SHINSEI BANK

INTEGRATED REPORT 2019

For the fiscal year ended March 31, 2019

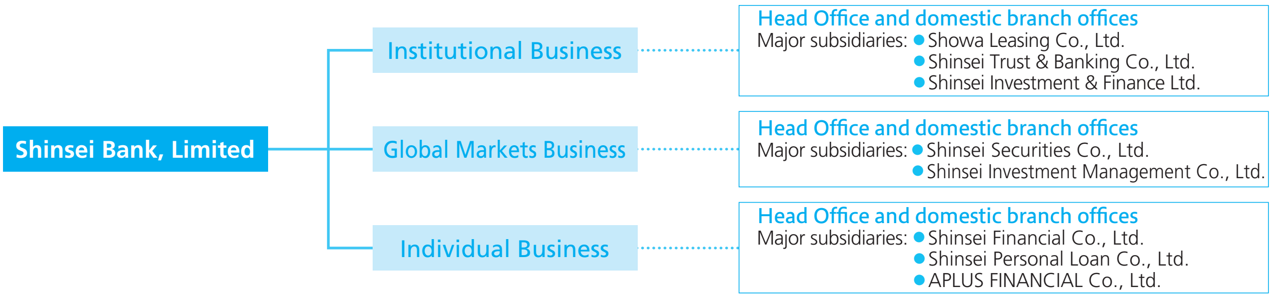
Data Appendix

Contents

Please see Shinsei Bank's Integrated Report 2019 for our businesses, strategies and ESG information.

Corporate Information

As of March 31, 2019, the Shinsei Bank Group consisted of Shinsei Bank, Limited, 179 subsidiaries (comprising 83 consolidated companies including APLUS FINANCIAL Co., Ltd., Showa Leasing Co., Ltd., Shinsei Financial Co., Ltd. and Shinsei Investment & Finance Limited and 96 unconsolidated subsidiaries) and 37 affiliated companies (35 affiliated companies accounted for using the equity method, such as Jih Sun Financial Holding Co., Ltd. and 2 affiliated companies that are not accounted for using the equity method). The Shinsei Bank Group provides a wide variety of financial products and services to domestic institutional and individual customers through "Institutional Business," "Global Markets Business" and "Individual Business."



Major Subsidiaries and Affiliates

Name	Location	Main business
Major Domestic Subsidiaries		
Showa Leasing Co., Ltd.	Tokyo, Japan	Leasing[1]
Shinsei Trust & Banking Co., Ltd.	Tokyo, Japan	Trust banking[1]
Shinsei Securities Co., Ltd.	Tokyo, Japan	Securities[2]
Shinsei Investment Management Co., Ltd.	Tokyo, Japan	Investment trust and discretionary investment advising[2]
Shinsei Investment & Finance Limited	Tokyo, Japan	Financial instruments business[1]
Shinsei Corporate Investment Limited	Tokyo, Japan	Investment[1]
APLUS FINANCIAL Co., Ltd.	Osaka, Japan	Holding company[3]
APLUS Co., Ltd.	Osaka, Japan	Installment credit[3]
APLUS Personal Loan Co., Ltd.	Osaka, Japan	Finance[3]
Zen-Nichi Shinpan Co., Ltd.	Okayama, Japan	Installment credit[3]
Shinsei Financial Co., Ltd.	Tokyo, Japan	Finance[3]
Shinsei Personal Loan Co., Ltd.	Tokyo, Japan	Financing for individuals and small businesses[3]
Shinsei Business Services Co., Ltd.	Tokyo, Japan	Outsourcing services[4]
Alpha Servicer Co., Ltd.	Tokyo, Japan	Servicing business[3]
Major Overseas Subsidiaries		
Shinsei International Limited	London, UK	Securities[2]
OJBC Co. Ltd.	Tortola, British Virgin Islands	Financial holding company[3]
Nippon Wealth Limited	Kowloon, Hong Kong	Investment trust and discretionary investment advising[3]
Major Affiliates Accounted for Using the Equity Method		
Jih Sun Financial Holding Co., Ltd.	Taipei, Taiwan	Financial holding company[1]
Nissen Credit Service Co., Ltd.	Kyoto, Japan	Credit card[3]
MB Shinsei Finance Limited Liability Company	Hanoi, Vietnam	Finance[3]

1 Institutional Business
2 Global Markets Business
3 Individual Business
4 Corporate/Other

Employees

		March 31, 2017	March 31, 2018	**March 31, 2019**
Consolidated	Number of Employees	5,360	5,307	**5,179**
Nonconsolidated	Number of Employees	2,207	2,188	**2,150**
	Male	1,272	1,265	**1,218**
	Female	935	923	**932**
Average age		40 years 11 months	41 years 3 months	**41 years 7 months**
Average years of service		11 years 11 months	12 years 5 months	**12 years 11 months**
Average monthly salary		¥482 thousand	¥479 thousand	**¥477 thousand**
Number of Business-Limited Employees		0	0	**146**
Number of Part-time Employees		203	267	**215**
Number of Temporary Employees		143	113	**6**

(Note) Number of employees does not include business-limited employees, part-time employees and temporary employees. However, the number of employees after accounting for personnel seconded in or out of the Bank is 2,248 as of March 31, 2019.

(As of March 31, 2019)

				Equity stake held by Shinsei Bank and consolidated subsidiaries (%)		
	Capital (in millions)	Established	Acquired		Equity stake held by Shinsei Bank	Equity stake held by consolidated subsidiaries of Shinsei Bank
	¥29,360	1969. 4	2005. 3	100.0%	100.0%	—
	5,000	1996.11	—	100.0%	100.0%	—
	8,750	1997. 8	—	100.0%	100.0%	—
	495	2001.12	—	100.0%	100.0%	—
	100	2006. 4	2012.12	100.0%	100.0%	—
	50	2012.11	—	100.0%	100.0%	—
	15,000	1956.10	2004. 9	95.0%	2.1%	92.8%
	15,000	2009. 4	—	100.0%	—	100.0%
	100	2009. 4	—	100.0%	—	100.0%
	1,000	1957. 4	2006. 3	100.0%	—	100.0%
	100	1991. 6	2008. 9	100.0%	100.0%	—
	100	1954.12	2007.12	100.0%	—	100.0%
	54	1985. 2	—	100.0%	100.0%	—
	500	2005.12	2017. 7	100.0%	100.0%	—
	£3	2004. 9	—	100.0%	100.0%	—
	$56	2013. 6	—	50.0%	50.0%	—
	HK$440	2013. 8	—	100.0%	—	100.0%
	NT$36,190	2002. 2	2006. 7	36.2%	—	36.2%
	¥4,050	1997.12	2016.12	50.0%	50.0%	—
	VND800,000	2016. 3	2017.10	49.0%	49.0%	—

Organization of Shinsei Bank, Limited

(As of July 1, 2019)

- Audit & Supervisory Board Members
- Audit & Supervisory Board
  - Office of Audit & Supervisory Board Members
- Board of Directors
- CEO
  - Management Affairs Division
  - Group Executive Committee *1
  - Group Important Committee
  - Executive Committee *1

Group Headquarters

- Group Internal Audit Division
- Group Business Strategy Division
  - (Eco System Strategy Department)
  - (Innovative Finance Institute)*11
  - (Group Data Strategy Department)*12
- Group Organizational Strategy Division
  - (Group Strategic Sourcing Department)
- Group Corporate Planning Division
  - (Financial Research Department)
- Group Financial and Regulatory Accounting Division
  - (IFRS Department)
- Group Treasury Division
- Group Investor Relations & Corporate Communications Division
- Group Human Resources Division
  - (Diversity Promotion Department)
- Group Legal and Compliance Division
  - (Legal Department)
  - (Financial Crime Information Department)
- Group General Services Division
- Group Integrated Risk Management Division
- Group Portfolio Risk Management Division
- Group Individual Banking Risk Management Division
- Group Information Technology Division

<Institutional Business>

Group Institutional Business Planning Division

- Corporate Banking Business Division I
- Corporate Banking Business Division II
- Corporate Banking Business Division III
  - (Overseas Finance Department)
- Osaka Corporate Banking Business Division*8
- Financial Institutions & Public Sector Business Division
- Sapporo, Sendai, Nagoya, Osaka, Hiroshima and Fukuoka
- Syndicated Finance Division
- Corporate Advisory Division
- Trading Division
- Markets Division
- Market Products Division
- Investment Business Division
- Wealth Management Division*10
- Real Estate Finance Division
- Healthcare Finance Division
- Real Estate Business Division
- Specialty Finance Division
- Project Finance Division
  - (Structured Finance Department)
- Business Succession Finance Division
- Institutional Business Operation Division
- Showa Leasing Co., Ltd.
- Shinsei Trust and Banking Co., Ltd.
- Other Group Companies (Institutional Business)
- (Corporate Customer Service Department)
- (Markets Business Planning Department)
- (Corporate Administration Department)
- (New Business Promotion & Support Department)

<Individual Business>

Group Individual Business Planning Division

- (Retail IT Development Department)
- Retail Sales & Support Division — 5 Financial Centers*2
  - (Estate Consulting Promotion Department)
- Retail Sales Division I*3
- Retail Sales Division II*4
- Retail Sales Division III*5
- Kansai Retail Sales Division*6
- Channel Management Division*7
  - (Fukuoka Call Center)
  - (Direct Banking Department)
- Retail Products Division
  - (Foreign Exchange Business Promotion Department)
- Retail Operation Division
- Housing Loan Division
- Consumer Finance Division
  - (Customer Communication Center I)
  - (Customer Communication Center II)
  - (Smart Card Loan Center)
  - (Osaka Administration Management Center)
  - (Customer Relationship Department)
- Customer Service Division
  - (AML Correspondence Department)
  - (Customer Service Department)
- APLUS FINANCIAL Co., Ltd.
- Shinsei Financial Co., Ltd.
- Other Group Companies (Individual Business)

- Office of Financing Facilitation Management
- Operations Management Division
  - (FATCA Management Department)

(Credit Management)

- Institutional Credit Management Division
- Structured Risk Management Division
- Real Estate Risk Management Division
  - (Real Estate Research Department)

(IT System)

- Information Systems Risk Management Division*9
- Information Systems Development Division
- Information Systems Operation Division

*1 Management Affairs Division shall act as the secretariat of the Executive Committee and the Group Executive Committee.
*2 Sapporo, Sendai, Nagoya (incl. Sakae Annex),Hiroshima, Fukuoka
*3 In charge of each SFC in Omiya, Ikebukuro, Kichijoji, Shinjuku, Hachioji
*4 In charge of each SFC in Head Office, Kashiwa, Tsudanuma, Tokyo, Ginza, Ueno
*5 In charge of each SFC in Shibuya, Futakotamagawa, Machida, Yokohama, Fujisawa
*6 In charge of each SFC in Kyoto, Umeda (incl. Senri-Chuo Annex and Hankyu-Umeda Annex), Namba, Kobe
*7 Channel Management Division shall report to Executive Officer in charge of IT System .
*8 Osaka Corporate Banking Business Division shall report to GM of Osaka Branch.
*9 Information Systems Risk Management Division shall report to the management.
*10 This division shall report to both corporate and individual business divisions / executive officers.
*11 To be positioned as a Department.
*12 Group Data Strategy Department shall be under both of Group Business Strategy Division and Group Organizational Strategy Division.

Directors and Executive Officers

(As of July 1, 2019)

Board of Directors (7)

Hideyuki Kudo
Representative Director, President

Yoshiaki Kozano
Director

J. Christopher Flowers*1
Director
Managing Director and Chief Executive Officer, J.C. Flowers & Co. LLC

Ernest M. Higa*1
Director
Chairman, President & Chief Executive Officer, Higa Industries Co., Ltd.

Jun Makihara*1
Director
Director, Monex Group, Inc.
Director, Philip Morris International Inc.

Rie Murayama*1
Former Managing Director, Goldman Sachs Japan Co., Ltd.

Ryuichi Tomimura*1
Director
President, Representative Director, SIGMAXYZ Inc.

*1 Outside Directors

Audit & Supervisory Board Members (3)

Shinya Nagata
Audit & Supervisory Board Member

Ikuko Akamatsu*2
Audit & Supervisory Board Member
Certified Public Accountant,
Certified Fraud Examiner

Shiho Konno*2
Audit & Supervisory Board Member
Lawyer

*2 Outside Audit & Supervisory Board Members

Group Headquarters Officers and Shinsei Bank Executive Officers (37)

Hideyuki Kudo
Representative Director
President and Chief Executive Officer

(Senior Managing Executive Officer (SMEO) and equivalent to SMEO)

Sanjeev Gupta
Senior Managing Executive Officer, Advisor to the President and Chief Executive Officer

Akira Hirasawa
Chief Officer, Group Organizational Strategy, Group Human Resources
Senior Managing Executive Officer, Executive Officer in charge of Operations Management

Yoshiaki Kozano
Director
Chief Officer, Group Business Strategy, GM, Group Business Strategy Division

Michiyuki Okano
Chief Officer, Group IT
Senior Officer, Group Business Strategy,
Senior Officer, Group Organizational Strategy

Shinichirou Seto
Senior Managing Executive Officer, Head of Institutional Business Unit, President and CEO of Showa Leasing Co., Ltd.

Note: Chief Officer and Senior Officer are positions of Group Headquarters.
Note: Officers and Executive Officers are listed in alphabetical order.
Note: Messrs. Yoshiaki Kozano and Michiyuki Okano are equivalent to Senior Managing Executive Officer of Shinsei Bank, Mr. Kouichi Sawaji is equivalent to Managing Executive Officer of Shinsei Bank, and Ms. Takako Hayashi, Mr. Junya Nakamura, Ms. Tamane Nishi, Mr. Touichiro Shiomi and Mr. Takahiro Yoshida are equivalent to Executive Officers of Shinsei Bank.
*1: Mr. Takahiro Kubo is also appointed as Representative Director and President, Shinsei Trust & Banking Co., Ltd.

(Managing Executive Officer (MEO) and equivalent to MEO)

Shoichi Hirano
Chief Officer, Group Corporate Planning and Finance, Managing Executive Officer, Executive Officer in charge of Financing Facilitation, General Manager, Office of Financing Facilitation Management

Takahisa Komoda
Managing Executive Officer, Head of Institutional Business

Tsukasa Makizumi
Managing Executive Officer, Head of Credit Risk Management

Masanori Matsubara
Managing Executive Officer, Head of IT System

Kyohei Matsumoto
Chief Officer, Group Legal and Compliance

Kouichi Sawaji
Chief Officer, Group General Service

Tetsuro Shimizu
Managing Executive Officer, Head of Individual Business Unit,
Senior Officer, Group Business Strategy,
Representative Director and President and CEO, APLUS FINANCIAL Co., Ltd.

Hiroyuki Torigoe
Senior Officer, Group Business Strategy
Managing Executive Officer, Head of Consumer Finance,
President and CEO of Shinsei Financial Co., Ltd.

Shigeto Yanase
Managing Executive Officer, Executive Officer in charge of Institutional Business,
General Manager, Osaka Branch

(Executive Officer (EO) and equivalent to EO)

Takahiro Fujii
Executive Officer, Executive Officer in charge of Institutional Business

Kunimitsu Hayashi
Executive Officer, Executive Officer in charge of Institutional Business

Takako Hayashi
Senior Officer, Group Human Resources, GM, Group Human Resources Division

Etsuko Ichiba
Executive Officer, Executive Officer in charge of Retail Operation, General Manager, Retail Operation Division

Hiroyuki Kagita
Executive Officer, Executive Officer in charge of Customer Service, General Manager, Group Individual Business Planning Division

Taichi Kawai
Executive Officer, Executive Officer in charge of Institutional Business

Hirohisa Kazami
Senior Officer, Group Legal and Compliance

Kumi Kikugawa
Executive Officer, Executive Officer in charge of Retail Sales, General Manager, Retail Sales Division II

Soichiro Komori
Senior Officer, Group Business Strategy

Takahiro Kubo*1
Executive Officer, Executive Officer in charge of Group Structured Solution

Hirofumi Kusakabe
Executive Officer, Head of Group Structured Solution

Junya Nakamura
Senior Officer, Group Organizational Strategy, GM, Group Organizational Strategy Division

Nobuyasu Nara
Executive Officer, General Manager, Institutional Credit Management Division

Tamane Nishi
Senior Officer, Group Human Resources, GM, Group Human Resources Division, Department Head, Diversity Promotion Department

Tomoko Ogawara
Executive Officer, Executive Officer in charge of Retail Sales, General Manager, Kansai Retail Sales Division

Hiroki Otake
Executive Officer, Head of Retail Sales, General Manager, Retail Sales and Support Division

Hiroshi Ooyama
Executive Officer, General Manager, Group Institutional Business Planning Division

Toichiro Shiomi
Chief Officer, Group Risk, GM, Group Portfolio Risk Management Division

Noboru Takemura
Senior Officer, Group Corporate Planning and Finance

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

Kenji Uesaka
Executive Officer, Executive Officer in charge of Group Structured Solution, General Manager, Specialty Finance Division

Takahiro Yoshida
Senior Officer, Group Corporate Planning and Finance, GM, Group Treasury Division

Senior Advisors

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

David Morgan
Chairman, Europe and Asia-Pacific, J.C. Flowers & Co. UK LLP

Special Advisor

Yukio Nakamura

Advisor

Yuji Tsushima

Executive Advisors

Nozomi Moue

Yasufumi Shimada

Network

(As of June 30, 2019)

Domestic Outlets

29 outlets (26 branches including head office, 3 annexes)

Hokkaido
Sapporo Branch

Tohoku
Sendai Branch

Kanto (Excluding Tokyo)
Omiya Branch
Kashiwa Branch
Tsudanuma Branch
Yokohama Branch
Fujisawa Branch

Tokyo
Head Office
Tokyo Branch
Ginza Branch
Ikebukuro Branch
Ueno Branch
Kichijoji Branch
Shinjuku Branch
Shibuya Branch
Futakotamagawa Branch
Hachioji Branch
Machida Branch

Tokai
Nagoya Branch
Sakae Financial Center

Kinki
Kyoto Branch
Osaka Branch
Umeda Branch
Umeda Branch—Hankyu Umeda Annex
Umeda Branch—Senri Chuo Annex
Namba Branch
Kobe Branch

Chugoku
Hiroshima Branch

Kyushu
Fukuoka Branch

Lake Unstaffed Branches:

Lake unstaffed branches	725 locations

Partner Train Station, Convenience Store and Supermarket ATMs:

