**	¥ 145,661	**$ 848,771**
Reserve for credit losses	**84,228**	97,316	**749,768**
Reserve for losses on interest repayments	**45,965**	59,945	**409,168**
Monetary assets held in trust	**13,054**	12,371	**116,206**
Securities	**10,470**	18,703	**93,202**
Deferred loss on derivatives under hedge accounting	**6,365**	4,764	**56,659**
Other	**18,959**	24,925	**168,773**
Subtotal	**274,395**	363,689	**2,442,547**
Valuation allowance	**(250,838)**	(340,692)	**(2,232,854)**
Total deferred tax assets	**23,556**	22,996	**209,693**
Offset with deferred tax liabilities	**(9,506)**	(7,623)	**(84,624)**
Net deferred tax assets	**¥ 14,050**	¥ 15,373	**$ 125,069**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	**¥ 3,737**	¥ 2,855	**$ 33,266**
Deferred gain on derivatives under hedge accounting	**3,252**	1,524	**28,949**
Temporary differences due to business combination (primarily related to identified intangible assets)	**1,324**	2,211	**11,787**
Asset retirement costs included in premises and equipment	**1,147**	1,106	**10,216**
Other	**424**	619	**3,777**
Total deferred tax liabilities	**9,885**	8,317	**87,995**
Offset with deferred tax assets	**(9,506)**	(7,623)	**(84,624)**
Net deferred tax liabilities	**¥ 378**	¥ 694	**$ 3,371**

(c) The Bank has ¥246,778 million (U.S.$2,196,715 thousand) of tax loss carryforward related to corporate tax as of March 31, 2016. The schedule of tax loss carryforward and its expiration date are as follows:

	Amount		
Fiscal year ended March 31	Millions of yen	Thousands of U.S. dollars	Date of expiry
2009	¥ 107,450	$ 956,476	March 31, 2018
2011	20,013	178,152	March 31, 2020
2012	16,730	148,931	March 31, 2021
2013	23,214	206,648	March 31, 2022
2014	18,594	165,519	March 31, 2023
2015	34,702	308,910	March 31, 2024
2016	26,071	232,079	March 31, 2025
Total	¥ 246,778	$ 2,196,715	

In addition, other significant tax loss carryforwards of major subsidiaries as of March 31, 2016 are as follows:

Subsidiary	Fiscal period ended	Millions of yen	Thousands of U.S. dollars	Date of expiry
APLUS FINANCIAL	March 31, 2011	¥ 946	$ 8,429	March 31, 2020
	March 31, 2012	7,594	67,603	March 31, 2021
	March 31, 2013	887	7,902	March 31, 2022
	March 31, 2014	9,895	88,086	March 31, 2023
	Total	¥ 19,324	$ 172,020	

32. EARNINGS PER SHARE

CONSOLIDATED

A reconciliation of the difference between basic and diluted EARNINGS PER SHARE ("EPS") for the fiscal year ended March 31, 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, 2016:				
Basic EPS				
Profit (loss) attributable to owners of the parent available to common shareholders	**¥ 60,951**	**2,653,918**	**¥ 22.96**	**$ 0.20**
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**	**$ 0.20**

Basic EPS for the fiscal year ended March 31, 2015 was as follows:

	Earnings (Millions of yen)	Weighted average shares (Thousands)	EPS (Yen)
For the fiscal year ended March 31, 2015:			
Basic EPS			
Profit (loss) attributable to owners of the parent available to common shareholders	¥ 67,873	2,653,918	¥ 25.57

Diluted EPS for the fiscal year ended March 31, 2015 is not disclosed because there was no effect from dilutive securities.

33. OTHER COMPREHENSIVE INCOME

CONSOLIDATED

The components of other comprehensive income for the fiscal years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the fiscal year	**¥ 4,019**	¥ 12,682	**$ 35,780**
Reclassification adjustment to profit or loss	**(2,266)**	(7,234)	**(20,174)**
Amount before income tax effect	**1,753**	5,448	**15,606**
Income tax effect	**(759)**	(888)	**(6,763)**
Total	**993**	4,559	**8,843**
Deferred gain (loss) on derivatives under hedge accounting:			
Gains (losses) arising during the fiscal year	**(4,851)**	(4,943)	**(43,187)**
Reclassification adjustment to profit or loss	**2,653**	2,262	**23,621**
Amount before income tax effect	**(2,197)**	(2,680)	**(19,566)**
Income tax effect	**(1,071)**	(50)	**(9,539)**
Total	**(3,269)**	(2,731)	**(29,105)**
Foreign currency translation adjustments:			
Gains (losses) arising during the fiscal year	**(1,508)**	1,587	**(13,426)**
Reclassification adjustment to profit or loss	**33**	(31)	**301**
Amount before income tax effect	**(1,474)**	1,556	**(13,125)**
Income tax effect	**—**	—	**—**
Total	**(1,474)**	1,556	**(13,125)**
Defined retirement benefit plans:			
Gains (losses) arising during the fiscal year	**(3,387)**	3,009	**(30,151)**
Reclassification adjustment to profit or loss	**585**	2,320	**5,212**
Amount before income tax effect	**(2,801)**	5,329	**(24,939)**
Income tax effect	**326**	—	**2,904**
Total	**(2,475)**	5,329	**(22,035)**
Share of other comprehensive income in affiliates:			
Gains (losses) arising during the fiscal year	**(2,415)**	3,278	**(21,500)**
Reclassification adjustment to profit or loss	**0**	(26)	**1**
Amount before income tax effect	**(2,415)**	3,251	**(21,499)**
Income tax effect	**—**	—	**—**
Total	**(2,415)**	3,251	**(21,499)**
Total other comprehensive income	**¥ (8,641)**	¥ 11,966	**$ (76,921)**

34. 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 "(W) 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, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Lease receivables	**¥ 70,412**	¥ 72,921	**$ 626,784**
Leased investment assets:			
Lease payment receivables	**152,999**	167,415	**1,361,936**
Estimated residual value	**5,760**	6,272	**51,273**
Interest equivalent	**(18,026)**	(19,867)	**(160,462)**
Other	**307**	306	**2,735**
Subtotal	**141,040**	154,125	**1,255,482**
Total	**¥ 211,453**	¥ 227,047	**$ 1,882,266**

34. LEASE TRANSACTIONS (CONTINUED) CONSOLIDATED

(b) Lease payment receivables for "Lease receivables and leased investment assets" as of March 31, 2016 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	¥ 23,284	$ 207,270	¥ 47,001	$ 418,390
Due after one year within two years	16,968	151,050	36,695	326,647
Due after two years within three years	13,118	116,775	26,673	237,437
Due after three years within four years	9,504	84,606	16,851	150,009
Due after four years within five years	5,750	51,184	9,290	82,696
Due after five years	5,834	51,940	16,486	146,757
Total	¥ 74,461	$ 662,825	¥ 152,999	$ 1,361,936

(B) OPERATING LEASE TRANSACTIONS

Noncancelable operating lease obligations as lessee and lease payment receivables as lessor as of March 31, 2016 and 2015 were as follows:

AS LESSEE

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Lease obligations:			
Due within one year	¥ 4,632	¥ 4,922	$ 41,240
Due after one year	11,853	17,141	105,519
Total	¥ 16,486	¥ 22,064	$ 146,759

AS LESSOR

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Lease payment receivables:			
Due within one year	¥ 4,348	¥ 3,933	$ 38,712
Due after one year	20,417	19,917	181,751
Total	¥ 24,766	¥ 23,851	$ 220,463

35. SEGMENT INFORMATION CONSOLIDATED

(A) SEGMENT INFORMATION

(a) DESCRIPTION OF REPORTABLE SEGMENTS

Our reportable segments are groups 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 Groups provide a wide variety of financial products and services to institutional and individual customers through our Institutional Group, Global Markets Group and Individual Group. These groups consist of operating segments which provide their respective financial products and services. The Institutional Group consists of the "Institutional Business," "Structured Finance," "Principal Transactions," and "Showa Leasing" and the Global Markets Group consists of the "Markets Sub-Group," and "Other Global Markets Group" as reportable segments. The Individual Group consists of "Retail Banking," "Shinsei Financial" and "APLUS FINANCIAL." Also, the business and operations excluding any of the Institutional Group, the Global Markets Group, and the Individual Group are classified as the "Corporate/Other." The "Treasury Sub-Group" in the "Corporate/Other" is a reportable segment.

In the Institutional Group, the "Institutional Business" segment provides financial products, services and advisory services 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, specialty finance such as M&A finance, and trust business. The "Principal Transactions" segment provides financial products and services related to credit trading and private equity businesses. "Showa Leasing" segment primarily provides financial products and services related to leasing.

35. SEGMENT INFORMATION (CONTINUED)

CONSOLIDATED

In the Global Markets Group, the "Markets Sub-Group" segment engages in foreign exchanges, derivatives, equity-related transactions and other capital markets transactions. The "Other Global Markets Group" segment consists of securities business provided by Shinsei Securities, asset management and wealth management businesses.

In the Individual Group, the "Retail Banking" segment provides financial products and services for retail customers, "Shinsei Financial" segment, which consists of Shinsei Financial Co., Ltd., SHINKI Co., Ltd. and Shinsei Bank Card Loan—Lake in the Bank, provides consumer finance business, and "APLUS FINANCIAL" segment provides installment sales credit, credit cards, guarantees, 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 Sub-Group" segment engages in ALM operations and fund raising including capital instruments.

The overview of revision of reporting segment resulting from organization changes is shown below.

On April 1, 2015, we integrated the Financial Institutions Sub-Group, which was formerly in the Global Markets Group, into the Institutional Business in the Institutional Group. On May 1, 2015, we made organization changes within Institutional Group to strengthen planning and promotion functions of Institutional Group and transferred Overseas Banking Division in Institutional Group to Corporate Planning Division in Corporate Staff Group, in order to integrate the planning/promotion/management of each Group's overseas banking business as the Bank as a whole. On May 31, 2015, we abolished Asset-Backed Investment Division in Institutional Group and integrated its business into Principal Investments Department of Institutional Business Planning Division. On July 1, 2015, we promoted Markets Research Department in Markets Sub-Group to Markets Research Division. On October 1, 2015, we placed the New Energy and PFI Department of the Institutional Business Planning Division under the Project Finance Division and rename it the New Energy Promotion Department. As a result, the reporting segment in the first half fiscal year was revised as shown below.

"Institutional Business" segment in Institutional Group includes institutional business, which was formerly included in "Institutional Business Sub-Group" segment and "Financial Institutions Sub-Group" segment in Global Markets Group.

"Structured Finance" segment in Institutional Group includes structured finance business, which was formerly included in "Institutional Business Sub-Group" segment and New Energy Promotion Department.

"Principal Transactions" segment in Institutional Group includes principal transaction business, which was formerly included in "Principal Transactions Sub-Group" segment, corporate support business, which was formerly included in "Institutional Business Sub-Group" segment and asset-backed investment and incubation businesses, which were formerly included in "Other Institutional Group" segment.

"Markets Sub-Group" segment in Global Markets Group includes investment business, which was formerly included in "Other Global Markets Group" segment. Also, "Other Global Markets Group" segment in Global Markets Group includes market research operation, which was formerly included in "Markets Sub-Group" segment.

"Other" segment in Corporate/Other includes planning and controlling operations of international business, which were formerly included in "Other Institutional Group" segment in Institutional Group.

On June 1, 2015, In the Individual Group, the Retail Banking Sub-Group and the Consumer Finance Sub-Group were abolished and the "Individual Planning Sub-Group" and the "Individual Business Sub-Group" were newly established, in order to realize best practices and pursue synergy effect for retail businesses of the Bank and Group entities by concentrating the Individual Group's planning functions in the Individual Planning Sub-Group. As a result, "Retail Banking Sub-Group" segment was changed to "Retail Banking" segment and "Consumer Finance Sub-Group" segment was changed to "Consumer Finance" segment. These name changes have no impact on the segment information.

On March 1, 2015, APLUS in "APLUS FINANCIAL" segment in the Individual Group merged with Shinsei Card Co., Ltd, which was formerly included in "Shinsei Financial" segment.

As a result of this organizational change, classification of reportable segments was changed, and "REVENUE, PROFIT (LOSS), ASSETS, LIABILITIES AND OTHER ITEMS BY REPORTABLE SEGMENTS" for the fiscal year ended March 31, 2015 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.

35. SEGMENT INFORMATION (CONTINUED)

CONSOLIDATED

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

	Millions of yen					
	Institutional Group				Global Markets Group	
Fiscal year ended March 31, 2016	Institutional Business	Structured Finance	Principal Transactions	Showa Leasing	Markets Sub-Group	Other Global Markets Group
Revenue:	¥ 14,284	¥ 19,087	¥ 7,370	¥ 16,236	¥ 5,122	¥ 2,762
Net Interest Income	10,228	12,789	4,545	(2,195)	1,726	91
Noninterest Income[1]	4,055	6,298	2,825	18,431	3,395	2,670
Expenses	10,461	5,577	5,190	8,547	3,471	4,029
Net Credit Costs (Recoveries)	694	(20,484)	319	(404)	(109)	(277)
Segment Profit (Loss)	¥ 3,127	¥ 33,994	¥ 1,860	¥ 8,093	¥ 1,760	¥ (989)
Segment Assets[2]	¥ 1,673,894	¥ 1,183,275	¥ 219,844	¥ 472,163	¥ 480,031	¥ 63,981
Segment Liabilities	¥ 835,430	¥ 107,484	¥ 3,101	¥ —	¥ 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	¥ —

	Millions of yen						
	Individual Group				Corporate/Other		
		Consumer Finance					
Fiscal year ended March 31, 2016	Retail Banking	Shinsei Financial	APLUS FINANCIAL	Other	Treasury Sub-Group	Other	Total
Revenue:	¥ 27,005	¥ 59,133	¥ 51,789	¥ 1,379	¥ 11,554	¥ 874	¥ 216,602
Net Interest Income	21,581	61,208	6,882	1,123	4,372	(7)	122,345
Noninterest Income[1]	5,424	(2,074)	44,907	256	7,182	882	94,256
Expenses	33,330	32,265	36,147	781	1,698	(935)	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	¥ 1,816	¥ 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

35. SEGMENT INFORMATION (CONTINUED)

CONSOLIDATED

	Millions of yen					
	Institutional Group				Global Markets Group	
Fiscal year ended March 31, 2015	Institutional Business	Structured Finance	Principal Transactions	Showa Leasing	Markets Sub-Group	Other Global Markets Group
Revenue:	¥ 17,346	¥ 18,324	¥ 28,753	¥ 14,995	¥ 9,284	¥ 3,217
Net Interest Income	11,629	12,797	12,802	(2,168)	2,042	185
Noninterest Income[1]	5,717	5,527	15,951	17,164	7,242	3,031
Expenses	9,473	5,131	6,246	8,165	3,312	3,795
Net Credit Costs (Recoveries)	2,210	(6,672)	1,743	(1,236)	39	0
Segment Profit (Loss)	¥ 5,662	¥ 19,864	¥ 20,763	¥ 8,066	¥ 5,932	¥ (579)
Segment Assets[2]	¥ 1,705,143	¥ 1,110,934	¥ 272,468	¥ 456,889	¥ 463,339	¥ 76,502
Segment Liabilities	¥ 489,137	¥ 77,993	¥ 20,213	¥ —	¥ 255,859	¥ 34,423
Includes:						
1. Equity in net income (loss) of affiliates	¥ 171	¥ —	¥ 3,862	¥ —	¥ 19	¥ —
2. Investment in affiliates	—	—	52,083	—	1,458	—
Other:						
Goodwill (Negative Goodwill):						
Amortization	¥ —	¥ —	¥ —	¥ 2,146	¥ —	¥ —
Unamortized balance	—	—	—	21,464	—	—
Intangible assets acquired in business combinations:						
Amortization	¥ —	¥ —	¥ —	¥ 564	¥ —	¥ —
Unamortized balance	—	—	—	1,827	—	—
Impairment losses on long-lived assets	¥ —	¥ —	¥ 21	¥ —	¥ —	¥ —

	Millions of yen						
	Individual Group				Corporate/Other		
		Consumer Finance					
Fiscal year ended March 31, 2015	Retail Banking	Shinsei Financial	APLUS FINANCIAL	Other	Treasury Sub-Group	Other	Total
Revenue:	¥ 30,343	¥ 54,390	¥ 50,477	¥ 1,440	¥ 6,460	¥ 307	¥ 235,342
Net Interest Income	23,811	57,051	6,749	1,226	340	(5)	126,462
Noninterest Income[1]	6,532	(2,661)	43,728	213	6,119	312	108,879
Expenses	34,463	32,178	35,866	666	1,600	788	141,689
Net Credit Costs (Recoveries)	(216)	10,013	6,139	(164)	—	(4)	11,852
Segment Profit (Loss)	¥ (3,902)	¥ 12,198	¥ 8,471	¥ 938	¥ 4,860	¥ (476)	¥ 81,800
Segment Assets[2]	¥ 1,241,858	¥ 400,916	¥ 796,519	¥ 21,214	¥ 1,033,171	¥ 0	¥ 7,578,959
Segment Liabilities	¥ 4,888,507	¥ 9,015	¥ 269,471	¥ 25	¥ 157	¥ —	¥ 6,044,805
Includes:							
1. Equity in net income (loss) of affiliates	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 4,052
2. Investment in affiliates	—	—	—	—	—	—	53,541
Other:							
Goodwill (Negative Goodwill):							
Amortization	¥ 140	¥ 2,606	¥ 887	¥ (0)	¥ —	¥ —	¥ 5,780
Unamortized balance	128	749	858	(4)	—	—	23,197
Intangible assets acquired in business combinations:							
Amortization	¥ —	¥ 2,267	¥ —	¥ —	¥ —	¥ —	¥ 2,832
Unamortized balance	—	4,522	—	—	—	—	6,350
Impairment losses on long-lived assets	¥ 601	¥ 273	¥ —	¥ 19	¥ —	¥ 499	¥ 1,415

35. SEGMENT INFORMATION (CONTINUED)

CONSOLIDATED

Fiscal year ended March 31, 2016	Thousands of U.S. dollars					
	Institutional Group				Global Markets Group	
	Institutional Business	Structured Finance	Principal Transactions	Showa Leasing	Markets Sub-Group	Other Global Markets Group
Revenue:	$ 127,151	$ 169,910	$ 65,611	$ 144,530	$ 45,595	$ 24,589
Net Interest Income	91,049	113,843	40,461	(19,542)	15,370	814
Noninterest Income[1]	36,102	56,067	25,150	164,072	30,225	23,775
Expenses	93,122	49,649	46,203	76,091	30,900	35,868
Net Credit Costs (Recoveries)	6,185	(182,340)	2,847	(3,603)	(976)	(2,467)
Segment Profit (Loss)	$ 27,844	$ 302,601	$ 16,561	$ 72,042	$ 15,671	$ (8,812)
Segment Assets[2]	$ 14,900,255	$ 10,532,988	$ 1,956,953	$ 4,202,989	$ 4,273,027	$ 569,538
Segment Liabilities	$ 7,436,627	$ 956,782	$ 27,607	$ —	$ 2,615,939	$ 499,153
Includes:						
1. Equity in net income (loss) of affiliates	$ 369	$ —	$ 18,562	$ —	$ —	$ —
2. Investment in affiliates	—	—	440,291	—	—	—
Other:						
Goodwill (Negative Goodwill):						
Amortization	$ —	$ —	$ —	$ 20,646	$ —	$ —
Unamortized balance	—	—	—	171,960	—	—
Intangible assets acquired in business combinations:						
Amortization	$ —	$ —	$ —	$ 2,956	$ —	$ —
Unamortized balance	—	—	—	13,312	—	—
Impairment losses on long-lived assets	$ 348	$ —	$ —	$ —	$ 17	$ —

Fiscal year ended March 31, 2016	Thousands of U.S. dollars						
	Individual Group				Corporate/Other		
		Consumer Finance					
	Retail Banking	Shinsei Financial	APLUS FINANCIAL	Other	Treasury Sub-Group	Other	Total
Revenue:	$ 240,391	$ 526,382	$ 461,009	$ 12,283	$ 102,854	$ 7,789	$ 1,928,094
Net Interest Income	192,108	544,851	61,263	9,998	38,918	(71)	1,089,062
Noninterest Income[1]	48,283	(18,469)	399,746	2,285	63,936	7,860	839,032
Expenses	296,694	287,216	321,771	6,952	15,123	(8,328)	1,251,261
Net Credit Costs (Recoveries)	1,267	135,367	78,143	(1,165)	—	(50)	33,208
Segment Profit (Loss)	$ (57,570)	$ 103,799	$ 61,095	$ 6,496	$ 87,731	$ 16,167	$ 643,625
Segment Assets[2]	$ 11,353,313	$ 3,879,110	$ 7,391,185	$ 163,070	$ 7,485,359	$ 0	$ 66,707,787
Segment Liabilities	$ 43,060,447	$ 216,074	$ 2,089,772	$ 343	$ 2,029	$ 0	$ 56,904,773
Includes:							
1. Equity in net income (loss) of affiliates	$ —	$ —	$ —	$ —	$ —	$ —	$ 18,931
2. Investment in affiliates	—	—	—	—	—	—	440,291
Other:							
Goodwill (Negative Goodwill):							
Amortization	$ 1,148	$ 17,355	$ 7,646	$ (5)	$ —	$ —	$ 46,790
Unamortized balance	—	(10,679)	—	(35)	—	—	161,246
Intangible assets acquired in business combinations:							
Amortization	$ —	$ 16,283	$ —	$ —	$ —	$ —	$ 19,239
Unamortized balance	—	23,974	—	—	—	—	37,286
Impairment losses on long-lived assets	$ 1,909	$ 1,390	$ —	$ —	$ 5	$ 1,996	$ 5,665

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.