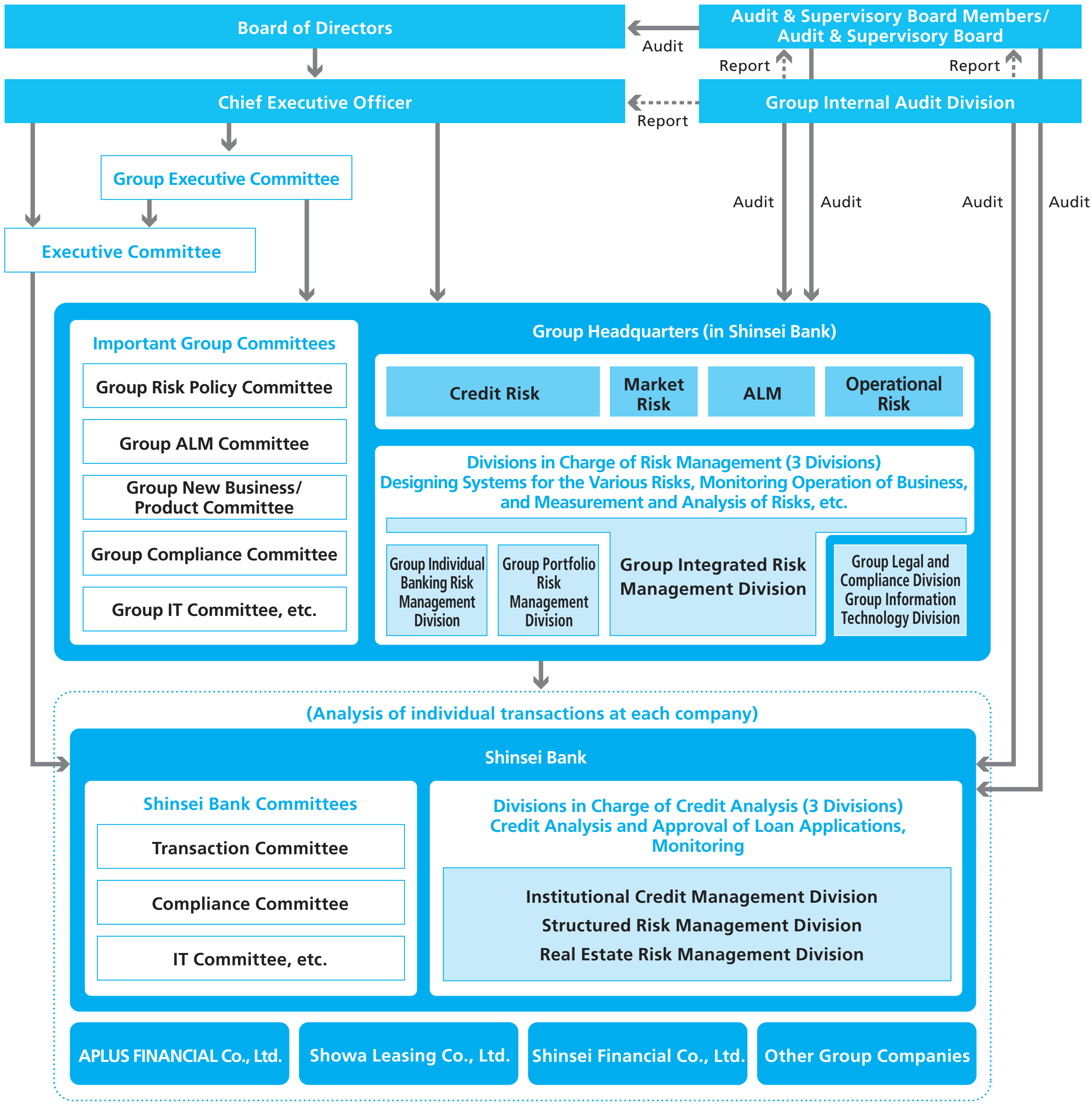
Seven Bank, Ltd. ATMs	23,444 locations
E-net ATMs	12,357 locations
Lawson ATM Networks ATMs	13,510 locations
AEON Bank ATMs	5,191 locations
VIEW ALTTE ATMs	315 locations
Patsat ATMs	106 locations

Risk Management

Overview of the Group's Risk Management Systems

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

■ Risk Management System Chart (as of 19th June, 2019)



Risk Management

Basic Concept regarding Risk Management

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

■ Definitions of Risk Categories

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

Credit Risk

Institutional Business Credit Risk Management

Under the "Credit Risk Policy," the Bank has established specific policies for customer attributes, products, markets, industries, and forms of credit that should acquire or contain risks, and has clearly set out the "Credit Procedures" and various procedures as well as the basic policies for credit business and specific guidelines for credit risk management. Credit risk management processes for institutional businesses are broadly grouped into credit risk management for individual transactions and portfolio-based credit risk management.

Credit Risk Management for Individual Transactions

(1) Organization & Structure

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

(2) Obligor Rating Systems

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

Portfolio-Based Credit Risk Management

(1) Monitoring Analysis System

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

(2) Quantifying Credit Risk

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

(3) Credit Concentration Guideline

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

Individual Business Credit Risk Management

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

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

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

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

Credit Risks on Market-Related Transactions

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

Self-Assessment

Asset self-assessments are a part of credit risk management. Financial institutions examine and analyze their asset holdings so they can grasp the actual state of their assets as steps in preparing for appropriate asset write-downs and write-offs as well as reserve provisioning. At Shinsei Bank, sales promotion divisions and credit analysis divisions conduct asset appraisals, and risk management divisions that are independent of sales promotion and credit analysis verify appraisal results.

Market Risk

Market Risk Management Policy

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

Trading Book

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

■ VaR Data for Fiscal Year End, Maximum, Minimum and Average

(Millions of yen)

	FY2017		FY2018	
	Consolidated	Non-consolidated	Consolidated	Non-consolidated
FY End VaR	783	740	1,098	1,040
FY VaR				
Maximum	1,391	1,353	1,577	1,527
Average	956	917	904	854
Minimum	572	540	631	570

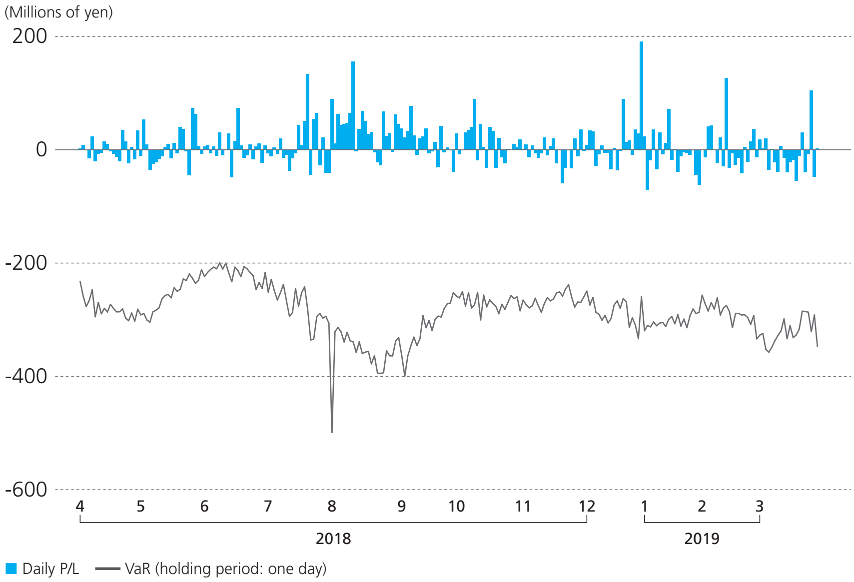
■ Stressed VaR Data for Fiscal Year End, Maximum, Minimum and Average

(Millions of yen)

	FY2017		FY2018	
	Consolidated	Non-consolidated	Consolidated	Non-consolidated
FY End VaR	3,915	3,690	3,879	3,692
FY VaR				
Maximum	4,161	4,017	4,625	4,497
Average	2,869	2,728	3,328	3,163
Minimum	1,832	1,755	2,605	2,350

Risk Management

■ VaR and Daily Profit and Loss (Backtesting) (FY2018, Consolidated basis)



Backtesting on the VaR Model Applied to the Trading Account

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

Assumptions of Shinsei's VaR Model

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

Interest Rate Risk in Banking Book

Interest rate risk is the risk of eroding profits or incurring losses due to market interest rate fluctuations amid mismatches in the interest rate or maturities of assets and liabilities. Conventionally to measure interest rate risk exposure, we calculated the decrease in the economic value of the banking book from an unexpected 1% interest rate increase [a 1% parallel upward shift in interest rates for loan originations (bank assets) and core deposits (bank liabilities)]. This calculated exposure was used for internal controls. From 2019, we calculate the change of economic value of the banking book(ΔEVE) by means the three scenarios of IRRBB: parallel shock up, parallel shock down and steepener shock, and use maximum ΔEVE across three scenarios above for internal controls. ΔEVE is significantly impacted by the recognition of asset and liability maturities and loan prepayments, we are endeavoring to appropriately capture interest rate risk controls.

Risk Relating to Marketable Credit Instruments

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

Liquidity Risk

Liquidity Risk Management Policy

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

Operational Risk

Operational Risk Management Frameworks

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

The Group Integrated Risk Management Division, a unit responsible for Group-wide operational risk management, evaluates, analyzes and reports on operational risk to management. Moreover, for each domain of operational risk such as administrative risk and systems risk, specialized risk management divisions that are independent from business divisions implement measures to manage operational risks according to the attributes of each category.

Risk Management Frameworks for Administrative Risks

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

Risk Management Frameworks for Systems Risks

Systems risks include the risk of companies or individuals incurring losses from the disappearance of valuable data of customers as a result of information systems shutting off and software or hardware failures. Through consecutive reviews of systems risks, we are identifying and evaluating the risks, and working to improve quality in systems development and prevent systems failures and ensure rapid recoveries when problems occur by improving our systems operating capabilities. In January 2019, we renewed our core operational systems, and will manage risks for safe operations of new systems. We have endeavored to improve the level of systems risk management and information security for the entire Group, including subsidiaries. Moreover, we have taken appropriate steps based on the latest trends in technology to respond to cyber-security problems that have recently come to be seen as a social threat; so, we are working to ensure the safety of customer information and assets.

Due Diligence System for New Business and Product

Group New Business / Product Committee (The Committee) has been established in the group headquarters to conduct due diligence for new businesses and products of our group companies. In strategic investments with capital tie-up, due diligence has to be conducted by the Committee before the Group Executive Committee makes decisions.

Furthermore, a post launch monitoring system for new business has been established and we shall take appropriate actions if a problem in the business exists.

Due diligence system for new business and product

Chairman and committee members

- (Co-chairman) Chief Officers of the Group Corporate Planning & Finance and the Group Risk
- Chief Officer and GM of internal management sections in the group headquarters (Corporate Planning, Financial and Regulatory Accounting, Legal and Compliance, IT, Risk, etc.)
- Heads of risk management divisions in the group companies and executive officer in credit management of the Bank.
- Group Internal Audit Division, Audit & Supervisory Board Member of the Bank

Main verification items

- Conformance with the legal and compliances measures, action on anti-money laundering
- Adequacy of the financial and regulatory accounting process
- Implementation of technologies that conform to the Group's security standards
- Management process of risks inherent in businesses and services.
  - Credit risks, market risks, liquidity risks, etc.

Authority, etc.

- Verification of the framework of internal management in response to legal and compliances measures requires the approval from all of the Committee members.
- For strategic investments, important new business and products, the Committee reports the results of verification to the Group Executive Committee, in which decision-making authority resides.

Process after the business is launched

Monitoring system

- The effectiveness of the approved matters is confirmed by the Committee.
- Managements and business sections regularly evaluate performance of the business.

Risk Glossary

ALM (Asset Liability Management)	ALM refers to the comprehensive management of the market and liquidity risks that exist in the Bank's balance sheet (i.e., assets and liabilities) as a result of its business operations. ALM aims to optimize interest rate income from the Bank's balance sheet and economic value by monitoring interest rate conditions and asset/liability duration, including off-balance items such as derivatives on the Bank's account, and adjusting for risks in assets/liabilities and derivatives transactions in consideration of the change in value of assets, liabilities and periodic profits or losses due to market fluctuations.
Backtest	A backtest is the process of verifying the trading performance based on an historical rate or a fixed condition for share trading and currency trading.
Basel Regulations	Basel Regulations are regulations based on an international agreement in relation to such areas as the capital adequacy ratio of banks. Shinsei Bank calculates the capital adequacy ratio in accordance with the Japanese standards outlined by the Financial Services Agency.
Case of Historical Simulations	A method for calculating VaR using a distribution of changes in asset values calculated with historical risk factor values.
Expected Loss	Expected loss is the average amount of loss expected in relation to portfolio loans and is used as a provision for unrecoverable debt over a fixed period of time.
IRRBB	IRRBB (Interest Rate Risk in the Banking Book) is a risk which is caused by fluctuation in the market value of assets and liabilities in the banking book or revenue arising from adverse fluctuations in the level of interest rates. This risk is positioned as part of the second pillar (self-management and supervisory review process for financial institutions) of the Basel Capital Accord.
Parallel Shift	Parallel shift indicates that the interest rates for each year increase or decrease by the same extent in the same direction.
Portfolio	A Portfolio refers to a group of various components. An asset portfolio, for example, refers to a collection of various assets such as real estate, cash deposits and equities.
Risk Profile	The Risk Profile describes the characteristics of risks taken on.
Steeping	Steeping means the enlargement in difference between short-term and long-term interest rates.
Stress Testing	Stress testing is a preparation for unforeseen circumstances in financial markets, Stress Testing employs a statistical approach to simulate economic and other losses. Stress Testing is used in such instances as the verification of business plans based on unique scenarios projected by the Bank.
Trading Book	The Trading Book facilitates trade that takes advantage of short-term fluctuations in such areas as interest rates, foreign exchange rates and share prices.
Unexpected Loss	Unexpected loss is the difference resulting from subtracting the expected loss from the maximum loss expected to occur based on a set probability across multiple portfolio loans.
Value at Risk (VaR)	The VaR of a held position for a fixed period of time describes the maximum loss expected within a given probability range through normal price fluctuation.

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

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

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

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

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

Fiscal year 2018 refers to the consolidated accounting period from April 1, 2018 to March 31, 2019 and other fiscal years are also stated in the same manner.

Additionally, "this fiscal year" refers to fiscal year 2018.

OVERVIEW

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

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

FINANCIAL SUMMARY FOR THE FISCAL YEAR ENDED MARCH 31, 2018

In the fiscal year ended March 31, 2019, the Shinsei Bank Group recorded consolidated profit attributable to owners of the parent of ¥52.3 billion, increased ¥0.9 billion compared to the ¥51.4 billion recorded in the previous fiscal year. Total revenue decreased due to the non-recurrence of gains on the sale of equities posted in the previous fiscal year, the decline in derivative transaction-related income, and other factors, despite strong performances in our major business areas including an increase in interest income in unsecured loans to individuals and the structured finance business, which are growth areas. Net credit costs decreased due to a reversal following the calculation of general reserves for loan losses corresponding to the expansion of the portfolio in project finance and other areas in the Institutional Business, and consolidated profit attributable to owners of the parent increased from the previous fiscal year.

Total revenue was ¥229.6 billion, a ¥2.3 billion decrease compared to fiscal year 2017. Of this amount, net interest income totaled ¥133.8 billion, increased ¥5.0 billion compared to net interest income totaling ¥128.7 billion in fiscal year 2017. This increase was due to factors including the rise in loan interest in the growth areas of the unsecured loans business and the Structured Finance Business. Noninterest income totaled ¥95.9 billion, decreased ¥7.3 billion compared to noninterest income

OVERVIEW (continued)

totaling ¥103.2 billion recorded in fiscal year 2017. This resulted from the non-recurrence of gains on sales of equities in the Corporate Business and Showa Leasing posted in fiscal year 2017 as well as decreased derivative transaction-related income, along with other factors, despite the increase in income from sales of asset management products in the Retail Banking Business, an increase in income due to the impact of establishing ATM fees for some customers in conjunction with the revision of the Shinsei Step Up Program implemented in October 2018, and growth in APLUS FINANCIAL's shopping credit business.

General administrative expenses excluding amortization of goodwill and intangible assets totaled ¥145.7 billion in the fiscal year ended March 31, 2019, an increase from ¥142.9 billion in the previous fiscal year. This was attributable to the increase in system expenses in conjunction with the launch of the new core system, despite the reduction in personnel expenses and premises costs in association with the productivity enhancement project.

Net credit costs totaled ¥29.3 billion in the fiscal year ended March 31, 2019, down ¥7.9 billion compared to net credit costs of ¥37.2 billion recorded in fiscal year 2017. This was due to a reversal of reserves for loan losses following the calculation of general reserves for loan losses corresponding to the expansion of the portfolio in project finance and other areas in the Institutional Business.

Regarding reserves for losses on interest repayments, ¥6.0 billion of reversal gains were recorded in fiscal year 2017, while in the fiscal year ended March 31, 2019, ¥2.3 billion of reversal gains were recorded. Following the recalculation of the necessary amount of reserves required to cover future overpayment burden based on recent interest repayment trends, there was an overall ¥2.3 billion excess reversal, and this amount was posted in reversal gains on reserves for losses on interest repayments.

The balance of loans and bills discounted as of March 31, 2019 totaled ¥4,986.8 billion, increased ¥90.8 billion compared to ¥4,895.9 billion as of March 31, 2018. This was due to the increase in the balance of loans to institutional clients as there was an increase in the balance of loans in the Structured Finance Business as a part of efforts to make loans with an emphasis on risk-return, while in individual lending there was an increase in the balance of loans in the Consumer Finance Business, despite the decline in the balance of housing loans.

A net interest margin of 2.46% was recorded for fiscal year 2018, increased from 2.42% recorded for fiscal year 2017. This was due to the increase in yield on loans in the Structured Finance Business and the Corporate Business, while the yield on interest-bearing liabilities only increased slightly.

The Basel III domestic standard (grandfathering basis) consolidated core capital adequacy ratio as of March 31, 2019 was 11.85%, compared to 12.83% as of March 31, 2018. This was due to the increase in risk assets due to the increase of loan balance. The Bank's Basel IIIinternational standard (fully loaded basis) Common Equity Tier 1 Ratio was at 12.0% as of March 31, 2019, compared to 12.2% at March 31, 2018. Capital adequacy ratios continue to be maintained at adequate levels.

The nonperforming loan balance (nonconsolidated basis) under the Financial Revitalization Law increased ¥1.8 billion during fiscal year 2018 to ¥10.2 billion as of March 31, 2019. Additionally, the proportion of nonperforming claims to the overall loan balance was 0.20% as of March 31, 2019, compared to 0.17% as of March 31, 2018, remaining at a low level.

SIGNIFICANT EVENTS

BUYBACK OF SHARES

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

- 7,652,700 shares for ¥12,999 million from market at the Tokyo Stock Exchange during a period from May 14, 2018 to October 16, 2018. Also, on May 18, 2018, Shinsei Bank cancelled 16,000,000 treasury shares based on a resolution to cancel treasury shares approved at a meeting of the Board of Directors.