35. 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, 2016 and 2015 was as follows:

	Millions of yen		Thousands of U.S. dollars
Fiscal Year ended March 31	**2016**	2015	**2016**
Total segment profit	**¥ 72,304**	¥ 81,800	**$ 643,625**
Amortization of goodwill acquired in business combinations	**(5,127)**	(5,640)	**(45,642)**
Amortization of intangible assets acquired in business combinations	**(2,161)**	(2,832)	**(19,239)**
Lump-sum payments	**(934)**	(2,733)	**(8,321)**
Other gains (losses), net	**(1,264)**	2,165	**(11,252)**
Income (loss) before income taxes	**¥ 62,817**	¥ 72,760	**$ 559,171**

(ii) A reconciliation between total segment assets and total assets on the consolidated balance sheets as of March 31, 2016 and 2015 was as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2016**	2015	**2016**
Total segment assets	**¥ 7,493,952**	¥ 7,578,959	**$ 66,707,787**
Cash and due from banks	**1,129,213**	881,776	**10,051,752**
Call loans	**—**	30,000	**—**
Receivables under resale agreements	**—**	53,216	**—**
Receivables under securities borrowing transactions	**4,243**	8,750	**37,772**
Foreign exchanges	**17,024**	18,537	**151,543**
Other assets excluding installment receivables	**283,083**	329,513	**2,519,883**
Premises and equipment excluding tangible leased assets	**27,660**	28,669	**246,220**
Intangible assets excluding intangible leased assets	**48,895**	49,652	**435,248**
Assets for retirement benefits	**2,394**	3,625	**21,314**
Deferred issuance expenses for debentures	**3**	12	**29**
Deferred tax assets	**14,050**	15,373	**125,069**
Reserve for credit losses	**(91,732)**	(108,232)	**(816,558)**
Total assets	**¥ 8,928,789**	¥ 8,889,853	**$ 79,480,059**

(iii) A reconciliation between total segment liabilities and total liabilities on the consolidated balance sheets as of March 31, 2016 and 2015 was as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2016**	2015	**2016**
Total segment liabilities	**¥ 6,392,682**	¥ 6,044,805	**$ 56,904,773**
Call money	**40,000**	230,000	**356,062**
Payables under repurchase agreements	**23,779**	29,152	**211,675**
Payables under securities lending transactions	**118,139**	103,369	**1,051,621**
Borrowed money	**801,742**	805,217	**7,136,749**
Foreign exchanges	**75**	27	**671**
Short-term corporate bonds	**129,400**	96,000	**1,151,860**
Corporate bonds	**95,121**	157,505	**846,728**
Other liabilities	**380,458**	481,359	**3,386,668**
Accrued employees' bonuses	**8,419**	8,774	**74,944**
Accrued directors' bonuses	**77**	88	**691**
Liabilities for retirement benefits	**8,791**	8,749	**78,262**
Reserve for directors' retirement benefits	**—**	95	**—**
Reserve for reimbursement of debentures	**2,903**	—	**25,849**
Reserve for losses on interest repayments	**133,695**	170,250	**1,190,098**
Deferred tax liabilities	**378**	694	**3,371**
Total liabilities	**¥ 8,135,665**	¥ 8,136,091	**$ 72,420,022**

35. SEGMENT INFORMATION (CONTINUED) CONSOLIDATED

(B) RELATED INFORMATION

(a) INFORMATION BY SERVICES

Income regarding major services for the fiscal years ended March 31, 2016 and 2015 was as follows:

Fiscal Year ended March 31	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Loan Businesses	**¥ 133,154**	¥ 133,284	**$ 1,185,282**
Lease Businesses	**8,750**	8,665	**77,895**
Securities Investment Businesses	**15,307**	29,187	**136,265**
Installment Sales and Guarantee Businesses	**46,486**	45,186	**413,804**

(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, 2016 and 2015, 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, 2016 and 2015, 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, 2016 and 2015, therefore major customer information is not presented.

36. RELATED PARTY TRANSACTIONS CONSOLIDATED

Related party transactions for the fiscal years ended March 31, 2016 and 2015 were as follows:

Related party	Description of the transaction	Amount of the transaction: Millions of yen 2016	Amount of the transaction: Millions of yen 2015	Amount of the transaction: Thousands of U.S. dollars 2016	Account name	Balance at the end of fiscal year: Millions of yen 2016	Balance at the end of fiscal year: Millions of yen 2015	Balance at the end of fiscal year: Thousands of U.S. dollars 2016
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]	**¥ 198**	¥ —	**$ 1,768**	—	**¥ —**	¥ —	**$ —**
	Dividend	**1,837**	—	**16,358**	—	**—**	—	**—**
J.C. Flowers III L.P.[1]	Investment[3]	**1,134**	229	**10,101**	—	**—**	—	**—**
	Dividend	**1,697**	478	**15,111**	—	**—**	—	**—**

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.

37. 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."

(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 delegation holders of the business promotion division and the risk management divisions, and the final authority and decision rests with the risk management division.

On portfolio-based credit risk management, to diversify risks in terms of industries, ratings and customer groups, the Portfolio and Risk Management Division monitors 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 value 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 include 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 and Procedure." The Market Business Management Committee meets monthly to review reports from the Market 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 Market 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 Market Risk Management Division carries out regular risk analyses and makes recommendations. Market risk involved in the trading business is managed by the Markets Sub-Group, and market risk of the balance sheet involved in the banking business is managed by the Treasury Sub-Group.

Market risk is managed by quantifying on a daily basis and making risk adjustment in response to market conditions.

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.

37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED)

CONSOLIDATED

The VaR in the Group's trading business as of March 31, 2016 and 2015 were ¥1,492 million (U.S.$13,282 thousand) and ¥1,022 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 fair values, which is calculated using a rationally expected fluctuation range of interest rates for one year from the fiscal year end for quantitative analysis to manage fluctuation risk of interest rates. The amount of such impact on fair values is calculated by categorizing the balance of these financial assets and liabilities according to the term of interest payments and using a certain fluctuation range of interest rates. Assuming all risk variables except for interest rate are constant, the Group estimated that the fair value would decrease by ¥5,096 million (U.S.$45,362 thousand) and ¥5,346 million in case of an increase of the index interest rates by 10 basis points (0.10%), and would increase by ¥5,170 million (U.S.$46,028 thousand) and ¥3,327 million in case of a decrease by 10 basis points (0.10%), as of March 31, 2016 and 2015, respectively. Such amount of impact on fair 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. There is a possibility that interest rate changes beyond the rationally expected fluctuation range may cause an impact greater than the calculated amount.

(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, 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%, approximately 40% of which are nonrecourse loans for real estate.

As of March 31, 2015, loans to the financial and insurance industry were approximately 14% of the total loans and bills discounted, and those to the real estate industry were approximately 12%, slightly less than 50% of which are nonrecourse loans for real estate.

(E) FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values of financial instruments include the values calculated rationally in cases where no market price is available besides the value based on market price. Certain assumptions have been adopted for the calculation, so that the value calculated may not be the same when assumptions that differ from the Group's calculation are adopted.

37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED)

CONSOLIDATED

Fair values of financial instruments as of March 31, 2016 and 2015 were as follows:

	Millions of yen					
	2016			2015		
	Carrying amount	**Fair value**	**Unrealized gain (loss)**	Carrying amount	Fair value	Unrealized gain (loss)
Assets:						
(1) Cash and due from banks	**¥ 1,129,213**	**¥ 1,129,213**	**¥ —**	¥ 881,776	¥ 881,776	¥ —
(2) Call loans	**—**	**—**	**—**	30,000	30,000	—
(3) Receivables under resale agreements	**—**	**—**	**—**	53,216	53,418	202
(4) Receivables under securities borrowing transactions	**4,243**	**4,243**	**—**	8,750	8,750	—
(5) Other monetary claims purchased						
Trading purposes	**17,076**	**17,076**	**—**	40,473	40,473	—
Other[1]	**63,221**	**65,071**	**1,849**	51,424	52,459	1,035
(6) Trading assets						
Securities held for trading purposes	**23,262**	**23,262**	**—**	37,954	37,954	—
(7) Monetary assets held in trust[1]	**255,255**	**263,084**	**7,828**	233,791	238,593	4,802
(8) Securities						
Trading securities	**7**	**7**	**—**	46	46	—
Securities being held to maturity	**559,567**	**568,664**	**9,097**	644,533	649,541	5,007
Securities available for sale	**574,738**	**574,738**	**—**	720,533	720,533	—
Equity securities of affiliates	**46,581**	**29,941**	**(16,639)**	49,453	36,434	(13,018)
(9) Loans and bills discounted[2]	**4,562,923**			4,461,281		
Reserve for credit losses	**(53,999)**			(70,548)		
Net	**4,508,924**	**4,661,271**	**152,347**	4,390,732	4,499,552	108,819
(10) Lease receivables and leased investment assets[1]	**208,327**	**207,154**	**(1,172)**	222,871	224,768	1,897
(11) Other assets						
Installment receivables	**516,336**			459,133		
Deferred gains on installment receivables	**(15,338)**			(14,963)		
Reserve for credit losses	**(11,331)**			(10,996)		
Net	**489,666**	**511,333**	**21,667**	433,173	451,169	17,996
Total	**¥ 7,880,086**	**¥ 8,055,064**	**¥ 174,977**	¥ 7,798,732	¥ 7,925,473	¥ 126,741
Liabilities:						
(1) Deposits, including negotiable certificates of deposit	**¥ 5,800,994**	**¥ 5,804,839**	**¥ (3,844)**	¥ 5,452,733	¥ 5,461,018	¥ (8,285)
(2) Debentures	**16,740**	**16,748**	**(8)**	32,300	32,322	(22)
(3) Call money	**40,000**	**40,000**	**—**	230,000	230,000	—
(4) Payables under repurchase agreements	**23,779**	**23,779**	**—**	29,152	29,152	—
(5) Payables under securities lending transactions	**118,139**	**118,139**	**—**	103,369	103,369	—
(6) Trading liabilities						
Trading securities sold for short sales	**2,511**	**2,511**	**—**	10,349	10,349	—
(7) Borrowed money	**801,742**	**803,766**	**(2,024)**	805,217	805,470	(252)
(8) Short-term corporate bonds	**129,400**	**129,400**	**—**	96,000	96,000	—
(9) Corporate bonds	**95,121**	**96,780**	**(1,658)**	157,505	160,033	(2,528)
Total	**¥ 7,028,429**	**¥ 7,035,965**	**¥ (7,536)**	¥ 6,916,627	¥ 6,927,716	¥ (11,089)
Derivative instruments[3]:						
Hedge accounting is not applied	**¥ 33,841**	**¥ 33,841**	**¥ —**	¥ (15,411)	¥ (15,411)	¥ —
Hedge accounting is applied	**(625)**	**(625)**	**—**	(9,474)	(9,474)	—
Total	**¥ 33,216**	**¥ 33,216**	**¥ —**	¥ (24,885)	¥ (24,885)	¥ —

	Contract amount	**Fair value**	Contract amount	Fair value
Other:				
Guarantee contracts[4]	**¥ 280,620**	**¥ 4,722**	¥ 291,795	¥ (1,376)

37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED)

CONSOLIDATED

	Thousands of U.S. dollars		
	2016		
	Carrying amount	Fair value	Unrealized gain (loss)
Assets:			
(1) Cash and due from banks	$ 10,051,752	$ 10,051,752	$ —
(2) Call loans	—	—	—
(3) Receivables under resale agreements	—	—	—
(4) Receivables under securities borrowing transactions	37,772	37,772	—
(5) Other monetary claims purchased			
Trading purposes	152,011	152,011	—
Other[1]	562,769	579,234	16,465
(6) Trading assets			
Securities held for trading purposes	207,073	207,073	—
(7) Monetary assets held in trust[1]	2,272,173	2,341,861	69,688
(8) Securities			
Trading securities	70	70	—
Securities being held to maturity	4,981,015	5,061,993	80,978
Securities available for sale	5,116,061	5,116,061	—
Equity securities of affiliates	414,644	266,525	(148,119)
(9) Loans and bills discounted[2]	40,617,091		
Reserve for credit losses	(480,682)		
Net	40,136,409	41,492,536	1,356,127
(10) Lease receivables and leased investment assets[1]	1,854,439	1,843,997	(10,442)
(11) Other assets			
Installment receivables	4,596,196		
Deferred gains on installment receivables	(136,541)		
Reserve for credit losses	(100,869)		
Net	4,358,786	4,551,662	192,876
Total	$ 70,144,974	$ 71,702,547	$ 1,557,573
Liabilities:			
(1) Deposits, including negotiable certificates of deposit	$ 51,637,836	$ 51,672,058	$ (34,222)
(2) Debentures	149,014	149,089	(75)
(3) Call money	356,062	356,062	—
(4) Payables under repurchase agreements	211,675	211,675	—
(5) Payables under securities lending transactions	1,051,621	1,051,621	—
(6) Trading liabilities			
Trading securities sold for short sales	22,359	22,359	—
(7) Borrowed money	7,136,749	7,154,767	(18,018)
(8) Short-term corporate bonds	1,151,860	1,151,860	—
(9) Corporate bonds	846,728	861,496	(14,768)
Total	$ 62,563,904	$ 62,630,987	$ (67,083)
Derivative instruments[3]:			
Hedge accounting is not applied	$ 301,246	$ 301,246	$ —
Hedge accounting is applied	(5,571)	(5,571)	—
Total	$ 295,675	$ 295,675	$ —

	Contract amount	Fair value
Other:		
Guarantee contracts[4]	$ 2,497,961	$ 42,040

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 ¥133,695 million (U.S.$1,190,098 thousand) and ¥170,250 million was recognized for estimated losses on reimbursements of excess interest payments as of March 31, 2016 and 2015, 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 ¥21,898 million (U.S.$194,934 thousand) and ¥22,201 million were recognized as "Other liabilities" as of March 31, 2016 and 2015, respectively.

37. 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 approximate 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 approximate carrying amounts.

(2) Call loans and (4) 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 approximate carrying amounts.

(3) Receivables under resale agreements

The fair values of the receivables under resale agreements with maturity of three months or less approximate carrying amounts because of their short-term maturity. The fair values of the receivables under resale agreements with maturity of more than three months are determined by discounting contractual cash flows in case of the transactions with fixed interest rate, or expected cash flows based on the forward rate in case of the transactions with floating interest rate, using the risk-free rate adjusted to account for credit risk (after consideration of collateral) with credit default swap (CDS) spreads etc. corresponding to internal credit rating of each borrower.

(5) Other monetary claims purchased

The fair values are measured at quoted prices from third parties or determined using the discounted cash flow method.

(6) Trading assets

The fair values are measured at market prices or quoted prices from third parties, or determined using the discounted cash flow method.

(7) Monetary assets held in trust

The fair values are determined using the discounted cash flow method based on the characteristics of the components of the entrusted assets.

(8) 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 discounted cash flow method.

(9) 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.

For loans to obligors “legally bankrupt,” “virtually bankrupt” and “possibly bankrupt,” a reserve is provided based on the discounted cash flow method, or based on amounts expected to be collected through the disposal of collateral or execution of guarantees, so that the carrying amount net of the reserve is a reasonable estimate of the fair values of those loans.

(10) Lease receivables and leased investment assets

The fair values are primarily determined by discounting contractual cash flows at the rates that consist of the risk-free rate, credit risk and certain costs, by a group of major product categories.

(11) 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 a group of major product categories.

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 approximate carrying amounts because of their short-term maturity.

The fair values of time deposits are determined by discounting the contractual cash flows at the rates 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 debentures and corporate bonds are measured at market prices.

The fair values of nonmarketable corporate debentures and

37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED)

CONSOLIDATED

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.

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 approximate 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 meets specific matching criteria, the contractual cash flows include the cash flows of the interest rate swaps), and the fair values of borrowed money with floating interest rates are determined by discounting expected cash flows on forward rates, at the funding rates that reflect the credit risk of the borrower.

The fair values of step-up callable subordinated borrowings are determined by discounting expected cash flows that reflect the probability of early redemption at the rates that consist of the risk-free rate and the CDS spread of the Bank.

(8) Short-term corporate bonds
The fair values approximate 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 discounted cash flow method or option-pricing models.

Other:
Guarantee contracts
The fair values are determined by discounting the amount of difference between the original contractual cash flows and the expected cash flows that would be applied for the new contracts with the same terms at the risk-free rate.

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

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2016**	2015	**2016**
Equity securities without readily available market price[1,2]	**¥ 8,206**	¥ 10,538	**$ 73,050**
Investment in partnerships and others[1,2]	**38,758**	52,246	**345,010**
Total	**¥ 46,964**	¥ 62,785	**$ 418,060**

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, 2016 and 2015, impairment losses on equity securities without readily available market price of ¥167 million (U.S.$1,495 thousand) and ¥683 million, and on investment in partnerships and others of ¥235 million (U.S.$2,097 thousand) and ¥114 million were recognized, respectively.