SELECTED FINANCIAL DATA (CONSOLIDATED)

Shinsei Bank, Limited and its Consolidated Subsidiaries
As of or for the fiscal years ended March 31, 2019, 2018, 2017, 2016 and 2015

	Billions of yen (except for per share data and percentages)				
	2019	2018	2017	2016	2015
Statements of income data:					
Net interest income	**¥ 133.8**	¥ 128.7	¥ 122.2	¥ 122.3	¥ 126.4
Net fees and commissions	**31.3**	25.0	25.5	25.4	24.6
Net trading income	**6.6**	8.5	7.3	8.4	11.5
Net other business income	**57.8**	69.6	73.3	60.3	72.6
Total revenue	**229.6**	232.0	228.5	216.6	235.3
General and administrative expenses	**145.7**	142.9	144.2	141.3	144.2
Amortization of goodwill and intangible assets acquired in business combinations	**2.8**	3.9	5.2	7.4	8.6
Total general and administrative expenses	**148.5**	146.9	149.4	148.7	152.8
Net credit costs	**29.3**	37.2	31.8	3.7	11.8
Net business profit after net credit costs	**51.8**	47.7	47.1	64.0	70.5
Other gains (losses), net	**2.7**	7.6	4.6	(1.2)	2.1
Income before income taxes	**54.5**	55.4	51.7	62.8	72.7
Current income taxes	**3.8**	1.2	2.1	1.9	2.4
Deferred income taxes (benefit)	**(1.3)**	2.5	(0.9)	(0.5)	0.9
Profit (loss) attributable to noncontrolling interests	**(0.2)**	0.1	(0.2)	0.3	1.5
Profit (loss) attributable to owners of the parent	**¥ 52.3**	¥ 51.4	¥ 50.7	¥ 60.9	¥ 67.8
Balance sheet data:					
Trading assets	**¥ 204.4**	¥ 205.2	¥ 244.1	¥ 336.3	¥ 317.3
Securities	**1,130.2**	1,123.5	1,014.6	1,227.8	1,477.3
Loans and bills discounted	**4,986.8**	4,895.9	4,833.4	4,562.9	4,461.2
Customers' liabilities for acceptances and guarantees	**456.7**	395.3	346.6	280.6	291.7
Reserve for credit losses	**(98.0)**	(100.8)	(100.1)	(91.7)	(108.2)
Total assets	**9,571.1**	9,456.6	9,258.3	8,928.7	8,889.8
Deposits, including negotiable certificates of deposit	**5,922.1**	6,067.0	5,862.9	5,800.9	5,452.7
Trading liabilities	**182.3**	184.5	212.2	294.3	267.9
Borrowed money	**684.0**	739.5	789.6	801.7	805.2
Acceptances and guarantees	**456.7**	395.3	346.6	280.6	291.7
Total liabilities	**8,674.5**	8,600.6	8,437.5	8,135.6	8,136.0
Common stock	**512.2**	512.2	512.2	512.2	512.2
Total equity	**896.6**	856.0	820.7	793.1	753.7
Total liabilities and equity	**¥ 9,571.1**	¥ 9,456.6	¥ 9,258.3	¥ 8,928.7	¥ 8,889.8
Per share data[1]:					
Common equity[2]	**¥3,636.92**	¥3,376.39	¥3,163.89	¥ 294.41	¥ 275.45
Basic earnings per share	**211.24**	199.01	194.65	22.96	25.57
Diluted earnings per share	**211.22**	198.98	194.64	22.96	–
Capital adequacy data:					
Capital ratio (Basel lll, Domestic Standard)	**11.9%**	12.8%	13.1%	14.2%	14.9%
Total capital adequacy ratio (Basel ll)	**–**	–	–	–	–
Tier I capital ratio (Basel ll)	**–**	–	–	–	–
Average balance data:					
Securities	**¥ 1,150.6**	¥ 1,109.1	¥ 1,116.3	¥ 1,336.9	¥ 1,604.9
Loans and bills discounted	**4,954.6**	4,903.7	4,679.1	4,434.2	4,326.8
Total assets	**9,513.9**	9,357.4	9,093.5	8,909.3	9,105.5
Interest-bearing liabilities	**7,773.8**	7,591.2	7,283.4	7,142.7	7,346.4
Total liabilities	**8,637.5**	8,519.0	8,286.6	8,135.9	8,367.3
Total equity	**876.3**	838.4	806.9	773.4	738.2
Other data:					
Return on assets	**0.5%**	0.5%	0.6%	0.7%	0.7%
Return on equity[2]	**6.0%**	6.1%	6.3%	8.1%	9.8%
Ratio of deposits, including negotiable certificates of deposit, to total liabilities	**68.2%**	70.5%	69.5%	71.3%	67.0%
Expense-to-revenue ratio[3]	**63.5%**	61.6%	63.1%	65.3%	61.3%
Nonperforming claims, nonconsolidated	**¥ 10.2**	¥ 8.3	¥ 10.3	¥ 34.7	¥ 60.9
Ratio of nonperforming claims to total claims, nonconsolidated	**0.2%**	0.2%	0.2%	0.8%	1.4%

1 Shinsei Bank executed a 1-for-10 reverse stock split on October 1, 2017. The above Per share data is calculated as if the reverse stock split had been implemented at the beginning of the fiscal year ended March 31, 2018.
2 Stock acquisition rights and noncontrolling interests are excluded from equity.
3 The expense-to-revenue ratio is calculated by dividing general and administrative expenses by total revenue.

RESULTS OF OPERATIONS (CONSOLIDATED)

NET INTEREST INCOME

Net interest income was ¥133.8 billion in fiscal year 2018, increased ¥5.1 billion from ¥128.7 billion recorded in fiscal year 2017. This was mainly due to a boost from loan growth, including unsecured loans at the consumer finance business.

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)

	2019			2018		
Fiscal years ended March 31	**Average Balance**	**Interest**	**Yield/Rate**	Average Balance	Interest	Yield/Rate
Interest-earning assets:						
Loans and bills discounted	**¥ 4,954.6**	**¥ 140.1**	**2.83%**	¥ 4,903.7	¥ 134.8	2.75%
Lease receivables and leased investment assets/ installment receivables	**746.4**	**37.5**	**5.03**	746.6	37.0	4.96
Securities	**1,150.6**	**12.5**	**1.09**	1,109.1	11.7	1.06
Other interest-earning assets[1]	**190.0**	**2.1**	**n.m.[3]**	162.1	1.9	n.m.[3]
Total revenue on interest-earning assets (A)	**¥ 7,041.7**	**¥ 192.3**	**2.73%**	¥ 6,921.7	¥ 185.5	2.68%
Interest-bearing liabilities:						
Deposits, including negotiable certificates of deposit	**¥ 6,033.0**	**¥ 7.8**	**0.13%**	¥ 5,965.9	¥ 9.0	0.15%
Borrowed money	**786.5**	**3.3**	**0.43**	785.2	3.4	0.44
Subordinated debt	**3.7**	**0.0**	**2.36**	12.4	0.2	2.37
Other borrowed money	**782.8**	**3.2**	**0.42**	772.8	3.1	0.41
Corporate bonds	**89.9**	**0.4**	**0.52**	98.1	0.9	0.97
Subordinated bonds	**12.8**	**0.2**	**1.88**	28.6	0.6	2.43
Other corporate bonds	**77.1**	**0.2**	**0.29**	69.5	0.2	0.37
Other interest-bearing liabilities[1]	**864.2**	**9.3**	**n.m[3]**	741.7	6.2	n.m.[3]
Total expense on interest-bearing liabilities (B)	**¥ 7,773.8**	**¥ 21.0**	**0.27%**	¥ 7,591.2	¥ 19.7	0.26%
Net interest margin (A) - (B)	**–**	**171.3**	**2.46%**	–	165.8	2.42%
Non interest-bearing sources of funds:						
Non interest-bearing (assets) liabilities, net	**¥ (1,605.8)**	**–**	**–**	¥ (1,506.3)	–	–
Total equity excluding noncontrolling interest[2]	**873.8**	**–**	**–**	836.8	–	–
Total non interest-bearing sources of funds (C)	**¥ (732.0)**	**–**	**–**	¥ (669.5)	–	–
Total interest-bearing liabilities and non interest-bearing sources of funds (D) = (B)+(C)	**¥ 7,041.7**	**¥ 21.0**	**0.30%**	¥ 6,921.7	¥ 19.7	0.29%
Net revenue on interest-earning assets/ yield on interest-earning assets (A) - (D)	**–**	**¥ 171.3**	**2.43%**	–	¥ 165.8	2.40%
Reconciliation of total revenue on interest-earning assets to total interest income						
Total revenue on interest-earning assets	**¥ 7,041.7**	**¥ 192.3**	**2.73%**	¥ 6,921.7	¥ 185.5	2.68%
Less: Income on lease transactions and installment receivables	**746.4**	**37.5**	**5.03**	746.6	37.0	4.96
Total interest income	**¥ 6,295.3**	**¥ 154.8**	**2.46%**	¥ 6,175.0	¥ 148.5	2.40%
Total interest expenses	**–**	**21.0**	**–**	–	19.7	–
Net interest income	**–**	**¥ 133.8**	**–**	–	¥ 128.7	–

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

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

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

A net interest margin of 2.46% was recorded in fiscal year 2018, increased from 2.42% recorded in fiscal year 2017. This was primarily due to increase of loan interest income from unsecured loan and Structured Finance Business, while in the yield on interest-bearing liabilities slightly increased. Net interest income including income on leasing and installment receivables for fiscal year 2018 was ¥171.3 billion, increased from ¥165.8 billion in the previous fiscal year. This increase reflects an increase in total interest revenue recorded from interest earnings assets from ¥185.5 billion recorded in fiscal year 2017 to ¥192.3 billion recorded in fiscal year 2018, exceeding the increase in interest expenses incurred on interest bearing liabilities from ¥19.7 billion recorded in fiscal year 2017 to ¥21.0 billion recorded in the fiscal year ended March 31, 2019.

NET FEES AND COMMISSIONS

Net fees and commissions consists mainly of fee income associated with sales of products such as mutual funds and insurance products, fee income associated with the credit guarantee and credit card business in the consumer finance business, fee income associated with lending business such as real estate finance and project finance. Net fees and commissions totaled ¥31.3 billion in fiscal year 2018.

Revenues increased related to the sale of asset management products and the effect of the revision of Shinsei Step Up Program, charging ATM fees on Standard-stage customers in Retail Banking Business and the growth in APLUS FINANCIAL's shopping credit , as well as continued strong fee income in the structured finance business, particularly for project finance.

NET TRADING INCOME

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

TABLE 2. NET TRADING INCOME (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2019**	2018	Change (Amount)
Income from trading securities	**¥ 2.4**	¥ 3.8	¥ (1.3)
Income from securities held to hedge trading transactions	**0.2**	0.0	0.2
Income from trading-related financial derivatives	**3.9**	4.6	(0.6)
Other, net	**0.0**	0.0	(0.0)
Net trading income	**¥ 6.6**	¥ 8.5	¥ (1.8)

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 ¥6.6 billion for the fiscal year 2018, decreased ¥8.5 billion in the previous fiscal year.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

NET OTHER BUSINESS INCOME

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

TABLE 3. NET OTHER BUSINESS INCOME (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2019**	2018	Change (Amount)
Net gain on monetary assets held in trust	**¥ 2.5**	¥ 2.7	¥ (0.2)
Net gain on foreign exchanges	**6.7**	9.4	(2.7)
Net gain on securities	**0.3**	9.9	(9.5)
Net gain on other monetary claims purchased	**0.8**	1.1	(0.3)
Other, net:	**9.8**	9.2	0.6
Income (loss) from derivatives entered into for banking purposes, net	**(0.5)**	(0.0)	(0.4)
Equity in net income of affiliates	**5.6**	5.1	0.5
Gain on lease cancellation and other lease income, net	**2.2**	2.1	0.1
Other, net	**2.4**	2.0	0.4
Net other business income before income on lease transactions and installment receivables, net	**20.3**	32.6	(12.2)
Income on lease transactions and installment receivables, net	**37.5**	37.0	0.4
Net other business income	**¥ 57.8**	¥ 69.6	¥ (11.7)

Net other business income recorded in the fiscal year ended March 31, 2019 totaled ¥57.8 billion, decreased from ¥69.6 billion recorded in the fiscal year ended March 31, 2018. This reflected the non-recurrence in large gains booked on sales of investment securities in the previous fiscal year, as well as a decrease in foreign exchanges.

TOTAL REVENUE

As a result of the preceding factors, total revenue in fiscal year 2018 was ¥229.6 billion, as compared to ¥232.0 billion in the previous fiscal year.

GENERAL AND ADMINISTRATIVE EXPENSES

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

TABLE 4. GENERAL AND ADMINISTRATIVE EXPENSES (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2019**	2018	Change (Amount)
Personnel expenses	**¥ 56.5**	¥ 56.2	¥ 0.2
Premises expenses	**19.6**	20.0	(0.3)
Technology and data processing expenses	**23.2**	20.8	2.4
Advertising expenses	**10.9**	11.0	(0.1)
Consumption and property taxes	**10.4**	9.3	1.0
Deposit insurance premium	**1.6**	1.7	(0.1)
Other general and administrative expenses	**23.2**	23.6	(0.3)
General and administrative expenses	**145.7**	142.9	2.7
Amortization of goodwill and intangible assets acquired in business combinations	**2.8**	3.9	(1.1)
Total general and administrative expenses	**¥ 148.5**	¥ 146.9	¥ 1.5

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

General and administrative expenses excluding amortization of goodwill and intangible assets was ¥145.7 billion in the fiscal year ended March 31, 2019, increased from ¥142.9 billion recorded in the previous fiscal year 2017. Personnel expenses increased from ¥56.2 billion recorded in the fiscal year ended March 31, 2018, to ¥56.5 billion in the fiscal year ended March 31, 2019. This increase was due to the increase in retirement benefits costs, despite efforts to more effectively assign personnel with the aim of expanding the customer base and enhancing profitability.

Nonpersonnel expenses of ¥89.1 billion were recorded in fiscal year 2018, increased from ¥86.7 billion in the previous fiscal year. This increase was attributable to the allocation of necessary resources targeting an expansion of the business base.

The Bank's performances in the major components of nonpersonnel expenses were as follows: 1) Due to continued efforts to improve operational efficiency, premises expenses totaled ¥19.6 billion in the fiscal year ended March 31, 2019, decreased from ¥20.0 billion recorded in the previous fiscal year; 2) Technology and data processing expenses totaled ¥23.2 billion in the fiscal year ended March 31, 2019, increased from ¥20.8 billion recorded in the fiscal year ended March 31, 2018, as investment for the stabilization of our systems continued and the core system began operating; 3) As a result of the continued implementation of advertising activities in order to expand our customer base along with efforts to increase efficiency, advertising expenses decreased from ¥11.0 billion recorded in the fiscal year ended March 31, 2018, to ¥10.9 billion in the fiscal year ended March 31, 2019; 4) Consumption and property tax expenses were ¥10.4 billion in the fiscal year ended March 31, 2019, increased from ¥9.3 billion in the previous fiscal year, due primarily to the effects of pro-forma standard taxation; 5) Deposit insurance premium totaled ¥1.6 billion in the fiscal year ended March 31, 2019, almost the same as the ¥1.7 billion recorded in the fiscal year ended March 31, 2018; and 6) Other general and administrative expenses totaled ¥23.2 billion in the fiscal year ended March 31, 2019, a decline from the ¥23.6 billion recorded in the previous fiscal year, due to continued efforts to increase the efficiency of operations.

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 ¥2.8 billion in fiscal year 2018, compared to ¥3.9 billion in the previous fiscal year. This reduction is attributable to factors such as the utilization of the sum-of-the-years' digits method in recording amortization of goodwill and intangible assets acquired in business combinations related to Shinsei Financial.

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

	Billions of yen		
Fiscal years ended March 31	**2019**	2018	Change (Amount)
Shinsei Financial	**¥ 0.7**	¥ 1.9	¥ (1.1)
Shinsei Personal Loan	**(0.3)**	(0.3)	–
Showa Leasing	**2.3**	2.4	(0.0)
Others	**0.0**	(0.0)	0.0
Amortization of goodwill and intangible assets acquired in business combinations	**¥ 2.8**	¥ 3.9	¥ (1.1)

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

NET CREDIT COSTS

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

TABLE 6. NET CREDIT COSTS (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2019**	2018	Change (Amount)
Losses on write-off or sales of loans	**¥ 0.4**	¥ 0.5	¥ (0.1)
Net provision (reversal) of reserve for loan losses:			
Net provision (reversal) of general reserve for loan losses	**17.2**	28.0	(10.8)
Net provision (reversal) of specific reserve for loan losses	**17.9**	14.9	3.0
Net provision (reversal) of reserve for loan losses to restructuring countries	**–**	(0.0)	0.0
Subtotal	**35.2**	43.0	(7.7)
Other credit costs (recoveries) relating to leasing business	**0.3**	0.6	(0.3)
Recoveries of written-off claims	**(6.6)**	(6.9)	0.2
Net credit costs (recoveries)	**¥ 29.3**	¥ 37.2	¥ (7.9)

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

In the fiscal year ended March 31, 2019, the Bank recorded net credit costs totaling ¥29.3 billion, decreased from ¥37.2 billion recorded in the fiscal year ended March 31, 2018. This was largely due to the dulling of growth in operating assets in unsecured personal loans and the recording of net credit costs recoveries due to calculation of general reserve for loan losses in accordance with growth of portfolio in the Institutional Business.

Recoveries of written-off claims totaled ¥6.6 billion in fiscal year 2018, decreased compared to ¥6.9 billion recorded in fiscal year 2017. Major components of the ¥6.6 billion of recoveries recorded in the fiscal year ended March 31, 2019 included ¥0.2 billion in Shinsei Bank on a nonconsolidated basis and ¥6.2 billion in Shinsei Financial, and ¥0.1 billion in APLUS FINANCIAL. It should be noted that excluding recoveries of written-off claims, net credit costs recorded in fiscal year 2018 totaled ¥36.0 billion, decreased compared to ¥44.2 billion recorded in fiscal year 2017.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

OTHER GAINS (LOSSES), NET

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

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

	Billions of yen		
Fiscal years ended March 31	**2019**	2018	Change (Amount)
Net gain (loss) on disposal of premises and equipment	**¥ (0.0)**	¥ 0.5	¥ (0.6)
Gains on write-off of unclaimed debentures	**0.3**	3.1	(2.8)
Provision for reimbursement of debentures	**(0.1)**	(1.2)	1.0
Gains on write-off of unclaimed deposits	**0.4**	0.4	(0.0)
Reversal (provision) of reserve for losses on interest repayments	**2.3**	6.0	(3.7)
Impairment losses on long-lived assets	**(0.9)**	(1.8)	0.8
Loss on liquidation of subsidiaries	**(0.0)**	(0.0)	0.0
Loss on change in equity of affiliates	**–**	(0.2)	0.2
Gains on unexercised and forfeited stock acquisition rights	**0.2**	0.2	(0.0)
Other, net	**0.6**	0.3	0.2
Total	**¥ 2.7**	¥ 7.6	¥ (4.8)

Other net gains totaled ¥2.7 billion in the fiscal year ended March 31, 2019. With respect to reserves for losses on interest repayments, Shinsei Financial reversed ¥5.6 billion and Shinsei Personal Loan ¥0.1 billion, whereas APLUS FINANCIAL made provisions of additional reserves totaling ¥3.5 billion.

INCOME BEFORE INCOME TAXES

As a result of the preceding factors income before income taxes totaled ¥54.5 billion for fiscal year 2018, compared to ¥55.4 billion in the previous fiscal year.

TAX EXPENSE (BENEFIT)

Current taxes, including corporate tax, residency tax and business tax, and deferred taxes, totaled a net expense of ¥2.5 billion for fiscal year 2018, compared to a net expense of ¥3.8 billion in the previous fiscal year. In fiscal year 2018, current tax expense totaled ¥3.8 billion and deferred tax benefit totaled ¥1.3 billion. In the previous fiscal year, current tax expense totaled ¥1.2 billion and deferred tax expense totaled ¥2.5 billion.

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

As a result of the preceding factors, in fiscal year 2018, we recorded a consolidated profit attributable to owners of the parent of ¥52.3 billion, increased from ¥51.4 billion in the previous fiscal year.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

RECONCILIATION OF REPORTED-BASIS RESULTS AND OPERATING-BASIS RESULTS

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

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

	Billions of yen					
	2019			2018		
Fiscal years ended March 31	**Reported-basis**	**Reclassifications**	**Operating-basis**	Reported-basis	Reclassifications	Operating-basis
Revenue:						
Net interest income	**¥ 133.8**	**¥ –**	**¥ 133.8**	¥ 128.7	¥ –	¥ 128.7
Noninterest income	**95.8**	**0.0**	**95.9**	103.2	–	103.2
Total revenue	**229.6**	**0.0**	**229.7**	232.0	–	232.0
General and administrative expenses[1,3]	**145.7**	**(0.9)**	**144.7**	142.9	(0.3)	142.5
Amortization of goodwill and intangible assets acquired in business combinations[2,3]	**2.8**	**(2.8)**	**–**	3.9	(3.9)	–
Total general and administrative expenses	**148.5**	**(3.8)**	**144.7**	146.9	(4.3)	142.5
Net business profit/Ordinary business profit[2]	**81.1**	**3.8**	**84.9**	85.0	4.3	89.4
Net credit costs	**29.3**	**–**	**29.3**	37.2	–	37.2
Amortization of goodwill and intangible assets acquired in business combinations[2]	**–**	**2.8**	**2.8**	–	3.9	3.9
Other gains (losses), net[1]	**2.7**	**(1.0)**	**1.7**	7.6	(0.3)	7.2
Income before income taxes	**54.5**	**–**	**54.5**	55.4	–	55.4
Income taxes and profit attributable to noncontrolling interests	**2.2**	**–**	**2.2**	3.9	–	3.9
Profit attributable to owners of the parent	**¥ 52.3**	**¥ –**	**¥ 52.3**	¥ 51.4	¥ –	¥ 51.4

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

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

BUSINESS LINES RESULTS

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

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

	Billions of yen		
Fiscal years ended March 31	**2019**	2018	Change (Amount)
Institutional Business:			
Net interest income	**¥ 24.1**	¥ 24.4	¥ (0.3)
Noninterest income	**33.8**	40.2	(6.3)
Total revenue	**58.0**	64.6	(6.6)
General and administrative expenses	**33.5**	32.4	1.0
Ordinary business profit (loss)	**24.5**	32.2	(7.7)
Net credit costs (recoveries)	**(1.9)**	3.6	(5.5)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 26.4**	¥ 28.6	¥ (2.1)
Global Markets Business:			
Net interest income	**¥ 2.0**	¥ 2.1	¥ (0.1)
Noninterest income	**7.3**	9.2	(1.8)
Total revenue	**9.4**	11.4	(2.0)
General and administrative expenses	**7.0**	7.0	(0.0)
Ordinary business profit (loss)	**2.3**	4.3	(1.9)
Net credit costs (recoveries)	**0.0**	0.0	(0.0)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 2.3**	¥ 4.3	¥ (1.9)
Individual Business:			
Net interest income	**¥ 104.8**	¥ 103.4	¥ 1.4
Noninterest income	**50.8**	48.8	2.0
Total revenue	**155.7**	152.3	3.4
General and administrative expenses	**101.1**	99.6	1.4
Ordinary business profit (loss)	**54.6**	52.6	2.0
Net credit costs (recoveries)	**31.2**	33.6	(2.3)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 23.3**	¥ 19.0	¥ 4.3
Corporate/Other[2]:			
Net interest income	**¥ 2.6**	¥ (1.3)	¥ 4.0
Noninterest income	**3.8**	4.9	(1.1)
Total revenue	**6.5**	3.6	2.9
General and administrative expenses	**3.0**	3.4	(0.3)
Ordinary business profit (loss)	**3.5**	0.2	3.2
Net credit costs (recoveries)	**0.0**	(0.0)	0.0
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 3.4**	¥ 0.2	¥ 3.2
Total:			
Net interest income	**¥ 133.8**	¥ 128.7	¥ 5.0
Noninterest income	**95.9**	103.2	(7.3)
Total revenue	**229.7**	232.0	(2.3)
General and administrative expenses	**144.7**	142.5	2.1
Ordinary business profit (loss)	**84.9**	89.4	(4.4)
Net credit costs (recoveries)	**29.3**	37.2	(7.9)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 55.6**	¥ 52.1	¥ 3.4

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

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

INSTITUTIONAL BUSINESS

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

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

	Billions of yen		
Fiscal years ended March 31	**2019**	2018	Change (Amount)
Corporate Business:			
Net interest income	**¥ 10.0**	¥ 10.0	¥ 0.0
Noninterest income	**6.7**	8.7	(2.0)
Total revenue	**16.7**	18.7	(2.0)
General and administrative expenses	**11.8**	11.8	(0.0)
Ordinary business profit (loss)	**4.9**	6.9	(1.9)
Net credit costs (recoveries)	**0.8**	0.2	0.5
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 4.0**	¥ 6.6	¥ (2.5)
Structured Finance:			
Net interest income	**¥ 10.3**	¥ 9.5	¥ 0.8
Noninterest income	**7.2**	7.4	(0.2)
Total revenue	**17.6**	17.0	0.5
General and administrative expenses	**7.7**	6.8	0.9
Ordinary business profit (loss)	**9.8**	10.1	(0.3)
Net credit costs (recoveries)	**(2.1)**	1.7	(3.9)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 12.0**	¥ 8.4	¥ 3.6
Principal Transactions:			
Net interest income	**¥ 3.7**	¥ 5.0	¥ (1.2)
Noninterest income	**5.6**	7.8	(2.2)
Total revenue	**9.3**	12.8	(3.4)
General and administrative expenses	**4.0**	4.7	(0.6)
Ordinary business profit (loss)	**5.3**	8.1	(2.7)
Net credit costs (recoveries)	**0.0**	(1.2)	1.2
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 5.3**	¥ 9.3	¥ (4.0)
Showa Leasing:			
Net interest income	**¥ (0.0)**	¥ (0.1)	¥ 0.0
Noninterest income	**14.2**	16.1	(1.8)
Total revenue	**14.2**	15.9	(1.7)
General and administrative expenses	**9.8**	8.9	0.8
Ordinary business profit (loss)	**4.3**	7.0	(2.6)
Net credit costs (recoveries)	**(0.6)**	2.7	(3.4)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 4.9**	¥ 4.2	¥ 0.7
Institutional Business:			
Net interest income	**¥ 24.1**	¥ 24.4	¥ (0.3)
Noninterest income	**33.8**	40.2	(6.3)
Total revenue	**58.0**	64.6	(6.6)
General and administrative expenses	**33.5**	32.4	1.0
Ordinary business profit (loss)	**24.5**	32.2	(7.7)
Net credit costs (recoveries)	**(1.9)**	3.6	(5.5)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 26.4**	¥ 28.6	¥ (2.1)

1 Net of consolidation adjustments, if applicable.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

The Institutional Business recorded total revenue of ¥58.0 billion in the fiscal year ended March 31, 2019, compared to ¥64.6 billion in the previous fiscal year. Of this amount, net interest income accounted for ¥24.1 billion, compared with ¥24.4 billion recorded in the previous fiscal year. This was due to the decline in dividend income from investment securities in the principal transactions business and other factors, despite the increase in net interest income based on the steady increase in the balance of operating assets in the structured finance business. Noninterest income was ¥33.8 billion, down from ¥40.2 billion recorded in the previous fiscal year. This was due to the non-recurrence of large gains on the sale of equities posted in the previous fiscal year in the Corporate Business, the principal transactions business, and Showa Leasing, along with other factors.

Within the Institutional Business, the Corporate Business recorded total revenue of ¥16.7 billion, compared to ¥18.7 billion in the previous fiscal year. The decrease was due to the non-recurrence of large gains on the sale of equities posted in the previous fiscal year, and other factors.

The Structured Finance recorded total revenue of ¥17.6 billion in the fiscal year ended March 31, 2019, compared to ¥17.0 billion in the previous fiscal year. The increase was due to the rise in net interest income resulting from the steady increase in operating assets, particularly in real estate finance and project finance, along with other factors.

The Principal Transactions recorded total revenue of ¥9.3 billion in the fiscal year 2018, compared to ¥12.8 billion in the previous fiscal year. The decrease was due to factors including the decrease in dividend revenue in the Private Equity business, the non-recurrence of gains on the sale of securities posted in the previous fiscal year, and the recording of impairment losses, despite steady revenues from equity investment in affiliated companies.

Showa Leasing recorded total revenue of ¥14.2 billion in the fiscal year 2018, a decrease compared to ¥15.9 billion a year earlier. This decline was due to factors including the downturn in lease income and the non-recurrence of gains on the sales of equities posted in the previous fiscal year, despite steady fee income in the consulting business and a decline in financing costs due to a lack of new loan execution.

General and administrative expenses totaled ¥33.5 billion in the fiscal year 2018, compared to ¥32.4 billion in the previous fiscal year. This increase was due to the effective allocation of resources to growth areas, despite the ongoing efforts to promote efficiency and rationalization across all business lines.

Net credit recovery in the fiscal year 2018 totaled ¥1.9 billion, compared to ¥3.6 billion of net credit costs in the previous fiscal year. This was due to factors including a reversal due to the calculation of general reserves for loan losses corresponding to the expansion of the portfolio in project finance and other areas.

As a result of the preceding factors, the Institutional Business recorded an ordinary business profit after net credit costs of ¥26.4 billion in the fiscal year ended March 31, 2019, compared to ¥28.6 billion recorded in the previous fiscal year.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

GLOBAL MARKETS BUSINESS

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

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

	Billions of yen		
Fiscal years ended March 31	**2019**	2018	Change (Amount)
Markets:			
Net interest income	**¥ 1.5**	¥ 1.6	¥ (0.1)
Noninterest income	**5.5**	6.8	(1.3)
Total revenue	**7.1**	8.5	(1.4)
General and administrative expenses	**3.7**	3.7	(0.0)
Ordinary business profit (loss)	**3.3**	4.8	(1.4)
Net credit costs (recoveries)	**0.0**	(0.0)	0.0
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 3.3**	¥ 4.8	¥ (1.5)
Others:			
Net interest income	**¥ 0.5**	¥ 0.5	¥ (0.0)
Noninterest income	**1.8**	2.3	(0.5)
Total revenue	**2.3**	2.8	(0.5)
General and administrative expenses	**3.3**	3.3	(0.0)
Ordinary business profit (loss)	**(1.0)**	(0.4)	(0.5)
Net credit costs (recoveries)	**0.0**	0.0	(0.0)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ (1.0)**	¥ (0.5)	¥ (0.4)
Global Markets Business:			
Net interest income	**¥ 2.0**	¥ 2.1	¥ (0.1)
Noninterest income	**7.3**	9.2	(1.8)
Total revenue	**9.4**	11.4	(2.0)
General and administrative expenses	**7.0**	7.0	(0.0)
Ordinary business profit (loss)	**2.3**	4.3	(1.9)
Net credit costs (recoveries)	**0.0**	0.0	(0.0)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 2.3**	¥ 4.3	¥ (1.9)

1 Net of consolidation adjustments, if applicable.

The Global Markets Business recorded total revenue of ¥9.4 billion in the fiscal year 2018, compared to ¥11.4 billion recorded in the previous fiscal year. This decrease in total revenue was the result of the weak performance in market-related transactions and the year-on-year drop in the securities brokerage business.

The Markets business recorded total revenue of ¥7.1 billion in the fiscal year 2018, compared to ¥8.5 billion recorded in the previous fiscal year. This was primarily due to weak performance in market-related transactions.

Others recorded total revenue of ¥2.3 billion in the fiscal year 2018, compared to ¥2.8 billion in the previous fiscal year. This decrease was the result of the year-on-year drop in the securities brokerage business and other factors.

General and administrative expenses recorded in the Global Markets Business totaled ¥7.0 billion in the fiscal year 2018, the same as in the year-earlier period. This was the result of higher efficiency in each business line to which the necessary management resources were invested.

Net credit costs recorded in the Global Markets Business totaled ¥0.0 billion (¥20 million) in fiscal year 2018, compared to net credit costs of ¥0.0 billion (¥22 million) recorded in the previous fiscal year.

As a result of the preceding factors, the Global Markets Business recorded an ordinary business profit after net credit costs of ¥2.3 billion in the fiscal year 2018, compared to ¥4.3 billion in the previous fiscal year.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

INDIVIDUAL BUSINESS

The Individual Business consists of: 1) Retail Banking; 2) Shinsei Financial ; 3) APLUS FINANCIAL; 4) Others.

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

	Billions of yen		
Fiscal years ended March 31	**2019**	2018	Change (Amount)
Retail Banking:			
Net interest income	**¥ 23.9**	¥ 22.4	¥ 1.5
Loans	**9.8**	10.5	(0.6)
Deposits	**14.1**	11.9	2.2
Noninterest income	**2.9**	1.0	1.8
Asset Management Products	**6.8**	6.5	0.3
Other Fees (ATM, Fund Transfer, FX etc.)	**(3.8)**	(5.4)	1.6
Total revenue	**26.9**	23.5	3.4
General and administrative expenses	**27.6**	29.2	(1.5)
Ordinary business profit (loss)	**(0.7)**	(5.7)	4.9
Net credit costs (recoveries)	**(0.0)**	0.1	(0.1)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ (0.7)**	¥ (5.8)	¥ 5.1
Shinsei Financial [2]:			
Net interest income	**¥ 69.3**	¥ 69.0	¥ 0.3
Lake Business	**63.4**	62.9	0.5
Noninterest income	**(0.0)**	(0.1)	0.0
Total revenue	**69.2**	68.9	0.3
General and administrative expenses	**33.4**	32.4	1.0
Ordinary business profitt (loss)	**35.7**	36.4	(0.7)
Net credit costs (recoveries)	**14.5**	22.7	(8.1)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 21.2**	¥ 13.7	¥ 7.4
APLUS FINANCIAL:			
Net interest income	**¥ 10.7**	¥ 11.3	¥ (0.5)
Noninterest income	**47.1**	45.0	2.0
Total revenue	**57.8**	56.4	1.4
General and administrative expenses	**38.1**	36.6	1.5
Ordinary business profitt (loss)	**19.6**	19.7	(0.0)
Net credit costs (recoveries)	**16.5**	10.6	5.9
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 3.1**	¥ 9.1	¥ (6.0)
Others [3]:			
Net interest income	**¥ 0.8**	¥ 0.6	¥ 0.1
Noninterest income	**0.8**	2.7	(1.9)
Total revenue	**1.6**	3.4	(1.7)
General and administrative expenses	**1.7**	1.3	0.4
Ordinary business profitt (loss)	**(0.1)**	2.0	(2.1)
Net credit costs (recoveries)	**0.1**	0.0	0.0
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ (0.2)**	¥ 2.0	¥ (2.2)
Individual Business:			
Net interest income	**¥ 104.8**	¥ 103.4	¥ 1.4
Noninterest income	**50.8**	48.8	2.0
Total revenue	**155.7**	152.3	3.4
General and administrative expenses	**101.1**	99.6	1.4
Ordinary business profitt (loss)	**54.6**	52.6	2.0
Net credit costs (recoveries)	**31.2**	33.6	(2.3)
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 23.3**	¥ 19.0	¥ 4.3

1 Net of consolidation adjustments, if applicable.
2 Income of Shinsei Financial, "Shinsei Bank Card Loan - Lake", and "Shinsei Bank Smart Card Loan Plus" are combined on a management accounting basis.
3 Others include the results of the Consumer Finance Sub-Group and its subsidiaries.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

The Individual Business recorded an ordinary business profit after net credit costs of ¥23.3 billion in fiscal year 2018, compared to ¥19.0 billion in the previous fiscal year.

RETAIL BANKING

The Retail Banking Business recorded total revenue of ¥26.9 billion in the fiscal year ended March 31, 2019, compared to ¥23.5 billion in the previous fiscal year. Of this amount, net interest income was ¥23.9 billion in the fiscal year ended March 31, 2019, compared to ¥22.4 billion recorded in the previous fiscal year. This was primarily the result of the increase in income from foreign currency deposits. Noninterest income totaled ¥2.9 billion in the fiscal year ended March 31, 2019, an increase from the ¥1.0 billion recorded in the previous fiscal year. This was due to the increase in income related to sales of asset management products, the impact of establishing ATM fees for some customers in conjunction with the revision of the Shinsei Step Up Program, and other factors.

General and administrative expenses totaled ¥27.6 billion in fiscal year 2018, a decline compared to the ¥29.2 billion recorded in the previous fiscal year. This was the result of the continued pursuit of efficiency and rationalization across all businesses.

Net credit recovery of ¥0.0 billion (¥24 million) were recorded in fiscal year 2018, compared to costs of ¥0.1 billion in the previous fiscal year.

As a result of the preceding factors, an ordinary business loss after net credit costs of ¥0.7 billion was recorded in the fiscal year ended March 31, 2019, compared to a loss of ¥5.8 billion recorded in the previous fiscal year.

SHINSEI FINANCIAL

Shinsei Financial recorded an ordinary business profit after net credit costs after related consolidation adjustments of ¥21.2 billion in the fiscal year ended March 31, 2019, compared to ¥13.7 billion in the previous fiscal year.

Total revenue was ¥69.2 billion in fiscal year 2018, compared to ¥68.9 billion in the previous fiscal year, primarily the result of the increase in loan interest in the unsecured loan business.

General and administrative expenses totaled ¥33.4 billion in fiscal year 2018, a increase compared to the ¥32.4 billion recorded in the previous fiscal year.

Net credit costs were ¥14.5 billion in fiscal year 2018, a decline compared to ¥22.7 billion in fiscal year 2017. The Bank continued to engage in rigorous credit control in addition to strengthening collection capabilities. In addition, a reversal of reserves was posted due to weak growth of operating assets.

APLUS FINANCIAL

APLUS FINANCIAL recorded an ordinary business profit after net credit costs after related consolidation adjustments of ¥3.1 billion in the fiscal year ended March 31, 2019, compared to ¥9.1 billion in the previous fiscal year.

Total revenue in the fiscal year 2018 was ¥57.8 billion, increased from ¥56.4 billion recorded in the previous fiscal year. Of this amount, net interest income was ¥10.7 billion, decreased from ¥11.3 billion in the previous fiscal year, as the loan balance was steady due to the decline in the loan balance on loan cards and other factors.

Noninterest income was ¥47.1 billion, compared to ¥45.0 billion in the previous fiscal year, due to the strong performance by the installment sales credit and credit card businesses.

General and administrative expenses were ¥38.1 billion in fiscal year 2018, an increase from ¥36.6 billion in the previous fiscal year. This was due to an increase in expenses related to the launch of a new system for credit cards, despite the continued pursuit of efficiency and rationalization in our businesses.

Net credit costs were ¥16.5 billion in fiscal year 2018, compared to ¥10.6 billion in the previous fiscal year. This increase was due to the accumulation of loan-loss reserves on long-term delinquent receivables.

Others include the results of the Consumer Finance Sub-Group and its subsidiaries.

INTEREST REPAYMENT

In the fiscal year ended March 31, 2018, Shinsei Financial reversed ¥11.8 billion in reserves for losses on interest repayments, whereas Shinsei Personal Loan and APLUS FINANCIAL made provisions of additional reserves totaling ¥2.7 billion and ¥3.0 billion, respectively. However, in the fiscal year ended March 31, 2019, following a recalculation of the necessary amount of reserves required to cover future overpayment burden based on recent interest repayment trends, Shinsei Financial reversed ¥5.6 billion and Shinsei Personal Loan ¥0.1 billion of reserves for losses on interest repayments respectively, while APLUS FINANCIAL made provisions of additional reserves totaling ¥3.5 billion.