(Note 3) Maturity analysis for financial assets with contractual maturities

	Millions of yen			
As of March 31, 2016	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years
Due from banks	**¥ 1,124,110**	**¥ —**	**¥ —**	**¥ —**
Call loans	**—**	**—**	**—**	**—**
Receivables under resale agreements	**—**	**—**	**—**	**—**
Receivables under securities borrowing transactions	**4,243**	**—**	**—**	**—**
Other monetary claims purchased				
Other than trading purposes	**25,315**	**16,627**	**—**	**22,743**
Securities				
Held-to-maturity	**52,357**	**130,438**	**245,201**	**121,516**
Available-for-sale	**33,982**	**93,476**	**93,873**	**312,331**
Loans and bills discounted	**837,655**	**864,449**	**840,038**	**1,957,177**
Lease receivables and leased investment assets	**65,986**	**86,889**	**38,468**	**18,441**
Installment receivables	**173,772**	**173,815**	**60,940**	**77,950**
Total	**¥ 2,317,424**	**¥ 1,365,697**	**¥ 1,278,523**	**¥ 2,510,161**

37. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED)

CONSOLIDATED

As of March 31, 2016	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	$ 10,006,325	$ —	$ —	$ —
Call loans	—	—	—	—
Receivables under resale agreements	—	—	—	—
Receivables under securities borrowing transactions	37,772	—	—	—
Other monetary claims purchased				
Other than trading purposes	225,348	148,012	—	202,454
Securities				
Held-to-maturity	466,062	1,161,101	2,182,674	1,081,687
Available-for-sale	302,494	832,088	835,618	2,780,238
Loans and bills discounted	7,456,435	7,694,935	7,477,647	17,421,908
Lease receivables and leased investment assets	587,384	773,453	342,429	164,154
Installment receivables	1,546,847	1,547,231	542,468	693,879
Total	$ 20,628,667	$ 12,156,820	$ 11,380,836	$ 22,344,320

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, 2016	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	¥ 4,842,028	¥ 779,900	¥ 138,202	¥ 40,863
Debentures	9,709	7,030	—	—
Call money	40,000	—	—	—
Payables under repurchase agreements	23,779	—	—	—
Payables under securities lending transactions	118,139	—	—	—
Borrowed money	383,249	241,213	83,257	94,022
Short-term corporate bonds	129,400	—	—	—
Corporate bonds	10,368	32,486	20,666	31,600
Total	¥ 5,556,673	¥ 1,060,630	¥ 242,126	¥ 166,486

As of March 31, 2016	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	$ 43,101,549	$ 6,942,320	$ 1,230,214	$ 363,753
Debentures	86,428	62,586	—	—
Call money	356,062	—	—	—
Payables under repurchase agreements	211,675	—	—	—
Payables under securities lending transactions	1,051,621	—	—	—
Borrowed money	3,411,512	2,147,172	741,123	836,942
Short-term corporate bonds	1,151,860	—	—	—
Corporate bonds	92,296	289,180	183,964	281,288
Total	$ 49,463,003	$ 9,441,258	$ 2,155,301	$ 1,481,983

Note: The cash flow of demand deposits is included in "1 year or less."

38. 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, 2016 and 2015 are adjusted for credit risk by a reduction of ¥1,446 million (U.S.$12,877 thousand) and ¥995 million, respectively, and also adjusted for liquidity risk by a reduction of ¥1,074 million (U.S.$9,561 thousand) and ¥1,080 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, 2016 and 2015 were as follows:

	Millions of yen							
	2016				2015			
	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	**¥ 19,199**	**¥ —**	**¥ (39)**	**¥ (39)**	¥ 6,471	¥ 1,479	¥ 0	¥ 0
Bought	**17,813**	**554**	**31**	**31**	3,597	591	9	9
Interest rate options (listed):								
Sold	**16,682**	**—**	**(0)**	**2**	746	—	(0)	0
Bought	**16,703**	**—**	**0**	**(0)**	—	—	—	—
Interest rate swaps (over-the-counter):								
Receive fixed and pay floating	**5,283,601**	**4,286,735**	**252,179**	**252,179**	6,143,320	4,694,556	186,023	186,023
Receive floating and pay fixed	**4,775,777**	**3,989,116**	**(225,844)**	**(225,844)**	5,678,687	4,378,688	(164,243)	(164,243)
Receive floating and pay floating	**1,743,851**	**1,411,617**	**4,042**	**4,042**	1,853,984	1,412,251	1,330	1,330
Interest rate swaptions (over-the-counter):								
Sold	**732,182**	**567,182**	**(13,709)**	**(1,617)**	707,609	538,509	(10,160)	3,350
Bought	**1,132,932**	**1,019,372**	**2,948**	**(4,555)**	1,252,215	1,092,990	3,664	(5,596)
Interest rate options (over-the-counter):								
Sold	**30,783**	**20,783**	**(156)**	**178**	34,824	30,873	(187)	180
Bought	**53,873**	**25,283**	**102**	**(190)**	78,676	54,127	94	(263)
Total			**¥ 19,554**	**¥ 24,185**			¥ 16,530	¥ 20,792

	Thousands of U.S. dollars			
	2016			
	Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**
Futures contracts (listed):				
Sold	**$ 170,908**	**$ —**	**$ (353)**	**$ (353)**
Bought	**158,569**	**4,935**	**278**	**278**
Interest rate options (listed):				
Sold	**148,500**	**—**	**(4)**	**26**
Bought	**148,688**	**—**	**4**	**(6)**
Interest rate swaps (over-the-counter):				
Receive fixed and pay floating	**47,032,236**	**38,158,588**	**2,244,788**	**2,244,788**
Receive floating and pay fixed	**42,511,813**	**35,509,317**	**(2,010,367)**	**(2,010,367)**
Receive floating and pay floating	**15,522,980**	**12,565,580**	**35,985**	**35,985**
Interest rate swaptions (over-the-counter):				
Sold	**6,517,560**	**5,048,804**	**(122,032)**	**(14,399)**
Bought	**10,084,857**	**9,073,992**	**26,242**	**(40,554)**
Interest rate options (over-the-counter):				
Sold	**274,023**	**185,008**	**(1,393)**	**1,587**
Bought	**479,560**	**225,065**	**915**	**(1,695)**
Total			**$ 174,063**	**$ 215,290**

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 discounted cash flow method or option pricing models.

38. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

CONSOLIDATED

(b) CURRENCY-RELATED TRANSACTIONS

Currency-related transactions as of March 31, 2016 and 2015 were as follows:

Millions of yen

	2016				2015			
	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)	¥ 588,346	¥ 360,570	¥ 75	¥ 75	¥ 849,626	¥ 512,261	¥ (33,015)	¥ (33,015)
Forward foreign exchange contracts (over-the-counter):								
Sold	1,221,670	55,050	9,554	9,554	873,045	104,071	(37,348)	(37,348)
Bought	770,482	81,742	4,461	4,461	550,357	128,221	47,268	47,268
Currency options (over-the-counter):								
Sold	874,594	351,676	(13,723)	1,728	910,317	384,820	(27,196)	(14,616)
Bought	868,799	342,816	14,052	1,076	893,142	376,886	12,124	(1,474)
Total			¥ 14,420	¥ 16,897			¥ (38,167)	¥ (39,185)

Thousands of U.S. dollars

	2016			
	Contract/Notional principal			
	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Currency swaps (over-the-counter)	$ 5,237,192	$ 3,209,636	$ 676	$ 676
Forward foreign exchange contracts (over-the-counter):				
Sold	10,874,760	490,038	85,053	85,053
Bought	6,858,484	727,636	39,716	39,716
Currency options (over-the-counter):				
Sold	7,785,249	3,130,463	(122,163)	15,389
Bought	7,733,657	3,051,594	125,085	9,579
Total			$ 128,367	$ 150,413

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 discounted cash flow method or option pricing models.

38. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

CONSOLIDATED

(c) EQUITY-RELATED TRANSACTIONS

Equity-related transactions as of March 31, 2016 and 2015 were as follows:

	Millions of yen							
	2016				2015			
	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	**¥ 6,764**	**¥ 6,579**	**¥ 234**	**¥ 234**	¥ 25,563	¥ 4,995	¥ (2,546)	¥ (2,546)
Bought	**7,866**	**2,514**	**(676)**	**(676)**	15,331	5,796	821	821
Equity index options (listed):								
Sold	**194,385**	**78,697**	**(15,335)**	**(4,005)**	273,885	77,585	(37,244)	(18,955)
Bought	**185,787**	**71,462**	**14,555**	**1,872**	266,286	72,950	35,145	14,962
Equity options (over-the-counter):								
Sold	**27,585**	**16,260**	**(6,922)**	**(2,233)**	51,207	27,585	(16,449)	(10,918)
Bought	**30,851**	**21,151**	**10,783**	**5,069**	60,474	30,851	29,008	21,436
Other (over-the-counter):								
Sold	**1,200**	**1,200**	**142**	**142**	50,400	48,400	1,097	1,097
Bought	**3,177**	**2,670**	**(253)**	**(253)**	70,877	68,177	(1,502)	(1,502)
Total			**¥ 2,528**	**¥ 151**			¥ 8,330	¥ 4,395

	Thousands of U.S. dollars			
	2016			
	Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**
Equity index futures (listed):				
Sold	**$ 60,217**	**$ 58,565**	**$ 2,091**	**$ 2,091**
Bought	**70,027**	**22,385**	**(6,019)**	**(6,019)**
Equity index options (listed):				
Sold	**1,730,328**	**700,530**	**(136,508)**	**(35,658)**
Bought	**1,653,797**	**636,127**	**129,565**	**16,673**
Equity options (over-the-counter):				
Sold	**245,550**	**144,745**	**(61,622)**	**(19,880)**
Bought	**274,629**	**188,284**	**95,990**	**45,127**
Other (over-the-counter):				
Sold	**10,682**	**10,682**	**1,266**	**1,266**
Bought	**28,281**	**23,769**	**(2,255)**	**(2,255)**
Total			**$ 22,508**	**$ 1,345**

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 discounted cash flow method or option pricing model.

38. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

CONSOLIDATED

(d) BOND-RELATED TRANSACTIONS

Bond-related transactions as of March 31, 2016 and 2015 were as follows:

	Millions of yen							
	2016				2015			
	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	¥ 35,136	¥ —	¥ (49)	¥ (49)	¥ 20,356	¥ —	¥ 19	¥ 19
Bought	9,130	—	(4)	(4)	2,987	—	(1)	(1)
Bond options (listed):								
Bought	1,432	—	3	(4)	—	—	—	—
Total			¥ (50)	¥ (58)			¥ 18	¥ 18

	Thousands of U.S. dollars			
	2016			
	Contract/Notional principal			
	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Bond futures (listed):				
Sold	$ 312,773	$ —	$ (443)	$ (443)
Bought	81,273	—	(40)	(40)
Bond options (listed):				
Bought	12,750	—	30	(37)
Total			$ (453)	$ (520)

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, 2016 and 2015 were as follows:

	Millions of yen							
	2016				2015			
	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	¥ 188,681	¥ 123,776	¥ 1,870	¥ 1,870	¥ 263,809	¥ 186,890	¥ 3,538	¥ 3,538
Bought	204,254	123,196	(1,961)	(1,961)	259,803	202,862	(3,587)	(3,587)
Total			¥ (90)	¥ (90)			¥ (48)	¥ (48)

	Thousands of U.S. dollars			
	2016			
	Contract/Notional principal			
	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Credit default option (over-the-counter):				
Sold	$ 1,679,559	$ 1,101,805	$ 16,655	$ 16,655
Bought	1,818,177	1,096,642	(17,456)	(17,456)
Total			$ (801)	$ (801)

Notes:

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income.

(2) The fair values are calculated primarily by using the discounted cash flow method.

(3) "Sold" stands for accepting credit risk and "Bought" stands for transferring credit risk.

38. 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, 2016 and 2015 were as follows:

	Millions of yen					
	2016			2015		
	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	**¥ 466,400**	**¥ 456,400**	**¥ 7,833**	¥ 482,869	¥ 450,400	¥ 4,545
Receive floating and pay fixed	**238,183**	**216,085**	**(20,698)**	246,188	227,188	(14,696)
Total			**¥ (12,864)**			¥ (10,151)

	Thousands of U.S. dollars		
	2016		
	Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**
Interest rate swaps:			
Receive fixed and pay floating	**$ 4,151,682**	**$ 4,062,667**	**$ 69,735**
Receive floating and pay fixed	**2,120,199**	**1,923,497**	**(184,247)**
Total			**$ (114,512)**

Notes:
(1) Most of the hedged items are interest-bearing assets and liabilities such as loans and bills discounted, securities available for sale (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 discounted cash flow method.

38. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

CONSOLIDATED

Interest rate swaps which meet specific matching criteria as of March 31, 2016 and 2015 were as follows:

	Millions of yen					
	2016			2015		
	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	**¥ 22,275**	**¥ 18,150**	**¥ —**	¥ 20,525	¥ 14,925	¥ —

	Thousands of U.S. dollars		
	2016		
	Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**
Interest rate swaps:			
Receive floating and pay fixed	**$ 198,282**	**$ 161,563**	**$ —**

Notes:
(1) The hedged item is borrowed money.
(2) Interest rate swaps which meet specific matching criteria are accounted for as component of hedged borrowed money. Therefore, the fair value of those interest rate swaps is included in the fair value of borrowed money in fair value information shown in Note 37 "FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES."

(b) CURRENCY-RELATED TRANSACTIONS

Currency-related transactions which are accounted for using the deferral method as of March 31, 2016 and 2015 were as follows:

	Millions of yen					
	2016			2015		
	Contract/Notional principal			Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**	Total	Maturity over 1 year	Fair value
Currency swaps	**¥ 158,314**	**¥ 130,418**	**¥ 12,238**	¥ 47,516	¥ 41,252	¥ 677

	Thousands of U.S. dollars		
	2016		
	Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**
Currency swaps	**$ 1,409,244**	**$ 1,160,928**	**$ 108,942**

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 discounted cash flow method.

39. SUBSEQUENT EVENTS
CONSOLIDATED

(A) DIVIDENDS

The following appropriation of retained earnings of the Bank for the fiscal year ended March 31, 2016 was approved at the meeting of the Board of Directors held on May 11, 2016:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, common stock, ¥1.00 (U.S.$0.01) per share	**¥ 2,653**	**$ 23,624**

(B) ACQUISITION OF TREASURY SHARES

On May 11, 2016, the Bank decided to acquire its own treasury shares in accordance with the provision of its Articles of Incorporation, pursuant to Article 459, paragraph 1 of the Companies Act of Japan.

(a) Reason for acquisition
The Bank established the identification of the path to the repayment of public funds as one of its goals in its 3rd Mid-Term Management Plan, announced in January 2016. As a part of the Bank's efforts to achieve this, a resolution to undertake the acquisition of treasury shares has been approved in light of factors such as the Bank's current capital position, earning capability and per share values. Through this acquisition of treasury shares, assuming the maintenance of capital at sufficient levels, the Bank aims to increase the per share values through the implementation of an appropriate capital policy.

(b) Type of shares to be repurchased
Common stock

(c) Number of shares to be repurchased
(Up to) 100,000 thousand shares (3.76% of total number of common shares issued excluding treasury shares)

(d) Total repurchase amount
(Up to) ¥10,000 million (U.S.$89,015 thousand)

(e) Acquisition period
From May 12, 2016 to May 11, 2017

(f) Acquisition method
Open market purchase

(C) REDEMPTION OF PREFERRED SECURITIES ISSUED BY SUBSIDIARIES

On May 25, 2016, the Bank decided to redeem the preferred securities issued by the Bank's wholly owned subsidiaries outside Japan. Outline of the preferred securities to be redeemed is as follows:

(a) Issuer
(i) Shinsei Finance (Cayman) Limited
(ii) Shinsei Finance II (Cayman) Limited

(b) Type of securities
(i) U.S. dollar denominated step-up noncumulative perpetual preferred securities
(ii) U.S. dollar denominated noncumulative perpetual preferred securities

(c) Aggregate redemption amount
(i) U.S.$38,000 thousand
(ii) U.S.$24,187 thousand

(d) Scheduled redemption date
(i) July 20, 2016
(ii) July 25, 2016

(e) Reason for redemption
Optional redemption date has arrived.

INDEPENDENT AUDITORS' REPORT

Deloitte.

Deloitte Touche Tohmatsu LLC
Shinagawa Intercity
2-15-3, Konan
Minato-ku, Tokyo 108-6221
Japan

Tel:+81 (3) 6720 8200
Fax:+81 (3) 6720 8205
www.deloitte.com/jp/en

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Shinsei Bank, Limited:

We have audited the accompanying consolidated financial statements of Shinsei Bank, Limited (the "Bank") and its consolidated subsidiaries (collectively, the "Group"), which comprise the consolidated balance sheets as of March 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements, 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Group'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 Group's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 financial position of the Bank and its consolidated subsidiaries as of March 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Other Matter

Our audits 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 16, 2016

Member of
Deloitte Touche Tohmatsu Limited

NONCONSOLIDATED BALANCE SHEETS (UNAUDITED)

Shinsei Bank, Limited
As of March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note)
	2016	2015	2016
ASSETS			
Cash and due from banks	¥ 1,049,396	¥ 808,296	$ 9,341,258
Call loans	—	30,000	—
Receivables under resale agreements	—	53,216	—
Other monetary claims purchased	192,146	185,707	1,710,406
Trading assets	311,832	279,159	2,775,790
Monetary assets held in trust	151,647	166,285	1,349,898
Securities	1,603,809	1,863,774	14,276,385
Valuation allowance for investments	—	(3,370)	—
Loans and bills discounted	4,300,152	4,222,922	38,278,017
Foreign exchanges	17,024	18,537	151,543
Other assets	205,762	253,808	1,831,602
Premises and equipment	17,813	18,609	158,570
Intangible assets	13,572	8,988	120,813
Prepaid pension cost	1,073	—	9,557
Deferred issuance expenses for debentures	3	12	29
Deferred tax assets	—	1,071	—
Customers' liabilities for acceptances and guarantees	21,730	13,381	193,434
Reserve for credit losses	(28,282)	(47,715)	(251,759)
Total assets	¥ 7,857,682	¥ 7,872,684	$ 69,945,543
LIABILITIES AND EQUITY			
Liabilities:			
Deposits, including negotiable certificates of deposit	¥ 5,965,769	¥ 5,600,291	$ 53,104,587
Debentures	16,740	32,300	149,014
Call money	40,000	230,000	356,062
Payables under repurchase agreements	23,779	29,152	211,675
Payables under securities lending transactions	116,409	101,280	1,036,223
Trading liabilities	291,356	259,128	2,593,520
Borrowed money	374,827	444,139	3,336,542
Foreign exchanges	75	27	671
Corporate bonds	57,619	148,423	512,901
Other liabilities	162,635	272,383	1,447,711
Accrued employees' bonuses	4,511	4,645	40,159
Reserve for employees' retirement benefits	—	750	—
Reserve for directors' retirement benefits	—	47	—
Reserve for reimbursement of debentures	2,903	—	25,849
Deferred tax liabilities	2,873	—	25,581
Acceptances and guarantees	21,730	13,381	193,434
Total liabilities	7,081,231	7,135,951	63,033,929
Equity:			
Common stock	512,204	512,204	4,559,414
Capital surplus	79,465	79,465	707,370
Stock acquisition rights	512	1,211	4,563
Retained earnings:			
Legal reserve	13,689	13,158	121,859
Unappropriated retained earnings	250,526	212,144	2,230,074
Unrealized gain (loss) on available-for-sale securities	10,777	8,502	95,936
Deferred gain (loss) on derivatives under hedge accounting	(18,166)	(17,395)	(161,713)
Treasury stock, at cost	(72,559)	(72,558)	(645,889)
Total equity	776,450	736,733	6,911,614
Total liabilities and equity	¥ 7,857,682	¥ 7,872,684	$ 69,945,543

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥112.34=U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2016.

NONCONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Shinsei Bank, Limited
For the fiscal years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note)
	2016	2015	2016
Interest income:			
Interest on loans and bills discounted	¥ 80,443	¥ 76,016	$ 716,075
Interest and dividends on securities	25,952	33,007	231,017
Interest on deposits with banks	1,049	1,182	9,338
Other interest income	1,704	1,918	15,172
Total interest income	109,149	112,124	971,602
Interest expenses:			
Interest on deposits, including negotiable certificates of deposit	8,449	10,878	75,213
Interest and discounts on debentures	24	48	220
Interest on other borrowings	2,209	2,461	19,665
Interest on corporate bonds	3,403	6,804	30,295
Other interest expenses	1,691	740	15,059
Total interest expenses	15,778	20,933	140,452
Net interest income	93,371	91,190	831,150
Fees and commissions income	19,285	20,959	171,670
Fees and commissions expenses	24,103	19,908	214,563
Net fees and commissions	(4,818)	1,051	(42,893)
Net trading income	4,833	4,529	43,028
Other business income (loss), net:			
Net gain (loss) on monetary assets held in trust	4,491	9,060	39,981
Net gain (loss) on foreign exchanges	5,596	7,177	49,816
Net gain (loss) on securities	2,117	6,012	18,849
Net gain (loss) on other monetary claims purchased	19	2,020	171
Other, net	555	(256)	4,946
Net other business income (loss)	12,780	24,014	113,763
Total revenue	106,166	120,785	945,048
General and administrative expenses:			
Personnel expenses	27,463	27,161	244,468
Premises expenses	12,153	12,014	108,183
Technology and data processing expenses	8,636	8,345	76,876
Advertising expenses	6,950	6,848	61,871
Consumption and property taxes	5,088	4,530	45,298
Deposit insurance premium	2,077	3,527	18,495
Other general and administrative expenses	13,802	15,576	122,868
Total general and administrative expenses	76,173	78,004	678,059
Net business profit	29,993	42,781	266,989
Net credit costs (recoveries)	(20,125)	(4,138)	(179,152)
Other gains (losses), net	(7,284)	(554)	(64,847)
Income (loss) before income taxes	42,834	46,366	381,294
Income taxes (benefit):			
Current	(618)	(422)	(5,502)
Deferred	1,886	1,047	16,791
Net income (loss)	¥ 41,566	¥ 45,740	$ 370,005

	Yen		U.S. dollars (Note)
Basic earnings per share	¥ 15.66	¥ 17.23	$ 0.14
Diluted earnings per share	¥ 15.66	¥ —	$ 0.14

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥112.34=U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2016.

NONCONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

Shinsei Bank, Limited
For the fiscal years ended March 31, 2016 and 2015

	Millions of yen								
				Retained earnings					
	Common stock	Capital surplus	Stock acquisition rights	Legal reserve	Unappropriated retained earnings	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Treasury stock, at cost	Total equity
BALANCE, March 31, 2014 (April 1, 2014, as previously reported)	¥ 512,204	¥ 79,465	¥ 1,221	¥ 12,628	¥ 172,395	¥ 5,140	¥ (11,013)	¥ (72,558)	¥ 699,483
Cumulative effect of accounting change					(2,807)				(2,807)
BALANCE, April 1, 2014 (as restated)	512,204	79,465	1,221	12,628	169,588	5,140	(11,013)	(72,558)	696,676
Dividends				530	(3,184)				(2,653)
Net income (loss)					45,740				45,740
Purchase of treasury stock								(0)	(0)
Net change during the year			(10)			3,362	(6,381)		(3,030)
BALANCE, March 31, 2015 (April 1, 2015, as previously reported)	512,204	79,465	1,211	13,158	212,144	8,502	(17,395)	(72,558)	736,733
Cumulative effect of accounting change									
BALANCE, April 1, 2015 (as restated)	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)
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

	Thousands of U.S. dollars (Note)								
				Retained earnings					
	Common stock	Capital surplus	Stock acquisition rights	Legal reserve	Unappropriated retained earnings	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Treasury stock, at cost	Total equity
BALANCE, March 31, 2015 (April 1, 2015, as previously reported)	$ 4,559,414	$ 707,370	$ 10,785	$ 117,134	$ 1,888,418	$ 75,683	$ (154,847)	$ (645,887)	$ 6,558,070
Cumulative effect of accounting change									
BALANCE, April 1, 2015 (as restated)	4,559,414	707,370	10,785	117,134	1,888,418	75,683	(154,847)	(645,887)	6,558,070
Dividends				4,725	(28,349)				(23,624)
Net income (loss)					370,005				370,005
Purchase of treasury stock								(2)	(2)
Net change during the year			(6,222)			20,253	(6,866)		7,165
BALANCE, March 31, 2016	$ 4,559,414	$ 707,370	$ 4,563	$ 121,859	$ 2,230,074	$ 95,936	$ (161,713)	$ (645,889)	$ 6,911,614

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥112.34=U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2016.

CAPITAL ADEQUACY REQUIREMENT (BASEL ACCORD) PILLAR III (MARKET DISCIPLINE) DISCLOSURE

This chapter describes information that needs to be disclosed in disclosure documents related to the reported business year pursuant to the Financial Services Agency Notice No. 7 of 2014 (Basel Accord - Pillar III: Market Discipline) as the "matters concerning the status of capital adequacy separately prescribed by the Commissioner of the Financial Services Agency" as provided in Article 19-2 (1) (v) (d) of the Ordinance for Enforcement of the Banking Act (Ministry of Finance Ordinance No. 10 of 1982).

"Accord" in this chapter refers to the Financial Services Agency Notice No. 19 of 2006 (Basel Accord - Pillar I: Minimum Capital Ratio).

QUALITATIVE DISCLOSURE

1. RANGE OF CONSOLIDATION

(1) DIFFERENCES BETWEEN COMPANIES WHICH BELONG TO THE GROUP OF COMPANIES (CONSOLIDATED GROUP) SUBJECTED TO CALCULATION OF THE CONSOLIDATED CAPITAL RATIOS BASED ON THE ACCORD'S ARTICLE 26 AND COMPANIES INCLUDED IN THE SCOPE OF ACCOUNTING CONSOLIDATION AND REASONS FOR DIFFERENCES

• There are no differences.

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

i) Number of consolidated subsidiaries

160 consolidated subsidiaries.

ii) Major consolidated subsidiaries

- Shinsei Trust & Banking Co., Ltd. (trust banking)
- Shinsei Securities Co., Ltd. (securities)
- APLUS FINANCIAL Co., Ltd. (installment credit)
- Showa Leasing Co., Ltd. (leasing)
- SHINKI 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 preferred securities, perpetual subordinated bonds and 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. 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 each month senior management, e.g. the Executive Committee, receives a report. Additionally, in regards to regulatory capital, capital ratio is reported at the above mentioned reporting, 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.

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.

4. 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

QUALITATIVE DISCLOSURE (CONTINUED)

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 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. Obligor ratings shall be determined at the "Credit Rating Review Committee" in order to ensure objectivity and transparency. Moreover, we ensure conformity of obligor ratings with obligor categories based on the regulatory self-assessment requirements.

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 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. At Shinsei Bank, Portfolio Risk Management Division and Integrated Risk Management Division jointly take the role in monitoring the segment-specific risk diversification status including industry classifications, ratings, products, and regions, and undertake 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 CRO on a monthly as well as on an ad hoc basis.

PRINCIPAL "CREDIT RISK MANAGEMENT STANDARDS"

For Basel Regulation, the Foundation Internal Ratings-Based Approach (F-IRB) has been adopted by the Bank for calculation of credit risk-weighted assets. In accordance with this approach, the Bank established "Credit Risk Management Standards," a set of policy, standards/guideline and procedures, which define the Bank's internal rating system design and operations, internal control, use of internal rating and risk quantification.

These Standards contain "Basic Principles of the Internal Rating System for Credit Risk" as the highest level policy to define basic framework of overall internal rating systems. Details of management policy and procedures are defined in the form of subordinate specific rules for each group of exposures in the portfolio.

Summary of internal rating system of each group of exposures is shown in "EXHIBIT."

QUALITATIVE DISCLOSURE (CONTINUED)

INTERNAL CONTROL ROLES AND RESPONSIBILITIES

The Bank Group's internal control system for credit risk management has been set up in accordance with current regulations.

(1) Credit Risk Management Divisions
Portfolio Risk Management Division and its subsidiaries undertake the roles and responsibilities for management of credit risk. Credit Risk Control Section (a section specified in Integrated Risk Management Section of the Bank) 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 expected to be collected through the disposal of collateral or execution of guarantees.

For claims against obligors that are legally bankrupt (due to bankruptcy and special liquidation) or virtually bankrupt, a specific reserve is provided based on the amount of claims, net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

The reserve for loans to restructuring countries is provided based on the amount of expected losses due to the political and economic situation in each country.

Additionally, with regard to claims against possibly bankrupt obligors and substandard obligors, a reserve is provided based on the discounted cash flow method when the obligor's future cash flows for debt service are reasonably estimable and the balance of claims to such obligors is large.

QUALITATIVE DISCLOSURE (CONTINUED)

TRANSITION PLAN FOR MOVING A PORTION OF THE BANK'S PORTFOLIO, WHICH HAS NOT YET APPLIED F-IRB, FROM THE STANDARDIZED APPROACH TO THE F-IRB APPROACH

Expected IRB roll-out periods of assets currently evaluated using the Standardized Approach, and the F-IRB Approach will be applied at a future date to secure sufficient data observation periods are as follows:

- Card Loan Lake at the Bank: March end 2017

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, R&I and JCR.

5. 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.

6. POLICIES AND PROCEDURES FOR COUNTERPARTIES OF DERIVATIVE PRODUCT AND TRANSACTIONS WITH LONG-HORIZON SETTLEMENT PERIODS

(1) COUNTERPARTY RISK

Counterparty credit risk arising from market trading, such as derivatives, is controlled based on current fair value and estimation of future fair value volatility. Estimation of future fair value volatility covers various products including exotic derivatives, and considers risk mitigation effect by collateral as well as netting effect by the ISDA Credit Support Annex (CSA) etc.

As the risk associated with market trade changes by market rate fluctuation after the trade, the Bank controls it based on estimation of future fair value volatility.

(2) ALLOCATION OF CREDIT LIMITS

Counterparty limits due to derivatives transactions are established based on counterparty's specific situation, and credit limits are managed as appropriate on both a counterparty limit basis, and total credit limit basis where counterparty limit is added to any other credit exposure for each obligor in order to reflect the Bank's overall exposure.

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.

QUALITATIVE DISCLOSURE (CONTINUED)

(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.

(5) CALCULATION METHOD OF COUNTERPARTY CREDIT EXPOSURE

Current exposure method has been applied.

7. 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.

8. 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 "4. Credit Risk Management and Procedures, Credit Risk Management of Specific Transactions" will be followed for new investments after specifying and recognizing the risk profile, product specifics, nature of underlying assets and structure including credit enhancement, etc.

(3) Servicer

The Bank acts as a servicer when loans, which were originated by the Bank, are used as underlying assets in securitization.

Similarly, when financial assets such as credit card and consumer loan receivables originated by the Bank's subsidiaries are used as underlying assets for a securitization, the subsidiary serves as a servicer.

(4) Swap provider

In some transactions wherein the Bank is the arranger, the Bank provides swaps in order to mitigate interest rate risk within a specified range or to manage any cashflow difference between interest from underlying assets and coupons from the securities backed by the same assets.

Securitized exposure includes various risk characteristics that are unique to each product, as well as general risks, such as credit risk, market risk, and liquidity risk.

The Bank does not act as a credit enhancement provider/liquidity provider in any transaction. The Bank does not conduct ABCP business as well.

QUALITATIVE DISCLOSURE (CONTINUED)

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 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 SUBUSIDIARIES AND AFFILIATES WHO HOLD SECURITIZATION EXPOSURES RELATED TO THE BANK'S ORIGINATED SECURITIZATION TRANSACTIONS

No securitization exposures related to the Bank's originated securitization transactions are held by the Bank's nonconsolidated subsidiaries and affiliates.

ACCOUNTING POLICY ADOPTED FOR SECURITIZATION TRANSACTIONS

(1) When assets to be securitized are owned by the Bank, securitization assets are removed from the balance sheet and assignment of gains and losses are calculated based on the financial component (*zaimu-kousei-youso*) approach.

The assets sold and retained interests are recognized as separate components of a transfer of financial assets. Those components in the transferred assets are measured by allocating the previous carrying amount between the assets sold and retained interests based on the relative fair values at the time of transfer. Based on the calculated values of assets that are sold, gains or losses on the transfer are recognized.

However, when assets are securitized for fundraising purposes, the book value to be credited on the balance sheet is adjusted in order to prevent generating any initial profits, after removing the assets from the balance sheet using the financial component approach.

QUALITATIVE DISCLOSURE (CONTINUED)

(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, R&I, and JCR.

SUMMARY OF INTERNAL VALUATION METHOD FOR SECURITIZATION
The Bank is not using the internal valuation method for securitization.

SIGNIFICANT CHANGES OF QUANTITATIVE INFORMATION
There are no significant changes of quantitative information.

9. 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 Procedure" 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 CRO and to the front office.

(3) MARKET RISK MANAGEMENT FRAMEWORK
We have established effective organizational framework for check and balance by making front office unit, back office unit and middle office management unit independent respectively. The Integrated Risk Management Division, the middle office unit, is responsible for the objective and timely recognition, monitoring and reporting of these market risks and carries out regular risk analysis and recommendations, as well as timely and appropriately providing management and front office unit.

(4) QUANTITATIVE MARKET RISK MANAGEMENT
The market risk is managed based on the VaR limit and loss limit which are determined by the Executive Committee. The bank also set sensitivity limits relating to interest rate and FX rate etc. and implement stress testing based on various market shocks to enhance market risk management.

The Integrated Risk Management Division is consistently responsible for risk measurement and its control stipulating its definitions and rules.

b) NAME OF METHODOLOGY FOR MARKET RISK MEASUREMENT
The internal-model method has been adopted for general market risk at market risk measurement and the standardized method for specific risk since March 31, 2007 for the Bank and Shinsei Securities. The standardized method is applied for FX related risks except Trading.

Market Risk Methodologies

		Trading	FX-related Risks except Trading
Shinsei Bank	General Market Risk	Internal Model Method • Historical Simulation Method	Standardized Method
	Specific Risk	Standardized method	
Shinsei Securities	General Market Risk	Internal Model Method •Historical Simulation Method	Standardized Method
	Specific Risk	Standardized Method	
Other Subsidiaries		—	Standardized Method

QUALITATIVE DISCLOSURE (CONTINUED)

c) ADEQUATE PRICING METHOD ACCORDING TO TRANSACTION PROFILE TAKING POSSIBILITIES INTO CONSIDERATION THAT ACTUAL HOLDING PERIOD MAY EXCEED EXPECTED HOLDING PERIOD

The VaR framework is using this 10-day for holding period. Market liquidity of all trading book's products are high enough, and we evaluate adequately the pricing according to the products profile including the independent price valuation process.

d) INTERNAL MODEL METHOD AND BACK-TESTING, STRESS-TESTING

The Bank and Shinsei Securities use a historical simulation VaR for internal model at general market risk measurement (a 99% confidential level, 10 day holding period, 250 observation days). Please refer to following table for VaR data and Stressed VaR.

		Millions of yen	
		Consolidated	Nonconsolidated
VaR at the end of year		¥ 1,214	¥ 788
through FY	High	2,346	1,761
	Mean	1,626	1,128
	Low	1,017	623

		Millions of yen	
		Consolidated	Nonconsolidated
Stressed VaR at the end of year		¥ 2,587	¥ 1,916
through FY	High	5,219	4,286
	Mean	3,859	2,975
	Low	2,393	1,694

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 2015 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.

10. 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 Asset Liability Management Policy for Banking Account. In order to appropriately control interest rate risk, at the beginning of each fiscal year the 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 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 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 Asset Liability Management Policy for Banking Account, the interest rate risk of the banking account is calculated as follows.

1) Calculation method

The amount of interest rate risk is calculated by adding up grid point sensitivity (GPS) for each period which reflects a certain interest rate shock. GPS is fluctuations in the current value of assets, liabilities, and off-balance-sheet transactions in accordance with interest rate fluctuations for each period (grid).

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. The interest rate risk of investment and funding sides is calculated.

QUALITATIVE DISCLOSURE (CONTINUED)

3) Interest rate shock range
Internal control: 1%; outlier criteria: 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 2% interest rate shock range is adopted in the outlier criteria. The outlier rate is calculated by a method which is consistent with calculations for internal control. March end, 2016 actual outlier rate is much lower than the outlier criteria (economical value decrease by the 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 2016:

	Billions of yen	
	Consolidated	Nonconsolidated
JPY	¥ (98.1)	¥ (56.2)
USD	(3.1)	(3.1)
Other	(3.3)	(3.3)
Total	¥ (104.6)	¥ (62.7)
Outlier Ratio	12.9%	7.6%

11. 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.

QUALITATIVE DISCLOSURE (CONTINUED)

Such identified and evaluated risks are reported to senior management by the designated management divisions and the firm-wide management division and are used in Risk Capital measurement for internal management purposes.

(3) "Operational Risk Management Standards"

"Operational Risk Management Standards" are a set of policies and procedures used to define the organizational framework, specific methods and processes for operational risk management. They are composed of the following:

- "Operational Risk Management Policy"
- Specific management rules
- Management rules at consolidated subsidiaries

"Operational Risk Management Policy" is the highest set of rules on operational risk management. To ensure comprehensive and consistent operational risk management within the Bank Group, the Policy establishes risk definitions, governance and basic policies on operational risk management, and the basic framework for risk capture, evaluation, monitoring, reporting, control and mitigation.

Specific management rules include management standards and procedures for each respective operational risk category, and for new businesses and products.

Management rules at each consolidated subsidiary are composed of comprehensive rules on overall operational risk management and specific rules for respective operational risk categories. Consolidated subsidiaries establish, revise and repeal rules with the approval of their Board of Directors, according to their risk characteristics and specific internal controls. Their establishment, revision and repeal are subject to prior discussions with and after-the-fact reports to the Bank to ensure consistency with the Bank's risk management rules.

METHODOLOGY TO CALCULATE OPERATIONAL RISK UNDER BASEL REGULATION

The Standardized Approach is adopted by the Bank.

Amount of required capital for Operational Risk at the end of fiscal year 2015:

	Millions of yen	
	Required capital amount (Consolidated)	Required capital amount (Nonconsolidated)
The Standardized Approach	¥ 29,271	¥ 15,401

QUALITATIVE DISCLOSURE (CONTINUED)

EXHIBIT: SUMMARY OF INTERNAL RATING SYSTEM

<table>
<tr><td rowspan="2">Type of Exposures</td><td colspan="2">Corporate Exposures (Shinsei Bank, and Showa Leasing (large amount exposures))</td></tr>
<tr><td>(a) Corporate Exposures, (b) Sovereign Exposures,
(c) Exposures to Banks, and (d) Equity Exposures
(Exposures to which Internal Rating and PD/LGD approach is applied)</td><td>(e) Specialized Lending</td></tr>
<tr><td>Structure of Internal Rating System</td><td>A obligor rating system benchmarked against external ratings (R&I) which reflects credit status of obligor is in place.