Shinsei Financial's usage of reserves for losses on interest repayments (interest repayments and related principal amortization) was ¥5.2 billion in the fiscal year ended March 31, 2019, compared to ¥14.8 billion utilized in the previous fiscal year. As ¥5.6 billion of reserves for losses on interest repayments were reversed in the fiscal year 2018, the total balance of reserves for losses on interest repayments was ¥50.1 billion as of March 31, 2019, compared to ¥61.1 billion as of March 31, 2018.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

Shinsei Personal Loan's usage of reserves for losses on interest repayments (interest repayments and related principal amortization) in the fiscal year ended March 31, 2019 was ¥1.5 billion, compared to ¥2.3 billion in the previous fiscal year. In fiscal year 2018, a reversal of ¥0.1 billion of reserves for losses on interest repayments was newly made, and the total balance of reserves for losses on interest repayments was ¥5.6 billion as of March 31, 2019, compared to ¥7.4 billion as of March 31, 2018.

APLUS FINANCIAL and its consolidated subsidiaries' usage of reserves for losses on interest repayments (interest repayments and related principal amortization) was ¥2.4 billion in the fiscal year ended March 31, 2019, compared to ¥3.9 billion utilized in the previous fiscal year. In the fiscal year 2018, an additional ¥3.5 billion has been provisioned as reserves for losses on interest repayments were made and the total balance of reserves for losses on interest repayments was ¥7.1 billion as of March 31, 2019, compared to ¥6.1 billion as of March 31, 2018.

RESULTS OF OPERATIONS (CONSOLIDATED) (continued)

CORPORATE/OTHER

Corporate/Other consists of: 1) Treasury, which engages in the ALM and fundraising operations; and 2) Others, which includes company-wide accounts, variances from budgeted allocations of indirect expenses and eliminated amounts of inter-segment transactions. Ordinary business profit after net credit costs was ¥3.4 billion in fiscal year 2018.

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

	Billions of yen		
Fiscal years ended March 31	**2019**	2018	Change (Amount)
Treasury:			
Net interest income	**¥ 2.6**	¥ (1.3)	¥ 4.0
Noninterest income	**3.3**	4.2	(0.8)
Total revenue	**6.0**	2.8	3.1
General and administrative expenses	**1.6**	1.7	(0.0)
Ordinary business profit (loss)	**4.3**	1.0	3.2
Net credit costs (recoveries)	**—**	—	—
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 4.3**	¥ 1.0	¥ 3.2
Others[1]:			
Net interest income	**¥ (0.0)**	¥ (0.0)	¥ 0.0
Noninterest income	**0.4**	0.7	(0.2)
Total revenue	**0.4**	0.7	(0.2)
General and administrative expenses	**1.3**	1.6	(0.2)
Ordinary business profit (loss)	**(0.8)**	(0.8)	(0.0)
Net credit costs (recoveries)	**0.0**	(0.0)	0.0
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ (0.8)**	¥ (0.8)	¥ (0.0)
Corporate/Other[1]:			
Net interest income	**¥ 2.6**	¥ (1.3)	¥ 4.0
Noninterest income	**3.8**	4.9	(1.1)
Total revenue	**6.5**	3.6	2.9
General and administrative expenses	**3.0**	3.4	(0.3)
Ordinary business profit (loss)	**3.5**	0.2	3.2
Net credit costs (recoveries)	**0.0**	(0.0)	0.0
Ordinary business profit (loss) after net credit costs (recoveries)	**¥ 3.4**	¥ 0.2	¥ 3.2

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

Total revenue for the Treasury was ¥6.0 billion in fiscal year 2018, compared to ¥2.8 billion recorded in the previous fiscal year. This decline reflected gains on sales of Japanese government bonds and decrease of 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 net income of ¥35.4 billion on a nonconsolidated basis for the fiscal year ended March 31, 2019. Differences between the net incomes on a nonconsolidated basis and consolidated basis result mainly from the gains and losses from our consolidated subsidiaries, including Showa Leasing, Shinsei Financial, APLUS FINANCIAL and Shinsei Personal Loan, the gains and losses on our investment in our equity-method affiliate, Jih Sun Financial Holding Co., Ltd., and the dividends received from our major consolidated subsidiaries.

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

	Billions of yen (except percentages)			
	2019		2018	
Fiscal years ended March 31	**Target**	**Actual**	Target	Actual
Net income	**¥ 32.0**	**¥ 35.4**	¥ 36.0	¥ 40.5
Total expenses (without taxes)[1]	**69.5**	**65.6**	76.5	73.4
Return on equity based on net business profit[2]	**4.3%**	**4.4%**	3.0%	3.9%

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, 2019 and 2018.

RESULTS OF OPERATIONS (NONCONSOLIDATED) (continued)

TABLE 15. SUPPLEMENTAL MEASURES (NONCONSOLIDATED)

	Billions of yen	
Fiscal years ended March 31	**2019**	2018
Gross business profit (gyomu sorieki):		
Net interest income	**¥ 106.5**	¥ 105.4
Net fees and commissions[1]	**(8.6)**	(10.4)
Net trading income	**4.1**	4.5
Net other business income	**6.7**	11.2
Total gross business profit	**108.8**	110.8
Expenses[2]	**71.5**	79.0
Net business profit (jisshitsu gyomu jun-eki)	**37.3**	31.8
Net credit costs (recoveries)	**(0.7)**	1.2
Other, net[3]	**0.5**	6.0
Net operating income (keijo rieki)	**38.6**	36.5
Extraordinary income (loss)	**(2.5)**	4.4
Income before income taxes	**36.0**	40.9
Current income taxes (benefit)	**1.6**	(2.6)
Deferred income taxes (benefit)	**(1.0)**	3.1
Net income	**¥ 35.4**	¥ 40.5

1 Includes net gain (loss) on monetary assets held in trust of ¥1.4 billion in the fiscal year ended March 31, 2019 and ¥2.0 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 integrated report.

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

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

RESERVE FOR CREDIT LOSSES

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

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

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

CRITICAL ACCOUNTING POLICIES (continued)

need caution obligors, and for the next year for claims against normal obligors given ratings higher than 5A.

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

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

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

RESERVE FOR REIMBURSEMENT OF DEBENTURES

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

RESERVE FOR LOSSES ON INTEREST REPAYMENTS

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

VALUATION OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

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

AVAILABLE-FOR-SALE SECURITIES

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

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

CRITICAL ACCOUNTING POLICIES (continued)

IMPAIRMENT IN VALUE OF DEBT AND EQUITY SECURITIES

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

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

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

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

FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING PURPOSES

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

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

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

CREDIT TRADING ACTIVITIES

We are engaged in credit trading activities in Japan and foreign countries, in which we purchase monetary claims such as loans, bonds, guarantees, receivables and lease receivables without intending to hold them to maturity. To recover our investment, we either collect on the claim, including through repayments, legal proceedings and discounted payoffs, or resell or securitize the claim. Claims purchased are recorded either in monetary assets held in trust or other monetary claims purchased, depending on the structure used for the purchase, and are principally measured at fair value. Fair value is estimated in the same way as it is for assets held for trading purposes. The internal valuation methodology we use to calculate the fair value of these claims primarily relies on a discounted cash flow method based on cash flow projections and implied discount rates. As estimations of future cash flows and discount rates are based on complex processes and contain an element of judgment, changes in assumptions could lead to different estimates of the fair value of monetary assets held in trust and other monetary claims purchased, which could in turn impact the related gain or loss amounts in our financial statements.

VALUATION OF DEFERRED TAX ASSETS

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

CRITICAL ACCOUNTING POLICIES (continued)

As a result of that we recorded tax loss in the past three years, we recorded deferred tax assets for the temporary differences and tax loss carry-forwards to the extent scheduled as deductible in the next fiscal year. We recorded a valuation allowance to reduce deferred tax assets accordingly. The actual taxable profit amount for the fiscal year ended March 31, 2020 may be different from our estimate.

EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN ASSETS

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

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

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

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

HEDGE ACCOUNTING

We follow guidelines issued by the JICPA regarding hedge accounting applicable to financial assets and liabilities exposed to a risk of change in fair value or cash flow. Derivative transactions that meet the hedge accounting criteria are primarily accounted for using 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.

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

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

The Bank applies either deferral hedge accounting or fair value hedge accounting in accordance with Industry Audit Committee Report No. 25 issued, on July 29, 2002, by the JICPA, to the derivative transactions that meet the hedge accounting criteria for mitigating foreign currency fluctuation risks of its financial assets and liabilities such as funding swap and certain currency swap transactions. Funding swap transactions are foreign exchange swaps, and consist of spot foreign exchange contracts bought or sold and forward foreign exchange contracts 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 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.

CRITICAL ACCOUNTING POLICIES (continued)

In accordance with Industry Audit Committee Report No. 25 of the JICPA, 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 nonconsolidated subsidiaries, affiliates and securities available for sale (other than bonds denominated in foreign currencies) when such foreign currency exposures recorded as assets are hedged with offsetting foreign currency liabilities and the liabilities exceed the acquisition cost of such foreign currency assets.

IMPAIRMENT OF LONG-LIVED ASSETS

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

BUSINESS COMBINATIONS

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

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES (continued)

IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS ACQUIRED IN BUSINESS COMBINATIONS

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

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

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

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

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

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

ASSET RETIREMENT OBLIGATIONS

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

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

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

FINANCIAL CONDITION

TOTAL ASSETS

As of March 31, 2019, we had consolidated total assets of ¥9,571.1 billion, representing a 1.2% increase from March 31, 2018.

The balance of loans and bills discounted as of March 31, 2019 was ¥4,986.8 billion, increased by ¥90.9 billion from ¥4,895.9 billion as of March 31, 2018. While the balance of housing loan has declined, this growth in the overall balance was supported by the increase of institutional client and Structured Finance's loan balances.

SECURITIES

The following table sets forth the composition of our consolidated portfolio of trading securities in the banking book, available-for-sale securities and held-to-maturity securities as of March 31, 2019. As reflected below, 56.2% of the securities will mature during the next five years. The balance of securities as of March 31, 2019 was ¥1,130.2 billion, increased compared to the balance of ¥1,123.5 billion as of March 31, 2018. 44.4% of the investments in securities consists of Japanese national government bonds for ALM purposes, including liquidity reserves. In the course of portfolio management, the total balance of Japanese national government bonds was ¥501.5 billion as of March 31, 2019, as compared to ¥504.5 billion as of March 31, 2018.

TABLE 16. SECURITIES BY MATURITY (CONSOLIDATED)

Billions of yen

	As of March 31, 2019							
	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	**¥ 119.9**	**¥ 285.3**	**¥ 6.1**	**¥ –**	**¥ 50.2**	**¥ 39.8**	**¥ –**	**¥ 501.5**
Japanese local government bonds	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Japanese corporate bonds	**2.2**	**38.3**	**76.9**	**12.7**	**16.8**	**24.0**	**–**	**171.1**
Japanese equity securities	**–**	**–**	**–**	**–**	**–**	**–**	**30.6**	**30.6**
Foreign bonds and other	**28.0**	**30.6**	**46.9**	**29.4**	**83.5**	**120.5**	**87.6**	**426.9**
Total securities	**¥ 150.3**	**¥ 354.4**	**¥ 130.0**	**¥ 42.1**	**¥ 150.5**	**¥ 184.4**	**¥ 118.2**	**¥ 1,130.2**

Billions of yen

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

FINANCIAL CONDITION (continued)

LOAN PORTFOLIO

As of March 31, 2019, loans and bills discounted totaled ¥4,986.8 billion. This represented 52.1% 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 23.1% of total domestic loans as of March 31, 2019. Loans to the real estate industry consisted in part of non recourse and project finance loans. Loans to others of ¥2,402.7 billion as of March 31, 2019 included loans extended to Shinsei's retail banking, Shinsei Bank Lake, Shinsei Financial's, APLUS FINANCIAL's and Shinsei Personal Loan's individual customers amounting, in aggregate, to ¥1,934.5 billion.

TABLE 17. LOANS BY BORROWER INDUSTRY (CONSOLIDATED)

As of March 31	Billions of yen (except percentages) 2019		2018	
Domestic offices (excluding Japan offshore market account):				
Manufacturing	**¥ 190.0**	**4.0%**	¥ 189.6	4.0%
Agriculture and forestry	**0.0**	**0.0**	0.0	0.0
Fishery	**–**	**–**	–	–
Mining, quarrying and gravel extraction	**0.3**	**0.0**	0.4	0.0
Construction	**9.1**	**0.2**	7.6	0.2
Electric power, gas, heat supply and water supply	**320.7**	**6.7**	250.1	5.3
Information and communications	**55.1**	**1.2**	70.5	1.5
Transportation, postal service	**195.2**	**4.1**	197.9	4.2
Wholesale and retail	**122.5**	**2.6**	114.5	2.4
Finance and insurance	**521.5**	**10.9**	509.1	10.7
Real estate	**584.9**	**12.2**	565.9	11.9
Services	**341.8**	**7.1**	344.6	7.2
Local government	**52.4**	**1.1**	68.4	1.4
Others	**2,402.7**	**50.1**	2,437.3	51.2
Total domestic (A)	**¥ 4,796.9**	**100.0%**	¥ 4,756.4	100.0%
Overseas offices (including Japan offshore market accounts):				
Governments	**¥ 0.1**	**0.1%**	¥ 0.3	0.3%
Financial institutions	**32.6**	**17.2**	30.8	22.1
Others	**157.1**	**82.7**	108.3	77.6
Total overseas (B)	**¥ 189.9**	**100.0%**	¥ 139.5	100.0%
Total (A+B)	**¥ 4,986.8**		¥ 4,895.9	

FINANCIAL CONDITION (continued)

LOAN MATURITY

The following table sets forth the composition of Shinsei's nonconsolidated loan portfolio by type of interest rate and maturity as of the dates indicated. In the fiscal year ended March 31, 2019, the increase in total loans resulted from an increase in both variable-interest rate loans and fixed-interest rate loans.

TABLE 18. LOAN MATURITY (NONCONSOLIDATED)

As of March 31	2019 (Billions of yen)	2018 (Billions of yen)
Fixed-interest loans:		
One year or less[1]	¥ –	¥ –
Over one year to three years	14.3	18.5
Over three years to five years	30.7	17.2
Over five years to seven years	42.8	38.9
Over seven years	865.5	958.1
Indefinite term	275.9	299.1
Variable-interest loans:		
One year or less[1]	¥ –	¥ –
Over one year to three years	755.5	787.9
Over three years to five years	617.8	700.4
Over five years to seven years	401.0	262.2
Over seven years	843.5	749.1
Indefinite term	7.7	6.8
Total loans:		
One year or less	¥ 1,077.5	¥ 799.0
Over one year to three years	769.8	806.5
Over three years to five years	648.6	717.7
Over five years to seven years	443.8	301.2
Over seven years	1,709.0	1,707.3
Indefinite term	283.6	306.0
Total loans	¥ 4,932.6	¥ 4,637.9

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, 2019, 13.1% of our consolidated nonperforming loans as disclosed in accordance with the guidelines of the Japanese Bankers Association (JBA) were held by Shinsei and most of the remaining nonperforming loans were held by Shinsei Financial and APLUS FINANCIAL. This discussion of our asset quality presents information of Shinsei on a nonconsolidated basis unless specified otherwise. In particular, nonperforming claims as defined in the Financial Revitalization Law are only disclosed on a nonconsolidated basis, and therefore do not include nonperforming loans held by Shinsei Financial, APLUS FINANCIAL and Showa Leasing. For a discussion of the nonperforming claims of Shinsei Financial, APLUS FINANCIAL and Showa Leasing see "—Asset Quality of Shinsei Financial, APLUS FINANCIAL and Showa Leasing."

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

The following table compares the scope of each category of claim under the Financial Revitalization Law and each type of riskmonitored loan, as well as the obligor type to which they relate as of March 31, 2019:

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[1,2] Total loans and bills discounted: 4,932.6	Other 78.0	Risk-monitored Loans[1] Total loans and bills discounted: 4,932.6
Legally bankrupt	9E	100.0% for unsecured portion	Claims against bankrupt and quasi-bankrupt obligors 2.1 (Amount of coverage, coverage ratio) (2.1*, 100.0%) *Amount of reserve for loan losses is 0.5, collateral and guarantees is 1.6		Loans to bankrupt obligors 0.5
Virtually bankrupt	9D	100.0% for unsecured portion			Non accrual delinquent loans 7.6
Possibly bankrupt	9C	64.1% for unsecured portion	Doubtful claims 6.1 (Amount of coverage, coverage ratio) (4.1*, 67.7%) *Amount of reserve for loan losses is 3.5, collateral and guarantees is 0.6		
Need caution: Substandard	9B	21.8% for unsecured portion	Substandard claims (loan account only) 2.0 (Amount of coverage, coverage ratio) (0.7*, 34.0%) *Amount of reserve for loan losses is 0.3, collateral and guarantees is 0.4		Loans past due for three months or more Restructured loans 1.9
Need caution: Other need caution	9A	4.5% for total claims			
Normal	0A–6C	0.3% for total claims	Normal claims 5,000.4		Normal 4,922.4
			Total nonperforming claims and ratio to total claims 10.2, 0.2% (Total amount of coverage, coverage ratio) (6.9*, 67.8%) *Total amount of reserve for loan losses is 4.3, collateral and guarantees is 2.6		Total risk-monitored loans and ratio to total loans and bills discounted 10.1, 0.2%

1 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.
2 Shaded claims denoted claims that are considered to be nonperforming under the Financial Revitalization Law.

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

FINANCIAL CONDITION (continued)

SELF-ASSESSMENT GUIDELINES AND RESERVE POLICIES

DEFINITION OF OBLIGOR CLASSIFICATIONS

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

DEFINITIONS OF CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

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

DEFINITIONS OF RISK–MONITORED LOANS

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

FINANCIAL CONDITION (continued)

RESERVE POLICIES

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

CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

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

DISCLOSURE OF CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

Our current management team has consistently emphasized the monitoring of nonperforming loans. Shinsei's total amount of nonperforming claims as disclosed pursuant to the Financial Revitalization Law increased by ¥1.8 billion, or 21.7%, to ¥10.2 billion, between March 31, 2018 and 2019. During the fiscal year ended March 31, 2019, claims against bankrupt and quasi-bankrupt obligors increased from ¥1.8 billion to ¥2.1 billion, doubtful claims increased from ¥3.5 billion to ¥6.1 billion, and substandard claims decreased from ¥3.0 billion to ¥2.0 billion as a result of our self assessment. The ratio of nonperforming claims disclosed under the Financial Revitalization Law to total nonconsolidated claims as of March 31, 2019 was 0.2%, was same as March 31, 2018.

Shinsei's claims against other need caution obligors, excluding substandard claims, totaled ¥64.3 billion as of March 31, 2019, a 47.2% increase from ¥43.6 billion as of March 31, 2018. These include private placement bonds guaranteed by Shinsei and classified as claims against other need caution obligors. These claims represented 1.3% of total nonconsolidated claims as of March 31, 2019, increased from 0.9% as of March 31, 2018.

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

Billions of yen (except percentages)

As of March 31	2019	2018
Claims against bankrupt and quasi-bankrupt obligors	¥ 2.1	¥ 1.8
Doubtful claims	6.1	3.5
Substandard claims	2.0	3.0
Total claims disclosed under the Financial Revitalization Law[1]	10.2	8.3
Normal claims and claims against other need caution obligors, excluding substandard claims	5,000.4	4,715.7
Total claims	¥ 5,010.6	¥ 4,724.0
Ratio of total claims disclosed under the Financial Revitalization Law to total claims	0.2%	0.2%

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

FINANCIAL CONDITION (continued)

COVERAGE RATIOS

As of March 31, 2019, 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, 67.7% for doubtful claims and 34.0% for substandard claims. For all claims classified under the Financial Revitalization Law, the coverage ratio was 67.8%, a increase from 65.8% as of March 31, 2018.

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, 2019 and 2018, ¥2.9 billion and ¥5.8 billion, respectively, of such claims were written off on a nonconsolidated basis.

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

	Billions of yen (except percentages)				
		Amounts of coverage			
	Amount of claims	Reserve for loan losses	Collateral and guarantees	Total	Coverage ratio
As of March 31, 2019:					
Claims against bankrupt and quasi-bankrupt obligors	**¥ 2.1**	**¥ 0.5**	**¥ 1.6**	**¥ 2.1**	**100.0%**
Doubtful claims	**6.1**	**3.5**	**0.6**	**4.1**	**67.7**
Substandard claims	**2.0**	**0.3**	**0.4**	**0.7**	**34.0**
Total	**¥ 10.2**	**¥ 4.3**	**¥ 2.6**	**¥ 6.9**	**67.8%**
As of March 31, 2018:					
Claims against bankrupt and quasi-bankrupt obligors	¥ 1.8	¥ 0.4	¥ 1.3	¥ 1.8	100.0%
Doubtful claims	3.5	1.9	0.1	2.0	57.4
Substandard claims	3.0	0.6	1.0	1.6	55.3
Total	¥ 8.3	¥ 3.0	¥ 2.5	¥ 5.5	65.8%

CHANGES IN AMOUNT OF NONPERFORMING CLAIMS

The table below sets forth Shinsei's experience since March 31, 2017 with the removal of nonperforming claims and the emergence of new claims on a nonconsolidated basis:

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

	Billions of yen			
	Substandard claims	Doubtful claims	Claims against bankrupt and quasi-bankrupt obligors	Total
Balance of nonperforming claims as of March 31, 2017	¥ 3.8	¥ 3.6	¥ 2.9	¥ 10.3
Claims newly added April 1, 2017 to March 31, 2018	0.8	0.5	1.1	2.4
Claims removed April 1, 2017 to March 31, 2018	(1.6)	(0.2)	(2.6)	(4.4)
Claims migrating between classifications April 1, 2017 to March 31, 2018	0.0	(0.3)	0.3	–
Net change	(0.7)	(0.0)	(1.1)	(1.9)
Balance of nonperforming claims as of March 31, 2018	¥ 3.0	¥ 3.5	¥ 1.8	¥ 8.3
Claims newly added April 1, 2018 to March 31, 2019	**0.4**	**3.0**	**0.8**	**4.3**
Claims removed April 1, 2018 to March 31, 2019	**(1.3)**	**(0.4)**	**(0.7)**	**(2.4)**
Claims migrating between classifications April 1, 2018 to March 31, 2019	**(0.2)**	**(0.1)**	**0.2**	**–**
Net change	**(1.1)**	**2.6**	**0.3**	**1.8**
Balance of nonperforming claims as of March 31, 2019	**¥ 2.0**	**¥ 6.1**	**¥ 2.1**	**¥ 10.2**

In the fiscal year ended March 31, 2019, ¥4.3 billion of claims were newly classified as substandard or worse, while Shinsei removed ¥2.4 billion of claims in these categories during the same period. Of the newly added nonperforming claims, ¥0.4 billion were classified as substandard claims, and ¥3.0 billion were classified as Doubtful claims.

For the fiscal year ended March 31, 2018, ¥2.4 billion of claims were newly classified as substandard or worse, while Shinsei removed ¥4.4 billion of claims in these categories during the same period.

FINANCIAL CONDITION (continued)

RESERVE FOR CREDIT LOSSES

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

TABLE 22. RESERVE FOR CREDIT LOSSES (NONCONSOLIDATED)

As of March 31	Billions of yen (except percentages) 2019	2018
General reserve for loan losses	**¥ 21.2**	¥ 24.3
Specific reserve for loan losses	**4.2**	2.3
Reserve for loans to restructuring countries	**—**	—
Total reserve for credit losses	**¥ 25.5**	¥ 26.7
Total claims[1]	**¥ 5,010.6**	¥ 4,724.0
Ratio of total reserve for credit losses to total claims	**0.5%**	0.6%

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

As of March 31, 2019 and 2018, Shinsei's total reserve for credit losses on a nonconsolidated basis was ¥25.5 billion and ¥26.7 billion, respectively, constituting 0.5% and 0.6%, respectively, of total claims.

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

As of March 31		Percentages 2019	2018
Legally and virtually bankrupt	(unsecured portion)	**100.0%**	100.0%
Possibly bankrupt	(unsecured portion)	**64.1%**	55.7%
Substandard	(unsecured portion)	**21.8%**	39.7%
Other need caution	(total claims)	**4.5%**	5.4%
	(unsecured portion)	**10.4%**	11.2%
Normal	(total claims)	**0.3%**	0.4%

RISK-MONITORED LOANS

Consolidated risk-monitored loans increased by 3.5% during the fiscal year ended March 31, 2019 to ¥77.5 billion. The decrease of ¥2.7 billion in nonaccrual delinquent loans during the period were primarily attributable to collection of nonconsolidated loans.

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

TABLE 24. RISK-MONITORED LOANS (CONSOLIDATED)

As of March 31	Billions of yen (except percentages) 2019	2018
Total loans and bills discounted	**¥ 4,986.8**	¥ 4,895.9
Loans to bankrupt obligors (A)	**4.8**	5.6
Nonaccrual delinquent loans (B)	**28.3**	31.1
Subtotal (A) + (B)	**¥ 33.2**	¥ 36.8
Ratio to total loans and bills discounted	**0.7%**	0.8%
Loans past due for three months or more (C)	**¥ 0.8**	¥ 1.8
Restructured loans (D)	**43.4**	36.2
Total risk-monitored loans (A) + (B) + (C) + (D)	**¥ 77.5**	¥ 74.9
Ratio to total loans and bills discounted	**1.6%**	1.5%
Reserve for credit losses	**¥ 98.0**	¥ 100.8

FINANCIAL CONDITION (continued)

TABLE 25. RISK-MONITORED LOANS (NONCONSOLIDATED)

As of March 31	Billions of yen (except percentages) 2019	2018
Total loans and bills discounted	**¥ 4,932.6**	¥ 4,637.9
Loans to bankrupt obligors (A)	**0.5**	0.5
Nonaccrual delinquent loans (B)	**7.6**	4.7
Subtotal (A) + (B)	**¥ 8.2**	¥ 5.3
Ratio to total loans and bills discounted	**0.2%**	0.1%
Loans past due for three months or more (C)	**¥ 0.2**	¥ 1.1
Restructured loans (D)	**1.7**	1.8
Total risk-monitored loans (A) + (B) + (C) + (D)	**¥ 10.1**	¥ 8.3
Ratio to total loans and bills discounted	**0.2%**	0.2%
Reserve for credit losses	**¥ 25.5**	¥ 26.7

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

As of March 31	Billions of yen 2019	2018
Domestic offices (excluding Japan offshore market account):		
Manufacturing	**¥ 2.9**	¥ 2.9
Agriculture and forestry	**–**	–
Fishery	**–**	–
Mining, quarrying and gravel extraction	**–**	–
Construction	**–**	–
Electric power, gas, heat supply and water supply	**–**	–
Information and communications	**0.0**	0.2
Transportation and postal service	**–**	0.0
Wholesale and retail	**0.1**	0.3
Finance and insurance	**0.1**	–
Real estate	**0.0**	–
Services	**1.1**	0.5
Local government	**–**	–
Individual	**2.3**	2.6
Overseas yen loan and overseas loans booked domestically	**2.1**	0.2
Total domestic (A)	**¥ 8.9**	¥ 7.0
Overseas offices (including Japan offshore market accounts):		
Governments	**¥ –**	¥ –
Financial institutions	**–**	–
Others	**1.2**	1.3
Total overseas (B)	**¥ 1.2**	¥ 1.3
Total (A+B)	**¥ 10.1**	¥ 8.3

FINANCIAL CONDITION (continued)

ASSET QUALITY OF SHINSEI FINANCIAL, APLUS FINANCIAL AND SHOWA LEASING

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

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

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

	Billions of yen				
	Shinsei	Shinsei Financial	APLUS FINANCIAL	Other subsidiaries	Total
As of March 31, 2019:					
Loans to bankrupt obligors	**¥ 0.5**	**¥ 3.6**	**¥ 0.0**	**¥ 0.6**	**¥ 4.8**
Nonaccrual delinquent loans	**7.6**	**10.5**	**5.5**	**4.6**	**28.3**
Loans past due for three months or more	**0.2**	**–**	**0.4**	**0.1**	**0.8**
Restructured loans	**1.7**	**31.6**	**10.0**	**–**	**43.4**
Total	**¥ 10.1**	**¥ 45.8**	**¥ 16.0**	**¥ 5.4**	**¥ 77.5**
As of March 31, 2018:					
Loans to bankrupt obligors	¥ 0.5	¥ 4.6	¥ –	¥ 0.3	¥ 5.6
Nonaccrual delinquent loans	4.7	12.3	9.8	4.2	31.1
Loans past due for three months or more	1.1	0.0	0.3	0.3	1.8
Restructured loans	1.8	25.0	9.2	–	36.2
Total	¥ 8.3	¥ 42.0	¥ 19.5	¥ 4.9	¥ 74.9

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

	Billions of yen				
	Shinsei Financial	APLUS FINANCIAL	Showa Leasing	Other subsidiaries	Total
As of March 31, 2019:					
Credits to bankrupt obligors	**¥ –**	**¥ 0.0**	**¥ 0.0**	**¥ –**	**¥ 0.0**
Nonaccrual delinquent credits	**–**	**3.7**	**2.2**	**–**	**5.9**
Credits past due for three months or more	**–**	**0.2**	**0.6**	**–**	**0.8**
Restructured credits	**–**	**0.2**	**0.0**	**–**	**0.2**
Total	**¥ –**	**¥ 4.1**	**¥ 2.8**	**¥ –**	**¥ 6.9**
As of March 31, 2018:					
Credits to bankrupt obligors	¥ –	¥ 0.0	¥ 0.0	¥ 0.0	¥ 0.0
Nonaccrual delinquent credits	–	4.5	2.7	–	7.2
Credits past due for three months or more	–	0.3	0.0	–	0.3
Restructured credits	–	0.0	0.0	–	0.0
Total	¥ –	¥ 4.9	¥ 2.8	¥ 0.0	¥ 7.7

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

FUNDING AND LIQUIDITY

We continues to optimize its funding base through deposits from retail customers. Total deposits and negotiable certificates of deposit decrease from ¥6,067.0 billion as of March 31, 2018 to ¥5,922.1 billion as of March 31, 2019. The retail deposits balance totaled ¥4,594.5 billion as of March 31, 2019, a decrease of ¥290 billion compared to March 31, 2018. Retail Banking constitutes 77.6% of our total funding through customer deposits. The following table shows changes in the proportion of our overall funding represented by funds raised from deposits in our Retail and Institutional Banking businesses.

FINANCIAL CONDITION (continued)

TABLE 29. DIVERSIFICATION BY FUNDING TYPE (CONSOLIDATED)

As of March 31	Billions of yen 2019	2018
Retail deposits	**¥ 4,594.5**	¥ 4,884.5
Institutional deposits	**1,327.5**	1,182.5
Total	**¥ 5,922.1**	¥ 6,067.0

DEPOSITS

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

TABLE 30. MATURITY SCHEDULE OF TIME DEPOSITS (CONSOLIDATED)

As of March 31	Billions of yen 2019	2018
Less than three months[1]	**¥ 1,518.6**	¥ 1,679.3
Three months or more, but less than six months	**158.6**	227.3
Six months or more, but less than one year	**119.5**	467.1
One year or more, but less than two years	**89.5**	76.5
Two years or more, but less than three years	**85.0**	71.0
Three years or more	**300.3**	169.5
Total	**¥ 2,271.9**	¥ 2,691.0

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

CORPORATE BONDS

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

TABLE 31. MATURITY SCHEDULE OF CORPORATE BONDS (CONSOLIDATED)

Corporate Bonds

Fiscal year ending March 31	Billions of yen
2020	¥ 25.0
2021	15.7
2022	10.0
2023	–
2024 and thereafter	41.6
Total	¥ 92.3

OTHER

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

TABLE 32. SHINSEI'S CREDIT RATINGS AS OF JULY 2019

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

FINANCIAL CONDITION (continued)

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, 2019 and 2018 :

TABLE 33. OTHER CONTRACTUAL CASH OBLIGATIONS (CONSOLIDATED)

	Billions of yen		
Payments due by period as of March 31, 2019	**1 year or less**	**Over 1 year**	**Total**
Borrowed money	**¥ 247.9**	**¥ 436.0**	**¥ 684.0**
Obligations under finance leases	**0.3**	**0.6**	**0.9**
Total	**¥ 248.3**	**¥ 436.7**	**¥ 685.0**

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

TAXATION

SCHEDULE OF TAX LOSS CARRYFORWARDS

As of March 31, 2019, Shinsei had ¥147.2 billion of tax loss carryforwards based on the consolidated corporate tax system.

TABLE 34. SCHEDULE OF THE TAX EFFECT OF TAX LOSS CARRY-FORWARDS

	Millions of yen						
	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Deferred tax assets relating to tax loss carryforwards[1]	¥7,347	¥11,152	¥7,914	¥9,235	¥12,918	¥23,696	¥72,264
Less valuation allowances for tax loss carryforwards	(¥3,865)	(¥9,795)	(¥7,823)	(¥9,172)	(¥12,837)	(¥23,536)	(¥67,030)
Net deferred tax assets relating to tax loss carryforwards	¥3,482	¥1,356	¥91	¥63	¥80	¥159	¥5,234[2]

	Thousands of U.S. dollars						
	1 year or less	Over 1 year to 2 years	Over 2 years to 3 Years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Deferred tax assets relating to tax loss carryforwards[1]	$66,346	$100,712	$71,472	$83,398	$116,655	$213,980	$652,563
Less valuation allowances for tax loss carryforwards	($34,903)	($88,458)	($70,645)	($82,826)	($115,927)	($212,539)	($605,298)
Net deferred tax assets relating to tax loss carryforwards	$31,443	$12,254	$826	$573	$727	$1,441	$47,264[2]

1 The amounts of tax loss carryforwards are obtained as a result of multiplying the statutory effective tax rate.
2 The tax loss carryforwards resulted from the disposal of the non-performing loans in the prior fiscal years. Certain tax loss carryforwards are determined to be collectible as it is probable that consolidated taxable income would be generated based on the expected profitability of the consolidated taxpayer including the Bank as the consolidated parent corporation under consolidated tax filing system. The collectability of the deferred tax assets is considered by corporate tax, inhabitant tax and enterprise tax, respectively.

The table above sets forth a schedule of the tax effect of the tax loss carryforwards, which resulted in deferred tax assets of the Group as of March 31, 2019. The amounts are recorded mainly by two consolidated taxpayer, Shinsei Bank and APLUS FINANCIAL, which is not wholly-owned subsidiaries, thus an independent consolidated taxpayer.

We record deferred tax assets for tax loss carryforwards and evaluate them in accordance with the ASBJ Guidance. See "—Critical Accounting Policies— Valuation of Deferred Tax Assets" on page 113.

CONSOLIDATED CORPORATE TAX SYSTEM

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

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

FINANCIAL CONDITION (continued)

CAPITAL RESOURCES AND ADEQUACY

EQUITY

The following table sets forth a summary of our equity as of March 31, 2019 and 2018:

TABLE 35. EQUITY (CONSOLIDATED)

	Billions of yen (except percentages)	
As of March 31	**2019**	2018
Common stock	**¥ 512.2**	¥ 512.2
Capital surplus	**78.5**	78.5
Stock acquisition rights	**0.0**	0.3
Retained earnings	**346.5**	361.3
Treasury stock, at cost	**(37.7)**	(89.5)
Accumulated other comprehensive income:		
Unrealized gain on available-for-sale securities	**10.0**	5.1
Deferred gain (loss) on derivatives under hedge accounting	**(16.3)**	(14.4)
Foreign currency translation adjustments	**(1.5)**	(1.5)
Defined retirement benefit plans	**0.3**	2.0
Total	**¥ 892.1**	¥ 854.1
Noncontrolling interests	**4.4**	1.9
Total equity	**¥ 896.6**	¥ 856.0
Ratio of total equity to total assets	**9.4%**	9.1%

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, 2019 was 11.85%, compared with 12.83% as of March 31, 2018.

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

FINANCIAL CONDITION (continued)

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

SECURITIZATION

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

REPACKAGING

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

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

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

FINANCIAL CONDITION (continued)

ARRANGEMENT

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

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

On these transactions, we act as an arranger, an underwriter, a servicer, a trustee or an administrator, or combination of some of these roles, for our corporate customers. As our customers usually retain the residual interests and the related risk of loss on them, we are not exposed to risks of incurring losses inherent in such residual interests.

As of March 31, 2019 and 2018, we held ¥3.4 billion and ¥8.8 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, 2019 and 2018, the total principal amount of participation interests in loans transferred to third-parties removed from the loan account was ¥7.4 billion and ¥7.8 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 ¥3,041.3 billion and ¥3,348.3 billion as of March 31, 2019 and 2018, out of which the amounts with the commitments of the agreements expiring within one year or being able to be cancelled at any time with no condition were ¥2,676.9 billion and ¥3,016.0 billion as of March 31, 2019 and 2018, 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, 2019 and 2018, we had ¥456.7 billion and ¥395.3 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, 2019 and 2018, ¥392.6 billion and ¥321.9 billion of our outstanding acceptances or guarantees, respectively, were attributable to its guarantee business.