Obligor rating is derived from quantitative score calculated from model prepared by using external ratings as a benchmark based on the financial data of a customer, and determined taking into account of influence from group companies and future financial projection.

Obligor ratings for Sovereign/Bank exposures are assigned based on specific rules.</td><td>A facility rating system based on degree of expected loss ratio according to the transaction type is in place for specialized lending assets whose interest payments and principal repayments are heavily dependent on the profit of assets and the business.

Ratings are assessed according to facility type as follows.
• Real estate nonrecourse loans are decided by adding qualitative adjustments to quantitative index based on the LTV.
• Ratings for project finance or non-recourse shipping finance are decided by comprehensively considering financial indices such as DSCR and the assessment of each risk factor that has an impact on the operation of the project. Regarding nonrecourse shipping finance, evaluation of ship is also considered in the risk assessment.</td></tr>
<tr><td>Usage of Various Estimated Value (Use Test)</td><td colspan="2">Obligor rating and facility rating are used in the standards of credit approval authority procedures, pricing, portfolio management, and allocating Risk Capital.</td></tr>
<tr><td>Management of Internal Rating System, and Rating Assignment Procedures</td><td>Portfolio Risk Management Division (PRMD) of the Bank is in charge of designing the rating system and ratings are assigned by the Credit Rating Review Committee.</td><td>PRMD of the Bank is in charge of the design of the rating system.
Ratings are assigned by the Credit Rating Review Committee or the section in charge of credit analysis of the Bank depending on the transaction type.</td></tr>
<tr><td>Validation Procedures</td><td>Back testing, rating transition analyses, the reasonability of the rating and appropriateness of the rating process are conducted in a multifaceted manner for validation of rating and parameters by using internal and external data.</td><td>According to the type of transactions, rating transition analyses, the reasonability of the rating and appropriateness of the rating process are conducted for validation of rating by using internal and external data.</td></tr>
<tr><td>Estimation of Parameters</td><td>Definition of Default
Obligor categorization under self assessment falls to sub-standard (9B) or lower, etc.

PD
Long-term averages are calculated based on internal data, and margin for estimation error is added to derive estimates.

LGD/EAD
Parameters are not estimated as a bank using Fundamental Internal Ratings-Based Approach.</td><td>Internal ratings are allocated to slotting criteria, and parameters are not estimated.</td></tr>
</table>

QUALITATIVE DISCLOSURE (CONTINUED)

EXHIBIT: SUMMARY OF INTERNAL RATING SYSTEM

Type of Exposures	Retail Exposures (Shinsei Bank)	Retail Exposures (APLUS FINANCIAL, APLUS, APLUS PERSONAL LOAN, Zen-Nichi Shinpan, Shinsei Financial, SHINKI, and Showa Leasing)
	(f) Residential Mortgage Exposures	(g) Qualifying Revolving Retail Exposures, (h) Other Retail Exposures
Structure of Internal Rating System	Assignment of Pool Category to each exposure shall be conducted so that risk is appropriately categorized, taking into account the obligor's risk characteristics, transaction's risk characteristics and the delinquency status of the exposure. (In addition to housing loans described above, housing loans originated by lenders other than the Bank and purchased as portfolios by the Bank are managed as purchased receivables.)	Portfolios of the Bank's subsidiaries are classified as qualifying revolving retail exposures (such as unsecured personal loans, credit cards) or other retail exposures (such as installment sales credit receivables, small-lot lease receivables) according to credit facility types. (Housing loan portfolios of APLUS and Zen-Nichi Shinpan are classified as residential mortgage exposures). Exposures are assigned to appropriate pools established for each subsidiary, considering obligor risk characteristics, transaction risk characteristics, and delinquency status. Major criteria on obligor/transaction risk characteristics for pool classification are as follows: • Installment sales credit receivables ... Obligor risk grade, and type of asset financed • Unsecured personal loans/credit cards ... situation of card utilization, exposure amount, credit limit, borrowing status, and repayment status • Small-lot lease receivables ... Obligor Rating (mainly determined by external evidence), and type of asset leased
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.
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.	Credit Risk Management Section (CRMS) of the Bank's subsidiaries and PRMD of the Bank are jointly in charge of internal rating system design. Pool assignment is conducted or confirmed/overseen by CRMS of the Bank's subsidiaries. CRMS of the Bank's subsidiaries and PRMD of the Bank estimate/validate PD/LGD/EAD, based on data provided by the subsidiaries.
Validation Procedures	Key methodologies of validation are as follows: • PD: Validation whether GAP between PD estimates/theoretical PD values by age of exposures based on the PD seasoning curve and historical PD • LGD: Validation whether gap between LGD estimates and historical LGD remain within a certain confidence level, and validation whether estimated collateral sale price is conservative.	Key methodologies of validation are as follows: • PD: Validation of accordance between PD estimates and historical PD, and validation of PD and rating goodness of fit • LGD: Validation if gap between LGD estimates and historical LGD remain within a certain confidence level • Pool classification: Validation on default predictive power
Estimation of Parameters	Definition of Default Any of the following: i) past due three months or more, ii) relaxation of terms and conditions, iii) legal bankruptcy PD/LGD PD/LGD are estimated using the Bank's historical data and the margin for estimation error is added to derive estimates. The seasoning characteristics of default for PD and collection from collateral sale value for LGD are taken into consideration.	Definition of Default Any of the following: i) past due three months or more, ii) relaxation of terms and conditions, iii) legal bankruptcy, etc. PD/LGD/EAD PD/LGD/EAD are estimated on pool by pool basis, using the Bank's subsidiaries' historical data. Long-term averages are calculated based on these data, and margin for estimation error is added to derive estimates.

QUALITATIVE DISCLOSURE (CONTINUED)

SHINSEI BANK CORPORATE OBLIGOR RATING SYSTEM

Obligor Rating Categories	Corresponding Rating Assigned by R & I	Summary
0A		1. Japanese Government, BOJ. 2. Government-affiliated agencies, expected high certainty from strong backup by the Government.
1A	AAA	Highest capability to meet its financial commitments on the obligations and many other positive factors.
2A	AA+	Very high capability to meet its financial commitment on the obligation and other positive factors.
2B	AA	
2C	AA-	
3A	A+	High capability to meet its financial commitments on the obligations and some good factors.
3B	A	
3C	A-	
4A	BBB+	There is adequate certainty of the fulfillment of obligations, but there are also some factors requiring attention in the event of serious adverse economic conditions in the future.
4B	BBB	
4C	BBB-	
5A	BB+	No problem regarding the certainty of the fulfillment of obligations for the time being, but some factors need to be closely watched in the event of adverse economic conditions in the future.
5B	BB	
5C	BB-	
6A	B+	No problem regarding the certainty of the fulfillment of obligations in the present situation, but special supervision is needed to monitor the trends in business performance and the protection of credit exposure.
6B	B	
6C	B-	
9A		Classified as "Other Need Caution" in the self-assessment.
9B		Classified as "Sub-Standard" in the self-assessment.
9C		Classified as "Possibly Bankrupt" in the self-assessment.
9D		Classified as "Virtually Bankrupt" in the self-assessment.
9E		Classified as "Bankrupt" in the self-assessment.

With regard to the internal controls related to the calculation of the capital adequacy ratio, we received an independent audit by Deloitte Touche Tohmatsu LLC in accordance with "Treatment of Inspection of the Capital Ratio Calculation Framework Based on Agreed-Upon Procedures" (JICPA Industry Committee Report No. 30). The certain procedures performed by the external auditor are not a part of the audit of the financial statements. The certain procedures are agreed with us and the external auditor and are not a validation of appropriateness of the capital ratio itself or opinion on the internal controls related to the capital ratio.

COMPOSITION OF CAPITAL DISCLOSURE (CONSOLIDATED)

Shinsei Bank and subsidiaries

Millions of yen (except percentages)

As of March 31 Items	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 (3)		
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 (CONSOLIDATED) (continued)

Shinsei Bank and subsidiaries

As of March 31 Items	Millions of yen (except percentages) 2015 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	¥ 725,873	
of which: capital and capital surplus	591,666	
of which: retained earnings	209,419	
of which: treasury stock (–)	72,558	
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)	3,579	¥ (412)
of which: foreign currency translation adjustment	3,682	
of which: amount related defined benefit	(103)	(412)
Stock acquisition right to common shares and preferred shares with a compulsory conversion clause	1,211	
Adjusted noncontrolling interests (amount allowed to be included in Core capital)	—	
Total of reserves included in Core capital: instruments and reserves	2,781	
of which: general reserve for loan losses included in Core capital	764	
of which: eligible provision included in Core capital	2,017	
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)	144,965	
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)	3,958	
Core capital: instruments and reserves (A)	¥ 882,368	
Core capital: regulatory adjustments (2)		
Total amount of intangible assets (excluding those relating to mortgage servicing rights)	¥ 30,140	¥ 10,768
of which: goodwill (including those equivalent)	23,197	—
of which: other intangibles other than goodwill and mortgage servicing rights	6,942	10,768
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	1,492	5,969
Shortfall of eligible provisions to expected losses	—	—
Gain on sale of securitization	8,323	—
Gains and losses due to changes in own credit risk on fair valued liabilities	—	—
Net defined benefit asset	485	1,941
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)	¥ 40,442	
Capital (consolidated)		
Capital (consolidated)((A)–(B))(C)	¥ 841,926	
Risk-weighted assets (3)		
Total amount of credit risk-weighted assets	¥5,127,565	
of which: total amount included in risk-weighted assets by transitional arrangements	(40,446)	
of which: intangible assets (excluding those relating to goodwill and mortgage servicing rights)	10,768	
of which: deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	5,969	
of which: net defined benefit asset	1,941	
of which: significant investments in the common stock of Other Financial Institutions (net of eligible short positions)	(59,125)	
of which: other than above	—	
Market risk (derived by multiplying the capital requirement by 12.5)	176,106	
Operational risk (derived by multiplying the capital requirement by 12.5)	358,265	
Credit risk adjustments	—	
Operational risk adjustments	—	
Total amount of Risk-weighted assets (D)	¥5,661,936	
Capital ratio (consolidated)		
Capital ratio (consolidated)((C)/(D))	14.86%	

COMPOSITION OF CAPITAL DISCLOSURE (NONCONSOLIDATED)

Shinsei Bank

Millions of yen (except percentages)

As of March 31 Items	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 (3)		
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%	

COMPOSITION OF CAPITAL DISCLOSURE (NONCONSOLIDATED) (continued)

Shinsei Bank

As of March 31 Items	2015 Basel III (Domestic Standard)	Amounts excluded under transitional arrangements
	Millions of yen (except percentages)	
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	¥ 741,761	
of which: capital and capital surplus	591,670	
of which: retained earnings	225,303	
of which: treasury stock (–)	72,558	
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	1,211	
Total of reserves included in Core capital: instruments and reserves	1,639	
of which: general reserve for loan losses included in Core capital	196	
of which: eligible provision included in Core capital	1,442	
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)	144,965	
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)	¥ 889,577	
Core capital: regulatory adjustments (2)		
Total amount of intangible assets (excluding those relating to mortgage servicing rights)	¥ 2,411	¥ 3,863
of which: goodwill (including those equivalent)	780	—
of which: other intangibles other than goodwill and mortgage servicing rights	1,631	3,863
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	399	1,598
Shortfall of eligible provisions to expected losses	—	—
Gain on sale of securitization	8,323	—
Gains and losses due to changes in own credit risk on fair valued liabilities	—	—
Prepaid pension cost	—	—
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)	¥ 11,135	
Capital (nonconsolidated)		
Capital (nonconsolidated)((A)–(B))(C)	¥ 878,442	
Risk-weighted assets (3)		
Total amount of credit risk-weighted assets	¥5,057,118	
of which: total amount included in risk-weighted assets by transitional arrangements	(56,275)	
of which: intangible assets (excluding those relating to goodwill and mortgage servicing rights)	3,863	
of which: deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	1,598	
of which: prepaid pension cost	—	
of which: significant investments in the common stock of Other Financial Institutions (net of eligible short positions)	(61,737)	
of which: other than above	—	
Market risk (derived by multiplying the capital requirement by 12.5)	120,112	
Operational risk (derived by multiplying the capital requirement by 12.5)	183,098	
Credit risk adjustments	—	
Operational risk adjustments	—	
Total amount of Risk-weighted assets (D)	¥5,360,329	
Capital ratio (nonconsolidated)		
Capital ratio (nonconsolidated)((C)/(D))	16.38%	

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	
	2016	2015
As of March 31	**Required capital amount**	Required capital amount
Shinsei Bank	**¥ 12,841**	¥ 10,369
Subsidiaries	**5,493**	5,450

Portfolios under the Internal Ratings-Based Approach (IRB)

	Millions of yen	
	2016	2015
As of March 31	**Required capital amount**	Required capital amount
Corporate (Excluding Specialized Lending)[1]	**¥ 162,181**	¥ 168,100
Specialized Lending[2]	**73,682**	90,666
Sovereign	**4,896**	4,382
Bank	**11,539**	13,107
Residential mortgages	**15,777**	18,314
Qualified revolving retails	**74,524**	82,899
Other retails	**142,801**	134,112
Equity	**17,118**	22,392
Regarded (Fund)	**20,287**	24,047
Securitization	**27,199**	18,923
Purchase receivables	**26,262**	34,824
Other assets	**5,160**	5,576
CVA risk	**9,352**	8,300
CCP risk	**61**	30
Total	**¥ 590,846**	¥ 625,680

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	
	2016	2015
As of March 31	**Required capital amount**	Required capital amount
Market-Based Approach Simplified Method	**¥ 2,541**	¥ 2,371
PD/LGD Method	**4,588**	9,113
RW100% Applied	**0**	0
RW250% Applied	**9,988**	10,907
Total	**¥ 17,118**	¥ 22,392

(3) AMOUNT OF REQUIRED CAPITAL FOR REGARDED-METHOD EXPOSURE UNDER IRB

	Millions of yen	
	2016	2015
As of March 31	**Required capital amount**	Required capital amount
Look Through	**¥ 2,299**	¥ 3,307
Revised Naivete Majority	**12,851**	15,499
Simplified [400%]	**993**	1,080
Simplified [1,250%]	**4,143**	4,158
Total	**¥ 20,287**	¥ 24,047

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(4) AMOUNT OF REQUIRED CAPITAL FOR MARKET RISK

	Millions of yen	
	2016	2015
As of March 31	**Required capital amount**	Required capital amount
The Standardized Approach	**¥ 1,067**	¥ 1,041
Interest rate risk	**241**	434
Equity position risk	**2**	7
FX risk	**60**	247
Securitization risk	**762**	351
The Internal Models Approach (IMA) (General Market Risk)	**14,937**	13,047

(5) AMOUNT OF REQUIRED CAPITAL FOR OPERATIONAL RISK

	Millions of yen	
	2016	2015
As of March 31	**Required capital amount**	Required capital amount
The Standardized Approach	**¥ 29,271**	¥ 28,661

(6) TOTAL REQUIRED CAPITAL (DOMESTIC STANDARD)

	Millions of yen	
As of March 31	**2016**	2015
Total Required Capital (Risk-weighted Assets x 4%)	**¥ 227,927**	¥ 226,477

3. CREDIT RISK EXPOSURE (EXCLUDING SECURITIZATION AND REGARDED EXPOSURE)

(1) AMOUNT OF CREDIT RISK EXPOSURE

Geographic, Industries or Maturity

	Millions of yen							
	2016				2015			
	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	**¥ 334,548**	**¥ 324,684**	**¥ 70**	**¥ 9,794**	¥ 344,335	¥ 336,336	¥ 70	¥ 7,929
Agriculture	**627**	**627**	**—**	**—**	666	666	—	—
Mining	**915**	**911**	**—**	**4**	809	809	—	—
Construction	**49,473**	**49,436**	**36**	**—**	49,868	49,831	36	—
Electric power, gas, water supply	**269,638**	**258,405**	**—**	**11,232**	248,329	241,978	—	6,350
Information and communication	**55,866**	**55,846**	**—**	**19**	60,856	60,835	—	20
Transportation	**207,921**	**203,786**	**1,999**	**2,135**	215,110	209,561	1,998	3,550
Wholesale and retail	**194,848**	**186,504**	**—**	**8,343**	184,451	180,284	—	4,166
Finance and insurance	**1,698,515**	**1,583,295**	**81,149**	**34,070**	1,503,694	1,411,729	65,546	26,418
Real estate	**664,683**	**597,654**	**60,694**	**6,334**	645,257	560,021	82,260	2,975
Services	**496,940**	**490,529**	**5,910**	**501**	512,056	510,423	1,167	465
Government	**821,146**	**75,435**	**745,710**	**—**	1,077,082	85,012	992,069	—
Individuals	**2,567,295**	**2,567,290**	**—**	**5**	2,506,120	2,506,103	—	16
Others	**50,836**	**50,836**	**0**	**—**	50,565	50,564	0	—
Domestic Total	**7,413,257**	**6,445,246**	**895,570**	**72,440**	7,399,203	6,204,158	1,143,150	51,894
Foreign	**857,605**	**520,780**	**228,027**	**108,797**	823,223	517,585	184,035	121,602
Total	**¥ 8,270,862**	**¥ 6,966,026**	**¥ 1,123,597**	**¥181,238**	¥ 8,222,427	¥ 6,721,744	¥ 1,327,185	¥ 173,496
To 1 year	**1,176,359**	**1,052,965**	**97,231**	**26,163**	1,273,422	1,121,689	129,406	22,325
1 to 3 years	**1,591,680**	**1,332,226**	**218,828**	**40,625**	1,675,154	1,487,174	147,307	40,672
3 to 5 years	**1,335,271**	**937,858**	**376,842**	**20,570**	1,472,888	827,437	618,228	27,222
Over 5 years	**2,754,249**	**2,229,711**	**430,659**	**93,878**	2,598,753	2,083,562	431,914	83,276
Undated	**1,413,301**	**1,413,265**	**36**	**—**	1,202,207	1,201,880	327	—
Total	**¥ 8,270,862**	**¥ 6,966,026**	**¥ 1,123,597**	**¥181,238**	¥ 8,222,427	¥ 6,721,744	¥ 1,327,185	¥ 173,496

1 Excluding purchased receivables.
2 Excluding equity exposures.
3 Credit equivalent amount basis.

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(2) AMOUNT OF DEFAULT EXPOSURE BEFORE PARTIAL WRITE-OFF

Geographic, Industries

	Millions of yen	
	2016	2015
As of March 31	**Default Exposure**	Default Exposure
Manufacturing	**¥ 2,305**	¥ 3,039
Agriculture	**25**	19
Mining	**—**	—
Construction	**1,399**	1,788
Electric power, gas, water supply	**—**	—
Information and communication	**37**	537
Transportation	**2,042**	1,735
Wholesale and retail	**2,728**	2,674
Finance and insurance	**2,274**	4,849
Real estate	**30,824**	51,037
Services	**2,589**	27,435
Government	**—**	—
Individuals	**137,414**	138,330
Others	**6,109**	5,154
Domestic Total	**187,751**	236,601
Foreign	**33,841**	30,267
Total	**¥ 221,593**	¥ 266,868

(3) AMOUNT OF LOAN LOSS RESERVES (GENERAL, SPECIFIC AND COUNTRY RISK) BEFORE PARTIAL WRITE-OFF

	Millions of yen					
	2016			2015		
As of March 31	**Start Amount**	**Change Amount**	**End Amount**	Start Amount	Change Amount	End Amount
General	**¥ 60,283**	**¥ 4,259**	**¥ 64,543**	¥ 59,809	¥ 474	¥ 60,283
Specific	**186,748**	**(41,074)**	**145,673**	227,478	(40,730)	186,748
Country	**0**	**(0)**	**0**	0	—	0
Total	**¥ 247,033**	**¥ (36,815)**	**¥ 210,218**	¥ 287,288	¥ (40,255)	¥ 247,033

Geographic

	Millions of yen							
	2016				2015			
	Reserve Amount				Reserve Amount			
As of March 31	**Total**	**General**	**Specific**	**Country**	Total	General	Specific	Country
Domestic	**¥ 172,811**	**¥ 56,813**	**¥ 115,998**	**¥ —**	¥ 211,173	¥ 54,246	¥ 156,927	¥ —
Foreign	**37,406**	**7,730**	**29,675**	**0**	35,859	6,037	29,821	0
Total	**¥ 210,218**	**¥ 64,543**	**¥ 145,673**	**¥ 0**	¥ 247,033	¥ 60,283	¥ 186,748	¥ 0

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

Industries

As of March 31	Millions of yen 2016 Reserve Amount	2015 Reserve Amount
Manufacturing	**¥ 5,035**	¥ 4,942
Agriculture	**26**	33
Mining	**5**	4
Construction	**1,017**	1,263
Electric power, gas, water supply	**517**	673
Information and communication	**257**	553
Transportation	**2,823**	1,482
Wholesale and retail	**3,669**	3,786
Finance and insurance	**1,658**	1,239
Real estate	**5,499**	40,513
Services	**5,957**	15,284
Government	**43**	59
Individuals	**138,418**	131,465
Others	**4,769**	6,635
Foreign	**37,406**	35,859
Non-classified	**3,111**	3,232
Total	**¥ 210,218**	¥ 247,033

(4) AMOUNT OF WRITE-OFFS

Industries

	Millions of yen FY2015 Amount of write-off	FY2014 Amount of write-off
Manufacturing	**¥ 152**	¥ 393
Agriculture	**1**	—
Mining	**—**	—
Construction	**30**	18
Electric power, gas, water supply	**—**	—
Information and communication	**0**	14
Transportation	**52**	73
Wholesale and retail	**102**	287
Finance and insurance	**—**	25,997
Real estate	**21,566**	6,566
Services	**110**	474
Government	**—**	—
Individuals	**27,081**	27,454
Others	**2**	0
Foreign	**1,530**	3,641
Non-classified	**—**	—
Total	**¥ 50,630**	¥ 64,922

(5) AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)

	Millions of yen			
	2016		2015	
As of March 31	**Rated**	**Unrated**	Rated	Unrated
0%	**¥ 346**	**¥ 8,878**	¥ 254	¥ 7,592
10%	**—**	**—**	—	—
20%	**30,650**	**29**	37,095	30
35%	**—**	**5,028**	—	8,877
50%	**93**	**3,321**	134	3,123
75%	**—**	**250,718**	—	209,504
100%	**444**	**29,457**	431	26,012
150%	**—**	**1,095**	—	1,343
350%	**—**	**—**	—	—
1,250%	**—**	**—**	—	—
Total	**¥ 31,535**	**¥ 298,530**	¥ 37,916	¥ 256,484

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (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	
	2016	2015
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
50%	**¥ 54,025**	¥ 20,748
70%	**393,794**	255,902
90%	**72,602**	155,693
115%	**48,199**	88,302
250%	**35,081**	35,683
0% (Default)	**36,295**	33,196
Total	**¥ 639,998**	¥ 589,527

Specialized lending for high-volatility commercial real estate

As of March 31	Millions of yen	
	2016	2015
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
70%	**¥ 4,646**	¥ 5,157
95%	**3,300**	1,873
120%	**5,276**	1,270
140%	**14,328**	16,532
250%	**9,055**	20,944
0% (Default)	**—**	26,364
Total	**¥ 36,606**	¥ 72,143

Equity exposure under Market-Based Simplified Method

As of March 31	Millions of yen	
	2016	2015
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
300%	**¥ 2,192**	¥ 2,332
400%	**5,848**	5,243
Total	**¥ 8,040**	¥ 7,575

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	2016					2015				
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%**	**44.90%**	**42.67%**	**¥ 1,603,018**	**¥ 178,243**	0.18%	44.87%	44.25%	¥ 1,485,176	¥ 182,793
5–6	**1.87%**	**44.06%**	**98.25%**	**594,394**	**51,808**	1.93%	44.10%	99.92%	617,908	35,299
9A	**10.10%**	**45.48%**	**196.10%**	**113,644**	**2,058**	10.47%	44.86%	196.11%	105,670	3,668
Default	**100.00%**	**44.13%**	**—**	**27,560**	**1,022**	100.00%	44.35%	—	42,717	2,160

Sovereign

Millions of yen (except percentages)

As of March 31	2016					2015				
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%**	**2.76%**	**¥ 2,057,660**	**¥ 2,542**	0.00%	44.99%	2.45%	¥ 2,059,322	¥ 1,797
5–6	**—**	**—**	**—**	**—**	**—**	0.62%	45.00%	80.71%	0	165
9A	**10.10%**	**45.00%**	**176.47%**	**31**	**—**	—	—	—	—	—
Default	**100.00%**	**45.00%**	**—**	**13**	**—**	100.00%	45.00%	—	15	—

Bank

Millions of yen (except percentages)

As of March 31	2016					2015				
Credit Rating	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
0–4	**0.10%**	**45.00%**	**39.55%**	**¥ 180,231**	**¥ 137,956**	0.11%	39.83%	31.47%	¥ 304,787	¥ 148,975
5–6	**1.00%**	**45.00%**	**75.50%**	**5,388**	**524**	1.16%	45.00%	80.96%	8,055	492
9A	**10.10%**	**45.00%**	**192.87%**	**994**	**510**	10.47%	45.00%	196.24%	662	31
Default	**—**	**—**	**—**	**—**	**—**	100.00%	45.00%	—	42	—

• 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	2016				2015			
Credit Rating	PD	LGD	Risk Weight	Amount	PD	LGD	Risk Weight	Amount
0–4	**0.12%**	**90.00%**	**239.14%**	**¥ 16,279**	0.12%	90.00%	231.50%	¥ 14,568
5–6	**1.07%**	**90.00%**	**313.04%**	**4,352**	1.08%	90.00%	311.29%	6,109
9A	**10.10%**	**90.00%**	**584.17%**	**264**	10.47%	90.00%	792.93%	6,436
Default	**100.00%**	**90.00%**	**1,125.00%**	**0**	100.00%	90.00%	1,125.00%	327

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	2016							2015						
Pool	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)	Undrawn Amount	Commitment CCF	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)	Undrawn Amount	Commitment CCF
Normal	0.29%	20.13%	11.63%	¥ 1,211,686	¥ 5,118	¥ —	—	0.32%	22.64%	14.33%	¥ 1,168,036	¥ 6,002	¥ —	—
Need caution	67.55%	26.34%	90.52%	1,865	118	—	—	68.63%	31.42%	105.62%	1,934	150	—	—
Default	100.00%	45.69%	48.95%	4,584	142	—	—	100.00%	45.50%	54.59%	4,501	94	—	—

Qualified revolving retail exposure

Millions of yen (except percentages)

As of March 31	2016							2015						
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	4.46%	70.60%	69.31%	¥293,495	¥108,367	¥ 2,308,344	4.69%	5.18%	71.16%	76.08%	¥308,492	¥112,492	¥ 2,267,164	4.96%
Need caution	81.78%	77.26%	106.03%	1,800	1	2,517	0.06%	81.53%	77.06%	109.11%	1,869	2	1,547	0.13%
Default	100.00%	74.67%	—	48,739	—	—	—	100.00%	73.86%	—	51,839	—	—	—

Other retail exposure

Millions of yen (except percentages)

As of March 31	2016							2015						
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	2.81%	61.34%	79.24%	¥ 441,961	¥ 571,619	¥ 59,827	1.18%	2.61%	59.86%	76.03%	¥386,544	¥575,257	¥ 33,650	1.12%
Need caution	73.96%	51.08%	89.90%	6,477	2,012	3	0.49%	75.24%	49.90%	84.81%	6,711	2,250	3	0.15%
Default	100.00%	56.91%	0.84%	92,218	537	—	—	100.00%	56.56%	—	92,410	606	—	—

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

	FY2015	FY2014	FY2013
Results of actual losses (a)	¥ 2,300	¥ 1,838	¥ 1,323
Expected losses (b)	10,399	11,666	13,958
Differences ((b) - (a))	8,098	9,827	12,635

Retail

Millions of yen

	FY2015	FY2014	FY2013
Results of actual losses (a)	¥ 16,089	¥ 17,128	¥ 16,079
Expected losses (b)	33,658	41,380	40,932
Differences ((b) - (a))	17,569	24,252	24,853

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, 2014, 2015 and 2016 for the Bank Group's non-default exposures at the start of the twelve-month period, with expected losses. The exposures for Housing Loans are calculated through the F-IRB approach starting from March 31, 2015.

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

4. CREDIT RISK MITIGATION (CRM)

(1) COVERED AMOUNT OF CRM BY COLLATERAL

FIRB

	Millions of yen			
	2016		2015	
As of March 31	**Eligible financial collateral**	**Other eligible FIRB collateral**	Eligible financial collateral	Other eligible FIRB collateral
Corporate	**¥ 2,729**	**¥ 173,649**	¥ 3,166	¥ 169,300
Sovereign	**—**	**—**	—	—
Bank	**—**	**—**	53,216	—
Total	**¥ 2,729**	**¥ 173,649**	¥ 56,382	¥ 169,300

(2) COVERED AMOUNT OF CRM BY GUARANTEE OR CREDIT DERIVATIVES

IRB

	Millions of yen	
As of March 31	**2016**	2015
Corporate	**¥ 1,572**	¥ 1,585
Sovereign	**23,917**	42,786
Bank	**—**	30,000
Residential mortgages	**—**	—
Qualified revolving retail	**—**	—
Other retail	**—**	—
Total	**¥ 25,490**	¥ 74,371

5. COUNTERPARTY CREDIT RISK OF DERIVATIVES

	Millions of yen	
As of March 31	**2016**	2015
Total amount of gross positive fair value	**¥ 448,188**	¥ 422,895
Amount of gross add-on	**124,394**	136,372
EAD before CRM	**572,583**	559,268
FX-related	**183,669**	207,781
Interest-related	**340,378**	302,031
Equity-related	**28,441**	10,518
Commodity-related	**—**	—
Credit derivatives	**20,044**	38,913
Others	**49**	22
Amount of net	**391,381**	385,771
EAD after net	**181,201**	173,496
Amount covered collateral	**—**	—
EAD after CRM	**181,201**	173,496

Note: Current Exposure Method

• Notional amount of credit derivatives which have counterparty risk

	Millions of yen			
As of March 31	**2016**		2015	
Notional amount	**Protection-buy**	**Protection-sell**	Protection-buy	Protection-sell
Single name	**¥ 165,094**	**¥ 133,041**	¥ 217,297	¥ 192,363
Multi name	**49,500**	**43,500**	62,976	50,976

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 2016	2015
Type of original assets	**Amount of original assets**	Amount of original assets
Residential mortgages	**¥ 81,632**	¥ 107,833
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	26,026
Others	**—**	—
Total	**¥ 81,632**	¥ 133,859

Note: Includes originally securitized assets originated by the Bank Group, 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 2016	2015
Type of original assets	**Amount of Default**	Amount of Default
Residential mortgages	**¥ 470**	¥ 508
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	26,026
Others	**—**	—
Total	**¥ 470**	¥ 26,535

Note: Includes originally securitized assets originated by the Bank Group, 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 2016	2015
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 45,866**	¥ 55,858
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	1,334
Others	**—**	—
Total	**¥ 45,866**	¥ 57,193

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

Resecuritization

As of March 31	Millions of yen 2016	2015
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 2016		2015	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 12%	**¥ 27,406**	**¥ 124**	¥ 23,229	¥ 61
Over 12% to 20%	**13,309**	**196**	12,117	138
Over 20% to 50%	**4,934**	**162**	21,691	542
Over 50% to 75%	**—**	**—**	—	—
Over 75% to 100%	**—**	**—**	—	—
Over 100% to 250%	**—**	**—**	20	2
Over 250% to 425%	**216**	**62**	133	45
Over 425% under 1,250%	**—**	**—**	—	—
Total	**¥ 45,866**	**¥ 545**	¥ 57,193	¥ 789

Resecuritization exposure

As of March 31	Millions of yen 2016		2015	
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 2016	2015
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 8,289**	¥ 8,323
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥ 8,289**	¥ 8,323

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(6) Amount of securitization exposure applied risk weight 1,250%

As of March 31	Millions of yen 2016	2015
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 1,934**	¥ 1,901
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥ 1,934**	¥ 1,901

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 FY2015
• Securitization exposure subject to early amortization
• Credit risk mitigation for resecuritization exposure

SECURITIZATION EXPOSURE IN WHICH THE BANK GROUP INVESTS

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

Excluding resecuritization exposure

As of March 31	Millions of yen 2016	2015
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ —**	¥ —
Consumer loans	**—**	—
Commercial real estate loans	**66,929**	22,650
Corporate loans	**18,701**	12,998
Others	**19,794**	30,926
Total	**¥ 105,425**	¥ 66,575

Resecuritization exposure

As of March 31	Millions of yen 2016	2015
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ —**	¥ —
Consumer loans	**—**	—
Commercial real estate loans	**20,000**	20,468
Corporate loans	**6,361**	12,782
Others	**—**	—
Total	**¥ 26,361**	¥ 33,250

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

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

Excluding resecuritization exposure

As of March 31	2016		2015	
Millions of yen				
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 12%	**¥ 38,495**	**¥ 240**	¥ 36,518	¥ 216
Over 12% to 20%	**—**	**—**	7,406	94
Over 20% to 50%	**20,351**	**771**	—	—
Over 50% to 75%	**—**	**—**	—	—
Over 75% to 100%	**—**	**—**	—	—
Over 100% to 250%	**24,996**	**3,977**	19,848	3,160
Over 250% to 425%	**6,081**	**1,804**	2,801	960
Over 425% under 1,250%	**15,500**	**7,047**	—	—
Total	**¥105,425**	**¥13,841**	¥ 66,575	¥ 4,432

Resecuritization exposure

As of March 31	2016		2015	
Millions of yen				
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 30%	**¥ 6,361**	**¥ 107**	¥ 13,250	¥ 233
Over 30% to 50%	**—**	**—**	—	—
Over 50% to 100%	**20,000**	**1,023**	20,000	1,087
Over 100% to 225%	**—**	**—**	—	—
Over 225% to 500%	**—**	**—**	—	—
Over 500% under 1,250%	**—**	**—**	—	—
Total	**¥ 26,361**	**¥ 1,131**	¥ 33,250	¥ 1,321

(3) Amount of securitization exposure applied risk weight 1,250%

As of March 31	2016	2015
Millions of yen		
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 1,258**	¥ 1,892
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**6**	32
Others	**—**	—
Total	**¥ 1,264**	¥ 1,924

Not applicable for the following items;

• Credit risk mitigation for resecuritization exposure

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

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

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

Excluding resecuritization exposure

Millions of yen

As of March 31	2016	2015
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 16,932**	¥ 18,159
Consumer loans	**5,603**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥ 22,536**	¥ 18,159

Resecuritization exposure

Millions of yen

As of March 31	2016	2015
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥1,319**	¥ 1,876
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥1,319**	¥ 1,876

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

Excluding resecuritization exposure

Millions of yen

As of March 31	2016		2015	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
1.6%	**¥ 16,932**	**¥ 270**	¥ 18,159	¥ 290
4%	**—**	**—**	—	—
8%	**5,603**	**448**	—	—
28%	**—**	**—**	—	—
Total	**¥ 22,536**	**¥ 719**	¥ 18,159	¥ 290

Resecuritization exposure

Millions of yen

As of March 31	2016		2015	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
3.2%	**¥ 1,291**	**¥ 41**	¥ 1,847	¥ 59
8%	**28**	**2**	28	2
18%	**—**	**—**	—	—
52%	**—**	**—**	—	—
Total	**¥ 1,319**	**¥ 43**	¥ 1,876	¥ 61

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 2016 AND MARCH 2015 AND THE HIGH, MEAN AND LOW VAR

	Millions of yen	
As of March 31	**2016**	2015
VaR at term end	**¥ 1,214**	¥ 976
VaR through this term		
High	**2,346**	1,662
Mean	**1,626**	977
Low	**1,017**	468

(2) STRESSED VAR AT THE END OF MARCH 2016 AND MARCH 2015 AND THE HIGH, MEAN AND LOW VAR

	Millions of yen	
As of March 31	**2016**	2015
VaR at term end	**¥ 2,587**	¥ 2,595
VaR through this term		
High	**5,219**	4,939
Mean	**3,859**	3,065
Low	**2,393**	1,673

The trading portfolio experienced no losses that exceeded the specified VaR threshold.