CONSOLIDATED BALANCE SHEET

Shinsei Bank, Limited, and its Consolidated Subsidiaries
As of March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	**2019**
ASSETS			
Cash and due from banks (Notes 4, 24, and 38)	**¥ 1,355,966**	¥ 1,465,663	**$ 12,244,592**
Receivables under securities borrowing transactions (Note 38)	**2,119**	2,629	**19,135**
Other monetary claims purchased (Notes 5 and 38)	**30,994**	36,332	**279,888**
Trading assets (Notes 6, 24, 38 and 39)	**204,415**	205,295	**1,845,901**
Monetary assets held in trust (Notes 7, 24 and 38)	**305,879**	234,924	**2,762,137**
Securities (Notes 8, 24, 25 and 38)	**1,130,286**	1,123,522	**10,206,669**
Loans and bills discounted (Notes 9, 24, and 38)	**4,986,839**	4,895,963	**45,031,963**
Foreign exchanges (Note 10)	**29,546**	32,511	**266,813**
Lease receivables and leased investment assets (Notes 24, 35 and 38)	**176,553**	171,429	**1,594,311**
Other assets (Notes 11, 24, 38 and 39)	**851,287**	856,213	**7,687,266**
Premises and equipment (Notes 12, 24 and 35)	**45,341**	50,261	**409,442**
Intangible assets (Notes 13 and 35)	**67,189**	59,484	**606,733**
Assets for retirement benefits (Note 21)	**10,931**	13,261	**98,711**
Deferred tax assets (Note 32)	**15,096**	14,705	**136,325**
Customers' liabilities for acceptances and guarantees (Note 22)	**456,759**	395,301	**4,124,607**
Reserve for credit losses (Note 14)	**(98,034)**	(100,840)	**(885,272)**
Total assets	**¥ 9,571,172**	¥ 9,456,660	**$ 86,429,222**
LIABILITIES AND EQUITY			
Liabilities:			
Deposits, including negotiable certificates of deposit (Notes 15, 24 and 38)	**¥ 5,922,145**	¥ 6,067,096	**$ 53,477,923**
Debentures (Notes 16 and 38)	**–**	423	**–**
Call money (Notes 38)	**145,000**	–	**1,309,373**
Payables under repurchase agreements (Notes 24 and 38)	**59,098**	55,919	**533,671**
Payables under securities lending transactions (Notes 24 and 38)	**510,229**	433,462	**4,607,458**
Trading liabilities (Notes 17, 38 and 39)	**182,363**	184,582	**1,646,776**
Borrowed money (Notes 18, 24, 25 and 38)	**684,077**	739,578	**6,177,334**
Foreign exchanges (Note 10)	**471**	102	**4,256**
Short-term corporate bonds (Note 38)	**191,000**	175,700	**1,724,761**
Corporate bonds (Notes 19 and 38)	**92,335**	85,000	**833,800**
Other liabilities (Notes 20, 24, 38 and 39)	**347,383**	367,734	**3,136,925**
Accrued employees' bonuses	**8,598**	8,489	**77,649**
Accrued directors' bonuses	**44**	51	**404**
Liabilities for retirement benefits (Note 21)	**8,232**	8,366	**74,337**
Reserve for reimbursement of debentures	**3,764**	4,130	**33,991**
Reserve for losses on interest repayments	**63,025**	74,687	**569,131**
Acceptances and guarantees (Notes 22, 24 and 38)	**456,759**	395,301	**4,124,607**
Total liabilities	**8,674,529**	8,600,625	**78,332,396**
Equity:			
Common stock (Note 26)	**512,204**	512,204	**4,625,290**
Capital surplus	**78,506**	78,506	**708,925**
Stock acquisition rights (Note 27)	**99**	318	**896**
Retained earnings	**346,562**	361,368	**3,129,519**
Treasury stock, at cost (Note 26)	**(37,729)**	(89,540)	**(340,699)**
Accumulated other comprehensive income:			
Unrealized gain (loss) on available-for-sale securities (Note 8)	**10,041**	5,187	**90,673**
Deferred gain (loss) on derivatives under hedge accounting	**(16,391)**	(14,457)	**(148,018)**
Foreign currency translation adjustments	**(1,527)**	(1,573)	**(13,798)**
Defined retirement benefit plans (Note 21)	**378**	2,089	**3,415**
Total	**892,143**	854,103	**8,056,202**
Noncontrolling interests	**4,498**	1,930	**40,623**
Total equity	**896,642**	856,034	**8,096,825**
Total liabilities and equity	**¥ 9,571,172**	¥ 9,456,660	**$ 86,429,222**

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

CONSOLIDATED STATEMENT OF INCOME

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	**2019**
Interest income:			
Interest on loans and bills discounted	**¥ 140,177**	¥ 134,858	**$ 1,265,827**
Interest and dividends on securities	**12,531**	11,705	**113,158**
Interest on deposits with banks	**1,162**	1,069	**10,501**
Other interest income	**971**	871	**8,774**
Total interest income	**154,843**	148,504	**1,398,261**
Interest expenses:			
Interest on deposits, including negotiable certificates of deposit	**7,802**	9,021	**70,457**
Interest and discounts on debentures	**0**	3	**1**
Interest on other borrowings	**3,356**	3,432	**30,311**
Interest on corporate bonds	**466**	952	**4,210**
Other interest expenses	**9,401**	6,318	**84,900**
Total interest expenses	**21,027**	19,728	**189,878**
Net interest income	**133,816**	128,775	**1,208,383**
Fees and commissions income	**55,332**	50,129	**499,665**
Fees and commissions expenses	**23,981**	25,059	**216,558**
Net fees and commissions	**31,351**	25,070	**283,107**
Net trading income (loss) (Note 28)	**6,673**	8,542	**60,265**
Other business income (loss), net:			
Income on lease transactions and installment receivables, net	**37,525**	37,030	**338,865**
Net gain (loss) on monetary assets held in trust	**2,535**	2,760	**22,897**
Net gain (loss) on foreign exchanges	**6,719**	9,466	**60,675**
Net gain (loss) on securities	**378**	9,936	**3,415**
Net gain (loss) on other monetary claims purchased	**809**	1,193	**7,307**
Other, net (Note 29)	**9,886**	9,253	**89,279**
Net other business income (loss)	**57,854**	69,641	**522,438**
Total revenue	**229,696**	232,030	**2,074,194**
General and administrative expenses:			
Personnel expenses	**56,509**	56,249	**510,288**
Premises expenses	**19,679**	20,065	**177,713**
Technology and data processing expenses	**23,265**	20,810	**210,088**
Advertising expenses	**10,951**	11,052	**98,897**
Consumption and property taxes	**10,406**	9,389	**93,976**
Deposit insurance premium	**1,645**	1,775	**14,862**
Other general and administrative expenses	**23,275**	23,637	**210,179**
General and administrative expenses	**145,734**	142,981	**1,316,002**
Amortization of goodwill and intangible assets acquired in business combinations	**2,811**	3,987	**25,386**
Total general and administrative expenses	**148,545**	146,969	**1,341,389**
Net business profit (loss)	**81,150**	85,060	**732,805**
Net credit costs (recoveries) (Note 30)	**29,348**	37,270	**265,024**
Other gains (losses), net (Note 31)	**2,782**	7,621	**25,123**
Income (loss) before income taxes	**54,584**	55,411	**492,904**
Income taxes (benefit) (Note 32):			
Current	**3,810**	1,266	**34,410**
Deferred	**(1,306)**	2,574	**(11,800)**
Profit	**52,080**	51,570	**470,293**
Profit (loss) attributable to noncontrolling interests	**(239)**	156	**(2,160)**
Profit attributable to owners of the parent	**¥ 52,319**	¥ 51,414	**$ 472,453**

	Yen		U.S. dollars (Note 1)
Basic earnings per share (Note 33)	**¥ 211.24**	¥ 199.01	**$ 1.91**
Diluted earnings per share (Note 33)	**¥ 211.22**	¥ 198.98	**$ 1.91**

See accompanying "Notes to Consolidated Financial Statements," which are an integral part of these statements.
Shinsei Bank executed a 1-for-10 reverse stock split on October 1, 2017. The above earnings per share data is calculated as if the reverse stock split had been implemented at the beginning of the fiscal year ended March 31, 2018.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	**2019**
Profit	**¥ 52,080**	¥ 51,570	**$ 470,293**
Other comprehensive income (Note 34):			
Unrealized gain (loss) on available-for-sale securities	**(295)**	(5,968)	**(2,665)**
Deferred gain (loss) on derivatives under hedge accounting	**(1,933)**	(532)	**(17,463)**
Foreign currency translation adjustments	**(4)**	219	**(43)**
Defined retirement benefit plans	**(1,708)**	3,434	**(15,427)**
Share of other comprehensive income in affiliates	**1,354**	(1,248)	**12,227**
Total other comprehensive income	**(2,588)**	(4,095)	**(23,371)**
Comprehensive income	**¥ 49,492**	¥ 47,474	**$ 446,923**
Total comprehensive income attributable to:			
Owners of the parent	**¥ 49,692**	¥ 47,430	**$ 448,729**
Noncontrolling interests	**(200)**	43	**(1,807)**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal year ended March 31, 2019

	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, 2017 (April 1, 2017, as previously reported)	¥ 512,204	¥ 78,506	¥ 584	¥ 312,538	¥ (79,539)	¥ 10,299	¥ (13,925)	¥ 199	¥ (1,344)	¥ 819,524	¥ 1,262	¥ 820,786
Cumulative effect of accounting change of certain foreign affiliates accounted for by the equity method				–		–				–		–
BALANCE, April 1, 2017 (as restated)	512,204	78,506	584	312,538	(79,539)	10,299	(13,925)	199	(1,344)	819,524	1,262	820,786
Dividends				(2,588)						(2,588)		(2,588)
Profit attributable to owners of the parent				51,414						51,414		51,414
Purchase of treasury stock					(10,001)					(10,001)		(10,001)
Disposal of treasury stock		–			–					–		–
Cancellation of treasury stock		–			–					–		–
Transfer to capital surplus from retained earnings		–		–						–		–
Changes in ownership interest of the parent related to transactions with noncontrolling interests		(0)								(0)		(0)
Changes by forfeit of stock acquisition rights in a consolidated subsidiary				4						4		4
Changes by inclusion of consolidated subsidiaries				(0)						(0)		(0)
Changes by exclusion of consolidated subsidiaries				–						–		–
Transfer to retained earnings from unrealized gain (loss) on available-for-sale securities				–						–		–
Net change during the year			(265)			(5,112)	(532)	(1,772)	3,433	(4,248)	668	(3,580)
BALANCE, March 31, 2018 (April 1, 2018, as previously reported)	512,204	78,506	318	361,368	(89,540)	5,187	(14,457)	(1,573)	2,089	854,103	1,930	856,034
Cumulative effect of accounting change of certain foreign affiliates accounted for by the equity method				(311)		4,307				3,996		3,996
BALANCE, April 1, 2018 (as restated)	512,204	78,506	318	361,057	(89,540)	9,495	(14,457)	(1,573)	2,089	858,099	1,930	860,030
Dividends				(2,528)						(2,528)		(2,528)
Profit attributable to owners of the parent				52,319						52,319		52,319
Purchase of treasury stock					(12,999)					(12,999)		(12,999)
Disposal of treasury stock		(78)			178					100		100
Cancellation of treasury stock		(64,632)			64,632					–		–
Transfer to capital surplus from retained earnings		64,710		(64,710)						–		–
Changes in ownership interest of the parent related to transactions with noncontrolling interests		(0)								(0)		(0)
Changes by forfeit of stock acquisition rights in a consolidated subsidiary				1						1		1
Changes by inclusion of consolidated subsidiaries				–						–		–
Changes by exclusion of consolidated subsidiaries				(1)						(1)		(1)
Transfer to retained earnings from unrealized gain (loss) on available-for-sale securities				426						426		426
Net change during the year			(219)			546	(1,933)	45	(1,711)	(3,273)	2,567	(705)
BALANCE, March 31, 2019	¥ 512,204	¥ 78,506	¥ 99	¥ 346,562	¥ (37,729)	¥ 10,041	¥ (16,391)	¥ (1,527)	¥ 378	¥ 892,143	¥ 4,498	¥ 896,642

	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, 2018 (April 1. 2018, as previously reported)	$ 4,625,290	$ 708,926	$ 2,881	$ 3,263,219	$ (808,569)	$ 46,843	$ (130,555)	$ (14,206)	$ 18,868	$ 7,712,695	$ 17,436	$ 7,730,131
Cumulative effect of accounting change of certain foreign affiliates accounted for by the equity method				(2,816)		38,900				36,085		36,085
BALANCE, April 1, 2018 (as restated)	4,625,290	708,926	2,881	3,260,403	(808,569)	85,743	(130,555)	(14,206)	18,868	7,748,780	17,436	7,766,216
Dividends				(22,834)						(22,834)		(22,834)
Profit attributable to owners of the parent				472,453						472,453		472,453
Purchase of treasury stock					(117,390)					(117,390)		(117,390)
Disposal of treasury stock		(706)			1,616					910		910
Cancellation of treasury stock		(583,644)			583,644					–		–
Transfer to capital surplus from retained earnings		584,350		(584,350)						–		–
Changes in ownership interest of the parent related to transactions with noncontrolling interests		(0)								(0)		(0)
Changes by forfeit of stock acquisition rights in a consolidated subsidiary				10						10		10
Changes by inclusion of consolidated subsidiaries				–						–		–
Changes by exclusion of consolidated subsidiaries				(17)						(17)		(17)
Transfer to retained earnings from unrealized gain (loss) on available-for-sale securities				3,853						3,853		3,853
Net change during the year			(1,985)			4,931	(17,463)	408	(15,453)	(29,562)	23,187	(6,375)
BALANCE, March 31, 2019	$ 4,625,290	$ 708,925	$ 896	$ 3,129,519	$ (340,699)	$ 90,673	$ (148,018)	$ (13,798)	$ 3,415	$ 8,056,202	$ 40,623	$ 8,096,825

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	**2019**
Cash flows from operating activities:			
Income (loss) before income taxes	**¥ 54,584**	¥ 55,411	**$ 492,904**
Adjustments for:			
Income taxes paid	**(3,710)**	(825)	**(33,510)**
Depreciation (other than leased assets as lessor)	**12,519**	10,973	**113,055**
Amortization of goodwill and intangible assets acquired in business combinations	**2,811**	3,987	**25,386**
Impairment losses on long-lived assets	**955**	1,834	**8,626**
Net change in reserve for credit losses	**(2,805)**	686	**(25,338)**
Net change in reserve for losses on interest repayments	**(16,527)**	(27,159)	**(149,243)**
Net change in other reserves	**(263)**	338	**(2,379)**
Interest income	**(154,843)**	(148,504)	**(1,398,261)**
Interest expenses	**21,027**	19,728	**189,878**
Investment (gains) losses	**(4,129)**	(12,690)	**(37,286)**
Net exchange (gain) loss	**5,278**	2,306	**47,665**
Net change in trading assets	**880**	38,818	**7,951**
Net change in trading liabilities	**(2,219)**	(27,658)	**(20,038)**
Net change in loans and bills discounted	**(62,901)**	(62,490)	**(568,015)**
Net change in deposits, including negotiable certificates of deposit	**(145,026)**	204,252	**(1,309,608)**
Net change in debentures	**(423)**	(6,138)	**(3,820)**
Net change in borrowed money (other than subordinated debt)	**(40,483)**	(50,987)	**(365,576)**
Net change in corporate bonds (other than subordinated corporate bonds)	**32,335**	(21,200)	**291,990**
Net change in interest-bearing deposits with banks (other than due from the Bank of Japan)	**(78,740)**	37,444	**(711,038)**
Net change in call loans, receivables under resale agreements, receivables under securities borrowing transactions and other monetary claims purchased	**5,848**	11,379	**52,813**
Net change in call money, payables under repurchase agreements, payables under securities lending transactions, and short-term corporate bonds (liabilities)	**240,246**	69,061	**2,169,468**
Net change in foreign exchange assets and liabilities	**3,333**	(12,894)	**30,105**
Interest received	**157,568**	147,408	**1,422,870**
Interest paid	**(35,716)**	(20,104)	**(322,525)**
Net change in securities for trading purposes	**–**	(0)	**–**
Net change in monetary assets held in trust for trading purposes	**4,702**	4,541	**42,464**
Net change in lease receivables and leased investment assets	**17,511**	20,060	**158,133**
Other, net	**2,133**	(70,166)	**19,270**
Total adjustments	**(40,637)**	112,003	**(366,964)**
Net cash provided by (used in) operating activities	**13,946**	167,415	**125,939**
Cash flows from investing activities:			
Purchase of investments	**(1,923,233)**	(1,531,992)	**(17,367,106)**
Proceeds from sales of investments	**1,552,842**	1,363,117	**14,022,420**
Proceeds from maturity of investments	**271,477**	147,769	**2,451,488**
Purchase of premises and equipment (other than leased assets as lessor)	**(3,833)**	(3,441)	**(34,615)**
Purchase of intangible assets (other than leased assets as lessor)	**(18,249)**	(20,742)	**(164,793)**
Payment for acquisition of business	**(33,020)**	–	**(298,181)**
Proceeds from acquisition of the business	**1,982**	–	**17,907**
Other, net	**(512)**	1,001	**(4,630)**
Net cash provided by (used in) investing activities	**(152,545)**	(44,287)	**(1,377,511)**
Cash flows from financing activities:			
Repayment of subordinated debt	**(12,400)**	–	**(111,974)**
Payment for redemption of subordinated corporate bonds	**(25,000)**	(6,400)	**(225,754)**
Proceeds from noncontrolling shareholders	**2,770**	838	**25,018**
Dividends paid	**(2,528)**	(2,588)	**(22,834)**
Payment for purchase of treasury stock	**(12,999)**	(10,001)	**(117,390)**
Purchase of investments in subsidiaries not resulting in change in scope of consolidation	**(0)**	(185)	**(0)**
Net cash provided by (used in) financing activities	**(50,158)**	(18,337)	**(452,935)**
Foreign currency translation adjustments on cash and cash equivalents	**52**	(84)	**477**
Net change in cash and cash equivalents	**(188,704)**	104,706	**(1,704,030)**
Cash and cash equivalents at beginning of year	**1,434,574**	1,329,867	**12,954,437**
Cash and cash equivalents at end of year (Note 4)	**¥ 1,245,870**	¥ 1,434,574	**$ 11,250,406**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shinsei Bank, Limited, and its Consolidated Subsidiaries
For the fiscal year ended March 31, 2019

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED

The accompanying consolidated financial statements of Shinsei Bank, Limited (the "Bank") and its consolidated subsidiaries (collectively, the "Group"), stated in Japanese yen, have been prepared on the basis of generally accepted accounting principles in Japan ("Japanese GAAP") and in accordance with the Banking Act of Japan (the "Banking Act"), and compiled from the consolidated financial statements prepared under the provisions set forth in the Financial Instruments and Exchange Act of Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards ("IFRS").

Certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, the accompanying notes include information that is not required under Japanese GAAP, but is presented herein for the convenience of readers.

The preparation of consolidated financial statements in conformity with Japanese GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥110.74 to U.S. $1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2019. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Amounts of less than one million yen and one thousand U.S. dollars have been rounded down to the nearest million and rounded to the nearest thousand, respectively except for per share amounts in the presentation of the accompanying consolidated financial statements and the notes thereto. As a result, the totals in yen and U.S. dollars do not necessarily equal the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATED

(A) PRINCIPLES OF CONSOLIDATION

The Group determines its scope of consolidation under the concepts of control and influence. Those companies over which the Bank is able to directly or indirectly exercise control are fully consolidated, except if they are immaterial, judging from the financial position or results of operations, such as assets, ordinary income, profit (the Group's interest portion), retained earnings (the Group's interest portion) and accumulated other comprehensive income (the Group's interest portion) of the Group, or the control over the subsidiary is temporary, and those companies over which the Bank is able to directly or indirectly exercise significant influence are accounted for by the equity method, except if they are immaterial, judging from the financial position or results of operations, such as assets, ordinary income, profit (the Group's interest portion), retained earnings (the Group's interest portion) and accumulated other comprehensive income (the Group's interest portion) of the Group.

The numbers of subsidiaries and affiliates as of March 31, 2019 and 2018 were as follows:

	2019	2018
Consolidated subsidiaries	**83**	83
Unconsolidated subsidiaries	**96**	104
Affiliates accounted for by the equity method	**35**	30
Affiliates accounted for not applying the equity method	**2**	—

Shinsei Capital Partners, Ltd. and 6 other companies were newly consolidated due to their formation.

Additionally, Godo Kaisha Koriyama 5 Gou and 3 other companies were excluded from the scope of consolidation due to liquidation, gumi Ventures, L.P. was excluded from the scope of consolidation due to the loss of its controlling interest and APPM FUNDING DESIGNATED ACTIVITY COMPANY and 1 other company were excluded from the scope of consolidation due to their decreased materiality in the fiscal year ended March 31, 2019.

LS Holdings Co., Ltd. and 5 other companies were newly included in the scope of application of the equity method due to their formation and Asuka Corporate Advisory Co., Ltd. and 1 other company were newly included in the scope of application of the equity method due to the acquisition of shares or interest. Additionally, Tin Pan Alley Investment Limited Partnership and 2 other companies were excluded from the scope of application of the equity method due to liquidation in the fiscal year ended March 31, 2019.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED

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

H Holdings Co., Ltd. and 1 other company were excluded from the scope of application of the equity method because they are immaterial to the financial condition and results of operations, such as profit (the Group's interest portion), retained earnings (the Group's interest portion) and accumulated other comprehensive income (the Group's interest portion) of the Group.