Not applicable for the following items;

• The amount of required capital related to additional risk and comprehensive risk as of the period-end, as well as the maximum, minimum and average values for the amount of required capital for additional risk and comprehensive risk during the disclosure period

8. EQUITY EXPOSURE IN BANKING BOOK

(1) BOOK VALUE AND FAIR VALUE

	Millions of yen	
As of March 31	**2016**	2015
Market-based approach		
Listed equity exposure	**¥ 2,192**	¥ 2,332
Unlisted equity exposure	**5,848**	5,243
PD/LGD method		
Listed equity exposure	**12,001**	11,566
Unlisted equity exposure	**8,894**	13,142

(2) GAIN OR LOSS ON SALE OR DEPRECIATION OF EQUITY EXPOSURE

	Millions of yen	
	FY2015	FY2014
Gain (loss) on sale	**¥ 2,351**	¥ 7,236
Loss of depreciation	**840**	684

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	**2016**	2015
Unrealized gain (loss)	**¥ 9,777**	¥ 13,497

(4) AMOUNT FOR EACH PORTFOLIO CLASSIFICATION OF EQUITY EXPOSURE

	Millions of yen	
As of March 31	**2016**	2015
Market-based approach	**¥ 8,040**	¥ 7,575
PD/LGD Method	**20,896**	24,714
RW100% Applied	**1**	1
RW250% Applied	**47,115**	51,449

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	**2016**	2015
Regarded exposure (fund)	**¥ 51,638**	¥ 58,846

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	**2016**	2015
JPY	**¥ (98.1)**	¥ (106.0)
USD	**(3.1)**	(1.4)
Others	**(3.3)**	(1.4)
Total	**¥ (104.6)**	¥ (109.0)

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED)

1. CAPITAL ADEQUACY

(1) AMOUNT OF REQUIRED CAPITAL FOR CREDIT RISK

Portfolios under the Standardized Approach (SA)

	Millions of yen	
	2016	2015
As of March 31	**Required capital amount**	Required capital amount
Shinsei Bank	**¥ 12,841**	¥ 10,369
Shinsei Bank Card Loan Lake	**12,346**	10,062
Others	**495**	307

Portfolios under the Internal Ratings-Based Approach (IRB)

	Millions of yen	
	2016	2015
As of March 31	**Required capital amount**	Required capital amount
Corporate (Excluding Specialized Lending)[1]	**¥ 136,558**	¥ 147,278
Specialized Lending[2]	**70,605**	88,974
Sovereign	**4,874**	4,350
Bank	**11,177**	12,803
Residential mortgages	**14,713**	17,112
Qualified revolving retails	**—**	—
Other retails	**3**	5
Equity	**124,761**	141,855
Regarded (Fund)	**14,643**	16,826
Securitization	**28,545**	20,298
Purchase receivables	**26,206**	34,656
Other assets	**2,106**	2,139
CVA risk	**9,176**	8,200
CCP risk	**61**	30
Total	**¥ 443,434**	¥ 494,534

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	
	2016	2015
As of March 31	**Required capital amount**	Required capital amount
Market-Based Approach Simplified Method	**¥ 5,215**	¥ 7,407
PD/LGD Method	**119,545**	134,239
RW100% Applied	**0**	0
RW250% Applied	**—**	209
Total	**¥ 124,761**	¥ 141,855

(3) AMOUNT OF REQUIRED CAPITAL FOR REGARDED-METHOD EXPOSURE UNDER IRB

	Millions of yen	
	2016	2015
As of March 31	**Required capital amount**	Required capital amount
Look Through	**¥ 2,299**	¥ 3,468
Revised Naivete Majority	**6,589**	6,777
Simplified [400%]	**1,611**	2,421
Simplified [1,250%]	**4,142**	4,158
Total	**¥ 14,643**	¥ 16,826

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

(4) AMOUNT OF REQUIRED CAPITAL FOR MARKET RISK

Millions of yen

As of March 31	2016 Required capital amount	2015 Required capital amount
The Standardized Approach	¥ 207	¥ 462
Interest rate risk	170	238
Equity position risk	2	7
FX risk	34	216
Securitization risk	—	—
The Internal Models Approach (IMA) (General Market Risk)	11,546	9,146

(5) AMOUNT OF REQUIRED CAPITAL FOR OPERATIONAL RISK

Millions of yen

As of March 31	2016 Required capital amount	2015 Required capital amount
The Standardized Approach	¥ 15,401	¥ 14,647

(6) TOTAL REQUIRED CAPITAL (DOMESTIC STANDARD)

Millions of yen

As of March 31	2016	2015
Total Required Capital (Risk-weighted Assets x 4%)	¥ 208,342	¥ 214,413

2. CREDIT RISK EXPOSURE (EXCLUDING SECURITIZATION AND REGARDED EXPOSURE)

(1) AMOUNT OF CREDIT RISK EXPOSURE

Geographic, Industries or Maturity

Millions of yen

	2016				2015			
	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	¥ 267,959	¥ 258,095	¥ 70	¥ 9,794	¥ 278,685	¥ 270,686	¥ 70	¥ 7,929
Agriculture	169	169	—	—	132	132	—	—
Mining	428	423	—	4	259	259	—	—
Construction	9,678	9,678	—	—	9,842	9,842	—	—
Electric power, gas, water supply	266,378	255,145	—	11,232	247,591	241,241	—	6,350
Information and communication	38,496	38,476	—	19	42,732	42,711	—	20
Transportation	176,640	172,505	1,999	2,135	186,061	180,511	1,998	3,550
Wholesale and retail	117,520	109,176	—	8,343	108,661	104,495	—	4,166
Finance and insurance	1,804,912	1,688,060	83,771	33,081	1,622,557	1,518,915	76,651	26,991
Real estate	657,934	590,906	60,694	6,334	649,741	564,505	82,260	2,975
Services	389,204	382,775	5,802	627	409,153	407,227	1,060	865
Government	811,881	66,170	745,710	—	1,066,469	74,400	992,069	—
Individuals	1,218,553	1,218,548	—	5	1,175,745	1,175,728	—	16
Others	26	26	—	—	30	30	—	—
Domestic Total	5,759,785	4,790,160	898,047	71,577	5,797,665	4,590,688	1,154,110	52,867
Foreign	835,645	484,084	245,706	105,854	803,845	483,799	202,044	118,002
Total	¥ 6,595,430	¥ 5,274,244	¥ 1,143,754	¥ 177,431	¥ 6,601,511	¥ 5,074,487	¥ 1,356,154	¥ 170,869
To 1 year	1,022,567	896,251	99,853	26,462	1,130,857	978,894	129,406	22,555
1 to 3 years	1,198,876	923,724	236,507	38,644	1,219,128	1,031,626	147,307	40,194
3 to 5 years	1,071,351	674,389	376,734	20,228	1,239,396	578,027	636,129	25,239
Over 5 years	2,230,994	1,708,238	430,659	92,096	2,145,282	1,630,487	431,914	82,879
Undated	1,071,640	1,071,640	—	—	866,847	855,451	11,395	—
Total	¥ 6,595,430	¥ 5,274,244	¥ 1,143,754	¥ 177,431	¥ 6,601,511	¥ 5,074,487	¥ 1,356,154	¥ 170,869

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	
	2016	2015
As of March 31	**Default Exposure**	Default Exposure
Manufacturing	**¥ 1,271**	¥ 1,438
Agriculture	**—**	—
Mining	**—**	—
Construction	**—**	—
Electric power, gas, water supply	**—**	—
Information and communication	**33**	533
Transportation	**1,483**	3
Wholesale and retail	**1,362**	1,584
Finance and insurance	**2,260**	4,842
Real estate	**30,619**	50,474
Services	**1,387**	25,665
Government	**—**	—
Individuals	**4,993**	6,232
Others	**—**	—
Domestic Total	**43,412**	90,774
Foreign	**30,481**	30,267
Total	**¥ 73,893**	¥ 121,042

(3) AMOUNT OF LOAN LOSS RESERVES (GENERAL, SPECIFIC AND COUNTRY RISK) BEFORE PARTIAL WRITE-OFF

	Millions of yen					
	2016			2015		
As of March 31	**Start Amount**	**Change Amount**	**End Amount**	Start Amount	Change Amount	End Amount
General	**¥ 19,314**	**¥ 2,340**	**¥ 21,654**	¥ 19,937	¥ (623)	¥ 19,314
Specific	**83,232**	**(42,557)**	**40,675**	127,075	(43,843)	83,232
Country	**0**	**(0)**	**0**	0	—	0
Total	**¥ 102,547**	**¥ (40,217)**	**¥ 62,330**	¥ 147,013	¥ (44,466)	¥ 102,547

Geographic

	Millions of yen							
	2016				2015			
As of March 31	**Total**	**General**	**Specific**	**Country**	Total	General	Specific	Country
Domestic	**¥ 26,092**	**¥ 14,608**	**¥ 11,483**	**¥ —**	¥ 68,605	¥ 14,175	¥ 54,430	¥ —
Foreign	**36,238**	**7,046**	**29,191**	**0**	33,941	5,138	28,802	0
Total	**¥ 62,330**	**¥ 21,654**	**¥ 40,675**	**¥ 0**	¥ 102,547	¥ 19,314	¥ 83,232	¥ 0

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

Industries

As of March 31	2016 Reserve Amount	2015 Reserve Amount
	Millions of yen	
Manufacturing	**¥ 2,754**	¥ 2,177
Agriculture	**1**	0
Mining	**2**	1
Construction	**47**	44
Electric power, gas, water supply	**499**	670
Information and communication	**136**	414
Transportation	**1,864**	788
Wholesale and retail	**1,864**	2,089
Finance and insurance	**2,375**	2,018
Real estate	**5,258**	39,747
Services	**3,112**	11,960
Government	**—**	—
Individuals	**4,265**	4,784
Others	**3,907**	3,908
Foreign	**36,238**	33,941
Non-classified	**—**	—
Total	**¥ 62,330**	¥ 102,547

(4) AMOUNT OF WRITE-OFFS

Industries

	FY2015 Amount of write-off	FY2014 Amount of write-off
	Millions of yen	
Manufacturing	**¥ —**	¥ 263
Agriculture	**—**	—
Mining	**—**	—
Construction	**—**	—
Electric power, gas, water supply	**—**	—
Information and communication	**—**	—
Transportation	**3**	56
Wholesale and retail	**0**	25
Finance and insurance	**—**	25,997
Real estate	**21,488**	6,563
Services	**0**	—
Government	**—**	—
Individuals	**377**	83
Others	**—**	—
Foreign	**481**	3,641
Non-classified	**—**	—
Total	**¥ 22,349**	¥ 36,632

(5) AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)

	Millions of yen			
	2016		2015	
As of March 31	**Rated**	**Unrated**	Rated	Unrated
0%	**¥ —**	**¥ —**	¥ —	¥ —
10%	**—**	**—**	—	—
20%	**—**	**—**	—	—
35%	**—**	**5,028**	—	8,877
50%	**—**	**—**	—	15
75%	**—**	**211,645**	—	168,667
100%	**—**	**28**	—	—
150%	**—**	**—**	—	—
350%	**—**	**—**	—	—
1,250%	**—**	**—**	—	—
Total	**¥ —**	**¥ 216,703**	¥ —	¥ 177,560

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 2016	2015
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
50%	**¥ 54,025**	¥ 20,748
70%	**391,250**	251,299
90%	**72,602**	155,693
115%	**48,199**	88,302
250%	**25,093**	30,886
0% (Default)	**36,295**	33,196
Total	**¥ 627,467**	¥ 580,127

Specialized lending for high-volatility commercial real estate

As of March 31	Millions of yen 2016	2015
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
70%	**¥ 4,646**	¥ 5,157
95%	**3,300**	1,873
120%	**5,276**	1,270
140%	**14,328**	16,532
250%	**9,055**	20,944
0% (Default)	**—**	26,364
Total	**¥ 36,606**	¥ 72,143

Equity exposure under Market-Based Simplified Method

As of March 31	Millions of yen 2016	2015
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
300%	**¥ 165**	¥ 682
400%	**15,252**	21,325
Total	**¥ 15,418**	¥ 22,008

(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	2016					2015				
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%**	**44.90%**	**43.78%**	**¥ 1,586,663**	**¥ 179,914**	0.18%	44.87%	45.38%	¥ 1,470,084	¥ 183,552
5–6	**1.64%**	**43.92%**	**95.97%**	**512,664**	**53,621**	1.82%	44.00%	100.42%	552,696	35,299
9A	**10.10%**	**45.90%**	**191.83%**	**59,743**	**2,058**	10.47%	44.72%	187.67%	50,384	3,668
Default	**100.00%**	**43.35%**	**—**	**13,968**	**1,022**	100.00%	44.21%	—	36,202	809

Sovereign

Millions of yen (except percentages)

As of March 31	2016					2015				
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%**	**2.76%**	**¥ 2,045,666**	**¥ 2,542**	0.00%	44.99%	2.46%	¥ 2,041,277	¥ 1,797
5–6	**—**	**—**	**—**	**—**	**—**	0.62%	45.00%	80.71%	0	165
9A	**10.10%**	**45.00%**	**176.47%**	**31**	**—**	—	—	—	—	—
Default	**100.00%**	**45.00%**	**—**	**13**	**—**	100.00%	45.00%	—	15	—

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

Bank

Millions of yen (except percentages)

As of March 31	2016					2015				
Credit Rating	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
0–4	**0.11%**	**45.00%**	**42.98%**	**¥ 145,136**	**¥ 142,620**	0.11%	39.69%	32.53%	¥ 287,060	¥ 154,319
5–6	**0.81%**	**45.00%**	**71.78%**	**3,055**	**524**	1.21%	45.00%	87.16%	3,549	492
9A	**10.10%**	**45.00%**	**192.98%**	**989**	**510**	10.47%	45.00%	192.10%	487	31
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	2016				2015			
Credit Rating	**PD**	**LGD**	**Risk Weight**	**Amount**	PD	LGD	Risk Weight	Amount
0–4	**0.30%**	**90.00%**	**301.54%**	**¥ 399,615**	0.28%	90.00%	301.27%	¥ 407,624
5–6	**0.96%**	**90.00%**	**321.99%**	**8,553**	1.03%	90.00%	322.78%	10,013
9A	**10.10%**	**90.00%**	**893.75%**	**19,819**	10.47%	90.00%	885.85%	36,383
Default	**100.00%**	**90.00%**	**1,125.00%**	**4**	100.00%	90.00%	1,125.00%	26

• 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	2016							2015						
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%**	**19.75%**	**10.98%**	**¥ 1,206,978**	**¥ —**	**¥ —**	**—**	0.31%	22.17%	13.59%	¥ 1,162,134	¥ —	¥ —	—
Need caution	**65.95%**	**24.92%**	**93.44%**	**1,862**	**—**	**—**	**—**	66.76%	30.05%	110.40%	1,932	—	—	—
Default	**100.00%**	**44.96%**	**52.12%**	**4,439**	**—**	**—**	**—**	100.00%	44.59%	58.12%	4,317	—	—	—

Other retail exposure

Millions of yen (except percentages)

As of March 31	2016							2015						
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	**0.37%**	**17.99%**	**11.14%**	**¥ 365**	**¥ —**	**¥ —**	**—**	0.45%	20.43%	14.48%	¥ 430	¥ —	¥ —	—
Need caution	**—**	**—**	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—	—	—
Default	**—**	**—**	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—	—	—

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

	FY2015	FY2014	FY2013
Results of actual losses (a)	**¥ 1,367**	¥ 1,568	¥ 1,219
Expected losses (b)	**7,914**	10,565	12,602
Differences ((b) - (a))	**6,547**	8,997	11,383

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

Retail

Millions of yen

	FY2015	FY2014	FY2013
Results of actual losses (a)	**¥ 169**	¥ 245	
Expected losses (b)	**1,111**	1,291	
Differences ((b) - (a))	**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, 2014, 2015 and 2016 for the Bank Group's non-default exposures at the start of the twelve-month period, with expected losses. The exposures for Housing Loans are calculated through the F-IRB approach starting from March 31, 2015.

3. CREDIT RISK MITIGATION (CRM)

(1) COVERED AMOUNT OF CRM BY COLLATERAL

FIRB

Millions of yen

	2016		2015	
As of March 31	**Eligible financial collateral**	**Other eligible FIRB collateral**	Eligible financial collateral	Other eligible FIRB collateral
Corporate	**¥ 2,729**	**¥ 173,649**	¥ 3,166	¥ 169,300
Sovereign	**—**	**—**	—	—
Bank	**—**	**—**	53,216	—
Total	**¥ 2,729**	**¥ 173,649**	¥ 56,382	¥ 169,300

(2) COVERED AMOUNT OF CRM BY GUARANTEE OR CREDIT DERIVATIVES

IRB

Millions of yen

As of March 31	2016	2015
Corporate	**¥ 1,572**	¥ 1,585
Sovereign	**23,917**	42,786
Bank	**—**	30,000
Residential mortgages	**—**	—
Qualified revolving retail	**—**	—
Other retail	**—**	—
Total	**¥ 25,490**	¥ 74,371

4. COUNTERPARTY CREDIT RISK OF DERIVATIVES

Millions of yen

As of March 31	2016	2015
Total amount of gross positive fair value	**¥ 455,326**	¥ 432,409
Amount of gross add-on	**123,403**	135,952
EAD before CRM	**578,730**	568,362
FX-related	**184,705**	209,282
Interest-related	**338,632**	301,563
Equity-related	**28,379**	8,766
Commodity-related	**—**	—
Credit derivatives	**26,963**	48,727
Others	**49**	22
Amount of net	**401,298**	397,492
EAD after net	**177,431**	170,869
Amount covered collateral	**—**	—
EAD after CRM	**177,431**	170,869

Note: Current Exposure Method

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

• Notional amount of credit derivatives which have counterparty risk

Millions of yen

As of March 31	2016		2015	
Notional amount	**Protection-buy**	**Protection-sell**	Protection-buy	Protection-sell
Single name	**¥ 155,354**	**¥ 139,781**	¥ 204,477	¥ 208,483
Multi name	**46,500**	**46,500**	58,976	58,976

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

Millions of yen

As of March 31	2016	2015
Type of original assets	**Amount of original assets**	Amount of original assets
Residential mortgages	**¥ 81,632**	¥ 107,833
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	26,026
Others	**155,600**	162,325
Total	**¥ 237,232**	¥ 296,185

Note: Includes originally securitized assets originated by the Bank, even though the Bank had no exposure to these particular assets.

(2) Amount of original assets in default or past due 3 months or more
Securitization by transfer of assets

Millions of yen

As of March 31	2016	2015
Type of original assets	**Amount of Default**	Amount of Default
Residential mortgages	**¥ 470**	¥ 508
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	26,026
Others	**—**	—
Total	**¥ 470**	¥ 26,535

Note: Includes originally securitized assets originated by the Bank, 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

Millions of yen

As of March 31	2016	2015
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 45,866**	¥ 55,858
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	1,334
Others	**131,368**	134,155
Total	**¥ 177,235**	¥ 191,348

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

Resecuritization exposure

Millions of yen

As of March 31	2016	2015
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

Millions of yen

As of March 31	2016		2015	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 12%	**¥ 157,406**	**¥ 1,447**	¥ 154,884	¥ 1,394
Over 12% to 20%	**14,678**	**219**	14,617	181
Over 20% to 50%	**4,934**	**162**	21,691	542
Over 50% to 75%	**—**	**—**	—	—
Over 75% to 100%	**—**	**—**	—	—
Over 100% to 250%	**—**	**—**	20	2
Over 250% to 425%	**216**	**62**	133	45
Over 425% under 1,250%	**—**	**—**	—	—
Total	**¥ 177,235**	**¥ 1,891**	¥ 191,348	¥ 2,164

Resecuritization exposure

Millions of yen

As of March 31	2016		2015	
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)

Millions of yen

As of March 31	2016	2015
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 8,289**	¥ 8,323
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥ 8,289**	¥ 8,323

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

(6) Amount of securitization exposure applied risk weight 1,250%

As of March 31	2016	2015
	Millions of yen	
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 1,934**	¥ 1,901
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**—**	—
Others	**—**	—
Total	**¥ 1,934**	¥ 1,901

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 FY2015
- Securitization exposure subject to early amortization
- Credit risk mitigation for resecuritization exposure

SECURITIZATION EXPOSURE IN WHICH THE BANK INVESTS

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

Excluding resecuritization exposure

As of March 31	2016	2015
	Millions of yen	
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ —**	¥ —
Consumer loans	**—**	—
Commercial real estate loans	**66,929**	22,650
Corporate loans	**18,701**	12,998
Others	**19,794**	30,926
Total	**¥ 105,425**	¥ 66,575

Resecuritization exposure

As of March 31	2016	2015
	Millions of yen	
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ —**	¥ —
Consumer loans	**—**	—
Commercial real estate loans	**20,000**	20,468
Corporate loans	**6,361**	12,782
Others	**—**	—
Total	**¥ 26,361**	¥ 33,250

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

(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			
	2016		2015	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 12%	**¥ 38,495**	**¥ 240**	¥ 36,518	¥ 216
Over 12% to 20%	**—**	**—**	7,406	94
Over 20% to 50%	**20,351**	**771**	—	—
Over 50% to 75%	**—**	**—**	—	—
Over 75% to 100%	**—**	**—**	—	—
Over 100% to 250%	**24,996**	**3,977**	19,848	3,160
Over 250% to 425%	**6,081**	**1,804**	2,801	960
Over 425% under 1,250%	**15,500**	**7,047**	—	—
Total	**¥ 105,425**	**¥ 13,841**	¥ 66,575	¥ 4,432

Resecuritization exposure

As of March 31	Millions of yen			
	2016		2015	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 30%	**¥ 6,361**	**¥ 107**	¥ 13,250	¥ 233
Over 30% to 50%	**—**	**—**	—	—
Over 50% to 100%	**20,000**	**1,023**	20,000	1,087
Over 100% to 225%	**—**	**—**	—	—
Over 225% to 500%	**—**	**—**	—	—
Over 500% under 1,250%	**—**	**—**	—	—
Total	**¥ 26,361**	**¥ 1,131**	¥ 33,250	¥ 1,321

(3) Amount of securitization exposure applied risk weight 1,250%

As of March 31	Millions of yen	
	2016	2015
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ 1,258**	¥ 1,892
Consumer loans	**—**	—
Commercial real estate loans	**—**	—
Corporate loans	**6**	32
Others	**—**	—
Total	**¥ 1,264**	¥ 1,924

Not applicable for the following items;

• Credit risk mitigation for resecuritization exposure

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

6. MARKET RISK (UNDER INTERNAL MODEL APPROACH)

(1) VAR AT THE END OF MARCH 2016 AND MARCH 2015 AND THE HIGH, MEAN AND LOW VAR

	Millions of yen	
As of March 31	**2016**	2015
VaR at term end	**¥ 788**	¥ 594
VaR through this term		
High	**1,761**	1,534
Mean	**1,128**	789
Low	**623**	397

(2) STRESSED VAR AT THE END OF MARCH 2016 AND MARCH 2015 AND THE HIGH, MEAN AND LOW VAR

	Millions of yen	
As of March 31	**2016**	2015
VaR at term end	**¥ 1,916**	¥ 1,627
VaR through this term		
High	**4,286**	4,170
Mean	**2,975**	2,537
Low	**1,694**	1,492

The trading portfolio experienced no losses that exceeded the specified VaR threshold

Not applicable for the following items;

- The amount of required capital related to additional risk and comprehensive risk as of the period-end, as well as the maximum, minimum and average values for the amount of required capital for additional risk and comprehensive risk during the disclosure period

7. EQUITY EXPOSURE IN BANKING BOOK

(1) BOOK VALUE AND FAIR VALUE

	Millions of yen	
As of March 31	**2016**	2015
Market-based approach		
Listed equity exposure	**¥ 165**	¥ 682
Unlisted equity exposure	**15,252**	21,325
PD/LGD method		
Listed equity exposure	**10,254**	9,912
Unlisted equity exposure	**417,739**	441,408

(2) GAIN OR LOSS ON SALE OR DEPRECIATION OF EQUITY EXPOSURE

	Millions of yen	
	FY2015	FY2014
Gain (loss) on sale	**¥ (2,312)**	¥ 4,573
Loss of depreciation	**638**	417

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (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	**2016**	2015
Unrealized gain (loss)	**¥ 6,948**	¥ 9,313

(4) AMOUNT FOR EACH PORTFOLIO CLASSIFICATION OF EQUITY EXPOSURE

	Millions of yen	
As of March 31	**2016**	2015
Market-based approach	**¥ 15,418**	¥ 22,008
PD/LGD Method	**427,993**	451,320
RW100% Applied	**1**	1
RW250% Applied	**—**	986

Not applicable for the following items;

• UNREALIZED GAIN OR LOSS WHICH IS NOT RECOGNIZED BOTH ON BALANCE SHEET AND ON PROFIT AND LOSS STATEMENT

8. AMOUNT OF REGARDED EXPOSURE UNDER THE ACCORD ARTICLE 167

	Millions of yen	
As of March 31	**2016**	2015
Regarded exposure (fund)	**¥ 35,001**	¥ 37,424

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:

	Billions of yen	
As of March 31	**2016**	2015
JPY	**¥ (56.2)**	¥ (65.1)
USD	**(3.1)**	(1.5)
Others	**(3.3)**	(1.4)
Total	**¥ (62.7)**	¥ (68.1)

DISCLOSURE ITEMS CONCERNING REMUNERATION, ETC.

1. MATTERS CONCERNING THE SITUATION OF SETTING UP AN ORGANIZATIONAL STRUCTURE REGARDING REMUNERATION, ETC. FOR APPLICABLE OFFICERS AND EMPLOYEES OF SHINSEI BANK (GROUP)

(1) Scope of "Applicable Officers and Employees"
The scopes of "Applicable Officers" and "Applicable Employees, etc." (collectively, "Applicable Officers and Employees") prescribed in the announcement on remuneration subject to disclosure are as shown below.

1) Scope of "Applicable Officers"
Applicable Officers refer to the Directors and Audit & Supervisory Board Members of Shinsei Bank, excluding outside Directors and outside Audit & Supervisory Board Members.

2) Scope of "Applicable Employees, etc."
At Shinsei Bank, "Applicable Employees, etc." who are subject to disclosure refer to the "persons who receive a large amount of remuneration, etc." and who have a material impact on business operation or the situation of assets of Shinsei Bank and its major consolidated subsidiaries, etc. among the officers and employees of Shinsei Bank and officers and employees of its major consolidated subsidiaries, etc., excluding Applicable Officers.

(a) Scope of "major consolidated subsidiaries, etc."
Major consolidated subsidiaries etc. refer to the subsidiaries that are independently mentioned in the business report and consolidated financial statements and which are important for the operation of the Shinsei Bank Group, taking into account the significance of their impact on the financial conditions and business results of the Shinsei Bank Group. More specifically, they refer to the following seven companies. While there are three consolidated subsidiaries, etc. with total assets accounting for 2% or more of consolidated total asset, all of those three companies are included in the following seven companies.

APLUS FINANCIAL Co., Ltd.
Showa Leasing Co., Ltd.
SHINKI 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 48 million yen in the fiscal year reported)." In the fiscal year reported, there was one 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.
In the fiscal year reported, there was one Applicable Employee who fell under (b) and was considered to be "persons who have a material impact on business operation or the situation of assets of the Shinsei Bank Group."

(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.

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

DISCLOSURE ITEMS CONCERNING REMUNERATION, ETC. (CONTINUED)

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, 2015 to March 31, 2016)
(For both consolidated/and non-consolidated bases)

Category	Number of people	Total amount of remuneration, etc. (in million yen)	Total amount of fixed remuneration	Basic remuneration	Stock option	Other	Total amount of variable remuneration	Basic remuneration	Bonus	Other	Retirement allowance	Other
Applicable Officers (excl. outside officers)	4	192	101	101	0	0	0	0	0	0	91	0
Applicable Employees, etc.	1	133	50	37	0	13	0	0	0	0	83	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 four people in total consisting of three fulltime Directors (of whom, one has already resigned at the end of the 15th General Meeting of Shareholders held on June 17, 2015) 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 192 million yen. The average number of the payees during the year was four and the average amount of remuneration paid to fulltime officers was 48 million yen.
(4) One people who received remuneration at or over 48 million yen as shown in the certificate of income and withholding tax were identified as Applicable Employees, etc. The table shows the amount of remuneration paid to this one people during the fiscal year reported (April 2015 to March 2016).
(5) 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.
(6) The exercise periods of stock options granted are as shown below.

	Exercise period	
Shinsei Bank, Ltd. 5th Warrant	From July 1, 2007 to June 23, 2015	From July 1, 2008 to June 23, 2015
Shinsei Bank, Ltd. 6th Warrant	From July 1, 2007 to June 23, 2015	From July 1, 2008 to June 23, 2015
Shinsei Bank, Ltd. 7th Warrant	From July 1, 2008 to June 23, 2015	From July 1, 2010 to June 23, 2015
Shinsei Bank, Ltd. 8th Warrant	From July 1, 2008 to June 23, 2015	From July 1, 2010 to June 23, 2015
Shinsei Bank, Ltd. 13th Warrant	From June 1, 2008 to June 23, 2015	From June 1, 2009 to June 23, 2015
Shinsei Bank, Ltd. 14th Warrant	From June 1, 2008 to June 23, 2015	From June 1, 2009 to June 23, 2015
Shinsei Bank, Ltd. 15th Warrant	From June 1, 2009 to June 23, 2015	From June 1, 2011 to June 23, 2015
Shinsei Bank, Ltd. 16th Warrant	From June 1, 2009 to June 23, 2015	From June 1, 2011 to June 23, 2015
Shinsei Bank, Ltd. 18th Warrant	From June 1, 2009 to May 8, 2017	From June 1, 2011 to May 8, 2017
Shinsei Bank, Ltd. 20th Warrant	From June 1, 2010 to May 13, 2018	From June 1, 2012 to May 13, 2018

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, 2016

As of March 31, 2016, the Shinsei Bank Group consisted of Shinsei Bank, Limited, 250 subsidiaries (comprising 160 consolidated companies including APLUS FINANCIAL Co., Ltd., Showa Leasing Co., Ltd., Shinsei Financial Co., Ltd. and Shinsei Principal Investments Ltd. and 90 unconsolidated subsidiaries) and 21 affiliated companies (20 affiliated companies accounted for using the equity method, such as Jih Sun Financial Holding Co., Ltd. and 1 affiliate accounted for not applying the equity method). The Shinsei Bank Group provides a wide variety of financial products and services to domestic institutional and individual customers through the "Institutional Group," the "Global Markets Group," and the "Individual Group."

Shinsei Bank, Limited

- **Institutional Group**
  - Head Office and domestic branch offices
  - Major subsidiaries: •Showa Leasing Co., Ltd.
    •Shinsei Trust & Banking Co., Ltd.
    •Shinsei Principal Investments Ltd.
- **Global Markets Group**
  - Head Office and domestic branch offices
  - Major subsidiaries: •Shinsei Securities Co., Ltd.
    •Shinsei Investment Management Co., Ltd.
- **Individual Group**
  - Head Office and domestic branches
  - Major subsidiaries: •Shinsei Financial Co., Ltd.
    •SHINKI Co., Ltd.
    •APLUS FINANCIAL Co., Ltd.

MAJOR SUBSIDIARIES AND AFFILIATES

Name	Location	Main business
Major Domestic Subsidiaries		
Showa Leasing Co., Ltd.	Tokyo, Japan	Leasing[1]
Shinsei Trust & Banking Co., Ltd.	Tokyo, Japan	Trust banking[1]
Shinsei Securities Co., Ltd.	Tokyo, Japan	Securities[2]
Shinsei Investment Management Co., Ltd.	Tokyo, Japan	Investment trust and discretionary investment advising[2]
Shinsei Principal Investments Ltd.	Tokyo, Japan	Financial instruments business[1]
Shinsei Corporate Investment Limited	Tokyo, Japan	Investment[1]
Shinsei Investment & Finance Limited	Tokyo, Japan	Investment and finance[1]
Shinsei Servicing & Consulting Limited	Tokyo, Japan	Servicing business[1]
Shinsei Property Finance Co., Ltd.	Tokyo, Japan	Real estate collateral finance[3]
APLUS FINANCIAL Co., Ltd.	Osaka, Japan	Holding company[3]
APLUS Co., Ltd.	Osaka, Japan	Installment credit[3]
APLUS Personal Loan Co., Ltd.	Osaka, Japan	Finance[3]
Zen-Nichi Shinpan Co., Ltd.	Okayama, Japan	Installment credit[3]
Shinsei Financial Co., Ltd.	Tokyo, Japan	Finance[3]
SHINKI Co., Ltd.	Tokyo, Japan	Financing for individuals and small businesses[3]
Major Overseas Subsidiaries		
Shinsei International Limited	London, UK	Securities[2]
Shinsei Finance (Cayman), Limited	Grand Cayman, Cayman Islands	Finance[4]
Shinsei Finance II (Cayman), Limited	Grand Cayman, Cayman Islands	Finance[4]
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]

1 Institutional Group 2 Global Markets Group 3 Individual Group 4 Corporate/Other

EMPLOYEES

	2014	2015	**2016**
Consolidated			
Number of Employees	5,064	5,300	**5,356**
Nonconsolidated			
Number of Employees	2,030	2,186	**2,210**
Male	1,141	1,249	**1,272**
Female	889	937	**938**
Average age	40 years 3 months	40 years 4 months	**40 years 7 months**
Average years of service	11 years 5 months	11 years 2 months	**11 years 7 months**
Average monthly salary	¥482 thousand	¥494 thousand	**¥489 thousand**

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

AS OF MARCH 31, 2016

Capital (in millions)	Established	Acquired	Equity stake held by Shinsei Bank and consolidated subsidiaries (%)		
				Equity stake held by Shinsei Bank	Equity stake held by consolidated subsidiaries of Shinsei Bank
¥ 29,360	1969.4	2005.3	97.8%	97.8%	—%
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
2,750	1959.5	2002.3	100.0	100.0	—
15,000	1956.10	2004.9	95.0	3.2	91.8
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%	—%
$ 58	2006.2	—	100.0	100.0	—
$ 39	2006.3	—	100.0	100.0	—
$ 36	2013.6	—	50.0	50.0	—
HK$ 286	2013.8	—	100.0	—	100.0
NT$ 33,963	2002.2	2006.7	35.4	—	35.4

STOCK INFORMATION

AS OF MARCH 31, 2016

Shares Outstanding and Capital

1,000 shares, millions of yen

Date	Shares outstanding		Capital		Capital surplus		Notes
	Change	Balance	Change	Balance	Change	Balance	
July 29, 2003	(1,358,537)	2,033,065[1]	—	451,296	—	18,558	2-for-1 reverse share split for common shares Post reverse split common shares outstanding 1,358,537 thousand shares
July 31, 2006	(99,966)	1,933,098[1]	—	451,296	—	18,558	Use of call feature for Series 3 Class-B preferred shares Issuance of 200,033 thousand common shares Retirement of Series 3 Class-B preferred shares -300,000 thousand shares
November 16, 2006	(85,000)	1,848,098[1]	—	451,296	—	18,558	Cancellation of treasury shares (common) -85,000 thousand shares
August 1, 2007	(100,000)	1,748,098[1]	—	451,296	—	18,558	Mandatory acquisition of Series 3 Class-B preferred shares Issuance of 200,000 thousand common shares Retirement of Series 3 Class-B preferred shares -300,000 thousand shares
February 4, 2008	117,647	1,865,746[1]	25,000	476,296	25,000	43,558	Third party allocation of shares (common shares) Subscription price ¥425, par value ¥212.5
March 31, 2008	194,600	2,060,346	—	476,296	—	43,558	Use of call feature for Series 2 Class-A preferred shares Issuance of 269,128 thousand common shares Retirement of Series 2 Class-A preferred shares -74,528 thousand shares
March 15, 2011	690,000	2,750,346	35,907	512,204	35,907	79,465	New shares issued through International Offering (common shares) Subscription price ¥108, par value ¥52.04

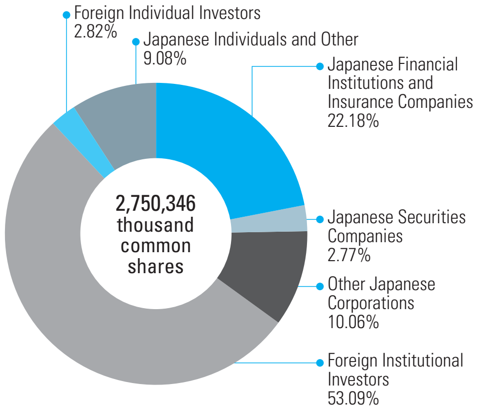
1 Figures include number of preferred shares outstanding

Largest Shareholders

Rank	Shareholders	Thousands of Common Shares	%
1	SATURN IV SUB LP (JPMCB 380111)	323,680	11.76
2	Deposit Insurance Corporation of Japan	269,128	9.78
3	THE RESOLUTION AND COLLECTION CORPORATION	200,000	7.27
4	SATURN JAPAN III SUB C.V. (JPMCB 380113)	110,449	4.01
5	THE MASTER TRUST BANK OF JAPAN, LTD. (TRUST ACCOUNT)	97,721	3.55
6	SHINSEI BANK, LIMITED	96,429	3.50
7	CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	82,374	2.99
8	J. CHRISTOPHER FLOWERS	76,753	2.79
9	JP MORGAN CHASE BANK 380055	73,936	2.68
10	JPMCB: CREDIT SUISSE SECURITIES EUROPE-JPY 1007760	73,736	2.68
11	JAPAN TRUSTEE SERVICE BANK, LTD. (TRUST ACCOUNT)	69,592	2.53
	Total (includes treasury shares)	2,750,346	100.00

Notes: 1 As of March 31, 2016, a group of investors, including affiliates of J.C. Flowers & Co. LLC., holds 553,663,517 common shares or 20.86% of Shinsei Bank's outstanding common shares, excluding treasury shares.
2 As of March 31, 2016, in total, the Deposit Insurance Corporation and the Resolution and Collection Corporation hold 469,128,888 common shares or 17.67% 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

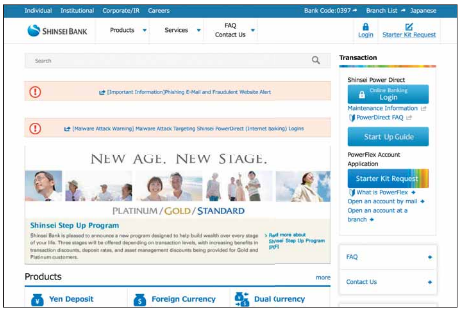
AS OF JULY 1, 2016

	Long-Term (Outlook)	Short-Term
Moody's	Baa3 (Positive)	Prime-3
Standard and Poor's (S&P)	BBB+ (Stable)	A-2
Japan Credit Rating Agency (JCR)	BBB+ (Stable)	J-2
Rating and Investment Information, Inc. (R&I)	BBB+ (Positive)	a-2

WEBSITE

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

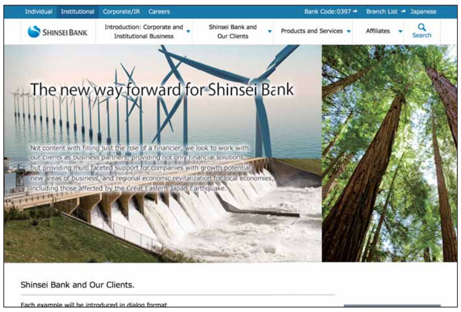
INDIVIDUAL



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

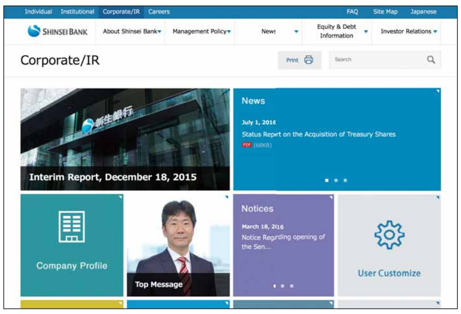


http://www.shinseibank.com/institutional/en/

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.

For further information, please contact:

Investor Relations & Corporate Communications Division
Shinsei Bank, Limited
4-3, Nihonbashi-muromachi 2-chome, Chuo-ku, Tokyo 103-8303, Japan
Tel: 81-3-6880-8303 Fax: 81-3-4560-1706
URL: http://www.shinseibank.com E-mail: Shinsei_IR@shinseibank.com

SHINSEI BANK, LIMITED
4-3, Nihonbashi-muromachi 2-chome, Chuo-ku, Tokyo 103-8303, Japan
TEL: 81-3-6880-7000
URL: http://www.shinseibank.com