ORTHOREBIRTH CO., LTD. was not treated as an affiliate because the objective for the Group to own the voting rights was merely to obtain capital gains and the fact meets the requirement according to Paragraph 24 of the Accounting Standards Board of Japan (the "ASBJ") guidance No. 22 "Implementation Guidance on Determining a Subsidiary and an Affiliate."

Major consolidated subsidiaries as of March 31, 2019 are listed below:

Name	Location	Percentage ownership
APLUS FINANCIAL Co., Ltd.	Japan	95.0%
Showa Leasing Co., Ltd.	Japan	100.0%
Shinsei Personal Loan Co., Ltd.	Japan	100.0%
Shinsei Financial Co., Ltd.	Japan	100.0%
Shinsei Trust & Banking Co., Ltd.	Japan	100.0%
Shinsei Securities Co., Ltd.	Japan	100.0%
Shinsei Investment & Finance Limited	Japan	100.0%

All significant inter-company transactions, related account balances and unrealized gains have been eliminated upon consolidation. As of March 31, 2019, the fiscal year ending dates were March 31 for 53 subsidiaries, September 30 for 3 subsidiaries, December 16 for 1 subsidiary, December 31 for 25 subsidiaries and February 28 for 1 subsidiary. Regarding the 4 companies of the Bank's consolidated subsidiaries which have fiscal year-end dates other than March 31, consolidation was performed utilizing its respective fiscal year-end financial statements prepared in accordance with the provisional settlements of accounts performed on March 31 and other consolidated subsidiaries have been consolidated utilizing their respective statements. Appropriate adjustments have been made for significant transactions that occurred during the period from the ending dates of their fiscal year to March 31, 2019.

A major affiliate accounted for by the equity method as of March 31, 2019 is listed below:

Name	Location	Percentage ownership
Jih Sun Financial Holding Co., Ltd.	Taiwan	36.2%

(B) GOODWILL AND INTANGIBLE ASSETS ACQUIRED IN BUSINESS COMBINATIONS

The Bank recognized certain identifiable intangible assets in connection with the acquisition of Showa Leasing Co., Ltd. ("Showa Leasing"), Shinsei Financial Co., Ltd. ("Shinsei Financial") and their consolidated subsidiaries, because they were separable such as contractual or other legal rights.

The identified intangible assets with amortization method and period are listed below:

Showa Leasing

Identified intangible assets	Amortization method	Amortization period
Customer relationship	Sum-of-the-years digits	20 years
Sublease contracts	Straight-line	Subject to the remaining contract years

Shinsei Financial

Identified intangible assets	Amortization method	Amortization period
Trade names and trademarks	Straight-line	10 years
Customer relationship	Sum-of-the-years digits	10 years

The excess of the purchase price over the fair value of the net assets acquired, including identified intangible assets, was recorded as goodwill and is being amortized on a consistent basis primarily over 20 years. The amortization period of 20 years is the maximum period allowed under Japanese GAAP and was determined based upon the Bank's business strategy.

With regard to the acquisitions executed before April 1, 2010, recorded with the previous accounting standard, when the purchase price was lower than the fair value of the net assets acquired, including identified intangible assets, the difference was recorded as negative goodwill and has been amortized on a straight-line basis primarily over 20 years, which is the maximum period allowed under the previous accounting standard.

(C) IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS ACQUIRED IN BUSINESS COMBINATIONS

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) CONSOLIDATED

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

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

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

(D) TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS AND TRANSACTIONS

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

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

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

(E) CASH AND CASH EQUIVALENTS

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

(F) OTHER MONETARY CLAIMS PURCHASED

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

(G) VALUATION OF TRADING ACCOUNT ACTIVITIES

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

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

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

(H) MONETARY ASSETS HELD IN TRUST

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

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

(I) SECURITIES

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

(i) Trading securities are securities held in anticipation of gains arising from short-term changes in market value and/or held for resale to customers. Trading securities are carried at fair value with corresponding unrealized gains and losses recorded in "Other business income (loss), net."

(ii) Securities being held to maturity are debt securities which management has both a positive intent and ability to hold until maturity. Securities being held to maturity are carried at amortized cost determined by the moving average method.

(iii) Available-for-sale securities are securities other than (i) trading securities and (ii) securities being held to maturity. Available-for-sale securities are carried at fair value with the corresponding unrealized gains and losses, net of applicable taxes, recorded directly in a separate component of equity, after deducting the amount charged to profit or loss by applying fair value hedge accounting. The cost of these securities upon sale is determined by the moving average method. Available-for-sale securities for which fair value cannot be reliably determined are carried at cost determined by the moving average method.

(iv) Investments in unconsolidated subsidiaries and affiliates that are not accounted for by the equity method are carried at cost determined by the moving average method. In addition, investments in partnerships and others are carried at the amount of the Group's share of net asset value in their most recent financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) CONSOLIDATED

In the event individual securities (except for those whose fair value cannot be reliably determined), other than trading securities, experience a decline in fair value which is significant as compared to the acquisition cost of such securities, the securities are written down as the decline in fair value is deemed to be other than temporary.

(J) PREMISES AND EQUIPMENT

"Premises and equipment" are stated at cost less accumulated depreciation.

Depreciation of the Group's buildings and the Bank's computer equipment (including ATMs) other than personal computers is computed principally using the straight-line method, and depreciation of other equipment is computed principally using the declining-balance method. Estimated useful lives of buildings and equipment as of March 31, 2019 are principally as follows:

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

(K) SOFTWARE

Capitalized software for internal use is depreciated using the straight-line method based on the Group's estimated useful lives (primarily 5 years to 15 years).

(L) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of an asset or asset group. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the sum of discounted cash flows from the continuing use and eventual disposition of the asset, or the net selling price at disposition.

(M) DEFERRED CHARGES

Deferred issuance expenses for debentures and corporate bonds are amortized using the straight-line method over the term of the debentures and corporate bonds.

(N) RESERVE FOR CREDIT LOSSES

The reserve for credit losses of the Bank and the consolidated domestic trust and banking subsidiary has been established as described below based on the Bank's internal rules for establishing the reserve.

For claims to obligors who are undergoing bankruptcy, special liquidation proceedings or similar legal proceedings ("legally bankrupt obligors") or to obligors who have not yet legally or formally gone bankrupt but who are substantially in bankruptcy because they are in serious financial difficulties and are not deemed to be capable of restructuring ("virtually bankrupt obligors"), a specific reserve is provided based on the amount of claims, after the charge-off stated below, net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

For claims to obligors who are not yet in bankruptcy but are in financial difficulties and are very likely to go bankrupt in the future ("possibly bankrupt obligors"), except for claims to obligors with larger amount than predetermined one, a specific reserve is provided for the amount considered to be necessary based on an overall solvency assessment performed for the amount of claims net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

With regard to claims to possibly bankrupt obligors, restructured loans and certain claims for which the reserve has been provided based on the DCF method (as mentioned below) in previous fiscal years, provided that obligors' cash flows for debt service are reasonably estimable and the balance of claims to such obligors is at or larger than a predetermined amount, the reserve for credit losses is determined as the difference between (i) relevant estimated cash flows discounted by the original contractual interest rate and (ii) the book value of the claim ("DCF method"). In cases where it is difficult to reasonably estimate future cash flows, the reserve is provided based on the expected loss amount for the remaining term of respective claims.

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

For specific foreign claims, there is a reserve for loans to restructuring countries which has been provided based on losses estimated by considering the political and economic conditions in those countries.

All claims are assessed by sales promotion divisions and credit analysis divisions based on the predetermined internal rules for self-assessment of asset quality. The risk management divisions, which are independent from sales promotion divisions and credit analysis divisions, conduct verifications of these assessments, and additional reserves may be provided based on the verification results.

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

For collateralized or guaranteed claims of the Bank and certain consolidated subsidiaries to legally bankrupt obligors or virtually bankrupt obligors, the amount of claims exceeding the estimated value of collateral or guarantees, which is deemed uncollectible, has been charged off in principal and totaled ¥53,786 million (U.S. $485,701 thousand) and ¥63,418 million as of March 31, 2019 and 2018, respectively.

(O) ACCRUED BONUSES FOR EMPLOYEES AND DIRECTORS

Accrued bonuses for employees and directors are provided in the amount of the estimated bonuses which are attributable to each fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) CONSOLIDATED

(P) EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN ASSETS

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

The Group accounts for liabilities or assets for retirement benefits based on the projected benefit obligations and plan assets at the consolidated balance sheet date. The projected benefit obligations are allocated over the periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized as "Accumulated other comprehensive income" in equity after tax effects, and are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees.

Certain consolidated subsidiaries recognize retirement benefit obligations at the amount that would be payable if employees retired voluntarily at the consolidated balance sheet date.

(Q) RESERVE FOR REIMBURSEMENT OF DEBENTURES

The reserve for reimbursement of debentures is provided for estimated losses on future reimbursement requests of debentures derecognized from liabilities.

(R) RESERVE FOR LOSSES ON INTEREST REPAYMENTS

The reserve for losses on interest repayments is provided for estimated losses on reimbursements of excess interest payments and loan losses related to consumer finance loans extended at interest rates in excess of the maximum interest rate prescribed in the Interest Rate Restriction Act of Japan. The reserve is established in the amount of the estimated future reimbursement requests based on past experience.

(S) ASSET RETIREMENT OBLIGATIONS

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

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

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

(T) STOCK OPTIONS

The Group measures the cost of employee stock options based on the fair value at the grant date and recognizes compensation expense over the vesting period as consideration for receiving goods or services. In the consolidated balance sheet, stock options are presented as "Stock acquisition rights" in a component of equity until the exercise of the right or the expiration of the period.

(U) LEASE TRANSACTIONS

(As lessee)

Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the consolidated balance sheets.

Depreciation of lease assets from finance lease transactions that are deemed to transfer ownership of the leased property to the lessee, is computed using the same method as the one applied to owned assets. Depreciation of lease assets from finance lease transactions that are not deemed to transfer ownership of the leased property to the lessee is computed using the straight-line method over the leasing period. Residual values of lease assets are the guaranteed value determined in the lease contracts or zero for assets without such guaranteed value.

(As lessor)

The Group recognizes finance leases that are deemed to transfer ownership of the leased property to the lessee as lease receivables, and finance leases that are not deemed to transfer ownership of the leased property to the lessee as leased investment assets.

In addition, depreciation of tangible leased assets as lessor for operating lease transactions is computed using the straight-line method over the leasing period assuming that residual values are the disposal price estimable at the end of the estimated leasing period.

Profit on each finance lease transaction is calculated on the basis of the internal rate of return of each transaction.

With regard to finance lease transactions entered into prior to April 1, 2008, that are not deemed to transfer ownership of the leased property to the lessee, leased investment assets are recognized at those book values of leased properties as of March 31, 2008, according to the transitional provision of the accounting standard.

As a result of this transitional treatment, "Income before income taxes" increased by ¥90 million (U.S.$819 thousand) and ¥103 million for the fiscal years ended March 31, 2019 and 2018, respectively, as compared to what would have been reported if the revised accounting standard was applied retroactively to all finance lease transactions as lessor.

(V) INSTALLMENT SALES FINANCE AND CREDIT GUARANTEES

Fees from installment sales finance have principally been prorated over the respective installment periods by using the sum-of-the-months digits method, or by using the credit-balance method.

Fees from credit guarantees have been recognized by the sum-of-the-months digits method, the straight-line method or the credit-balance method over the contract terms.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) CONSOLIDATED

(W) REVENUE RECOGNITION FOR INTEREST ON CONSUMER LENDING BUSINESS

Consolidated subsidiaries specializing 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 and the amount determined using rates on contracts with customers.

(X) INCOME TAXES

Deferred income taxes relating to temporary differences between financial reporting and tax bases of assets and liabilities and tax loss carryforwards have been recognized. The asset and liability approach is used to recognize deferred income taxes.

The Bank files its corporate income tax return under the consolidated corporate tax system, which allows companies to base tax payments on the combined profits and losses of the Bank and its wholly-owned domestic subsidiaries.

A valuation allowance is deducted from the carrying amount of deferred tax assets to the extent that it is not considered that taxable profit will be estimated to be sufficient enough to allow the benefit of part or all of the deferred tax assets to be realized.

(Y) DERIVATIVES AND HEDGE ACCOUNTING

Derivatives are stated at fair value. Except for derivatives in (G) VALUATION OF TRADING ACCOUNT ACTIVITIES, derivative transactions that meet hedge accounting criteria are primarily accounted for using the deferral method whereby unrealized gains and losses are deferred in a separate component of equity until the gains and losses on the hedged items are realized.

(a) Hedge of interest rate risks

Derivative transactions that meet 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 "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in the Banking Industry" (Industry Audit Committee Report No. 24 issued, on February 13, 2002, by the Japanese Institute of Certified Public Accountants (“JICPA”)). Under portfolio hedging activities to mitigate the change in fair value, a portfolio of hedged items with common maturities such as deposits or loans is designated and matched with a group of hedging instruments such as interest rate swaps, which offset the effect of fair value fluctuations of the hedged items by identified maturities. The effectiveness of 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. Other certain consolidated subsidiaries apply deferral hedge accounting.

(b) Hedge of foreign exchange fluctuation risks

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) CONSOLIDATED

(Z) PER SHARE INFORMATION

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

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

(AA) NEW ACCOUNTING PRONOUNCEMENTS

(a) "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29, March 30, 2018)
"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30, March 30, 2018)

On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." This statement and guidance were established taking the core principles of IFRS 15 "Revenue from contracts with customers" and adding alternative treatments, to the extent that comparability is not impaired, for any practices which have been applied in Japan. The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Group expects to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

(b) "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (ASBJ Practical Issues Task Force (PITF) No. 24, September 14, 2018)

(i) Outline
This accounting standard was revised mainly in the part of the consolidation process for foreign affiliates which are accounted for by the equity method. When the affiliates elected to present as other comprehensive income for subsequent changes in the fair value of investments in equity instruments, the changes in fair value should be recycled from other comprehensive income to profit and loss, for the period in which those instruments are disposed.

(ii) Effective date
The Group plans to apply this accounting standard from the beginning of the fiscal year beginning on April 1, 2019.

(iii) The impact of the application
The impact of the application is under evaluation at the time of the preparation of these consolidated financial statements.

(AB) SUPPLEMENTARY INFORMATION

From the beginning of the fiscal year ended March 31, 2019, certain foreign affiliates accounted for by the equity method of the Bank, have adopted IFRS 9 "Financial Instruments."

IFRS 9 sets out new requirements with regards to classification and measurement of financial instruments, impairment and hedge accounting. In accordance with the accepted transitional provisions under this standard, the Group recognized the amount of the cumulative effect of the accounting change on "Retained earnings," and "Unrealized gain (loss) on available-for-sale securities" at the beginning of the fiscal year ended March 31, 2019.

As a result, "Retained Earnings" as of April 1, 2018, decreased by ¥311 million (U.S.$2,816 thousand), and "Unrealized gain (loss) on available-for-sale securities" as of April 1, 2018, increased by ¥4,307 million (U.S.$38,900 thousand), respectively.

3. BUSINESS COMBINATION

CONSOLIDATED

(Succession of business by absorption-type company split)

Shinsei Financial Co., Ltd., a wholly-owned subsidiary of the Bank, succeeded a partial financial business relating to consumer mortgage loans from CFJ Godo Kaisha (the former DIC FINANCE CO., LTD., a group company of Citigroup Inc.) on January 15, 2019 as the effective date, pursuant to the "SALE AND PURCHASE AGREEMENT" dated on October 5, 2018 and the absorption-type company split contract dated on November 14, 2018.

(A) Outline of the business combination

(a) Names and business description of the splitting entity
Name: CFJ Godo Kaisha
Divested business: A partial financial business relating to consumer mortgage loans

(b) Purpose of the succession
For a revenue growth of the Group.

(c) Date on which the business combination was effected
January 15, 2019

(d) Legal form of the business combination
Absorption-type company split;
Succeeding entity: Shinsei Financial Co., Ltd.
Splitting entity: CFJ Godo Kaisha

(e) Name of the company after the business combination
Shinsei Financial Co., Ltd.

(f) Basis for determination of the acquiring company
Shinsei Financial Co., Ltd. succeeded the partial financial business relating to consumer mortgage loans of CFJ Godo Kaisha by cash.

(B) Period of the acquired business's financial result included in the consolidated statement of income of the Group

From January 15, 2019 to March 31, 2019

(C) Acquisition costs of the succeeded business and their breakdown

Shinsei Financial Co., Ltd. paid cash ¥9,154 million to CFJ Godo Kaisha for this split.

(D) Major acquisition-related costs and their breakdown

Advisory fees etc., ¥12 million

(E) Amount, reason of the occurrence, and amortization method and period, of goodwill

(a) Amount of goodwill incurred
¥1,111 million

(b) Reason for recognizing goodwill
The goodwill results mainly from excess earnings expected by business development.

(c) Amortization method and the period
Straight-line method over 5 years

(F) Amounts and breakdown of succeeded assets and liabilities on the date of the business combination

(a) Assets

	Millions of yen
Total assets	14,400
Loans	10,609

(b) Liabilities

	Millions of yen
Total liabilities	6,357
Reserve for losses on interest repayments	4,865

(G) Approximate amounts and their calculation method of impact on the consolidated statement of income for the fiscal year ended March 31, 2019, assuming that the business combination had been completed at the beginning of the fiscal year

The approximate amounts have not been disclosed since they are immaterial.

4. CASH AND CASH EQUIVALENTS — CONSOLIDATED

The reconciliation of cash and cash equivalents and cash and due from banks in the consolidated balance sheets as of March 31, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Cash and due from banks	**¥ 1,355,966**	¥ 1,465,663	**$ 12,244,592**
Interest-bearing deposits included in due from banks (other than due from the Bank of Japan)	**(110,096)**	(31,089)	**(994,185)**
Cash and cash equivalents	**¥ 1,245,870**	¥ 1,434,574	**$ 11,250,406**

5. OTHER MONETARY CLAIMS PURCHASED — CONSOLIDATED

(a) Other monetary claims purchased as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Trading purposes	**¥ 2,853**	¥ 1,705	**$ 25,769**
Other	**28,141**	34,626	**254,119**
Total	**¥ 30,994**	¥ 36,332	**$ 279,888**

(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, 2019 and 2018 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2019		2018		**2019**	
	Fair value	**Unrealized loss**	Fair value	Unrealized loss	**Fair value**	**Unrealized loss**
Trading purposes	**¥ 2,853**	**¥ 256**	¥ 1,705	¥ 635	**$ 25,769**	**$ 2,313**

6. TRADING ASSETS — CONSOLIDATED

Trading assets as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Trading securities	**¥ 3,445**	¥ 4,589	**$ 31,113**
Derivatives for trading securities	**–**	1,928	**–**
Derivatives for securities held to hedge trading transactions	**7,432**	13,134	**67,114**
Trading-related financial derivatives	**193,537**	185,642	**1,747,675**
Total	**¥ 204,415**	¥ 205,295	**$ 1,845,901**

7. MONETARY ASSETS HELD IN TRUST — CONSOLIDATED

(a) Monetary assets held in trust as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Trading purposes	**¥ 12,553**	¥ 17,255	**$ 113,356**
Other	**293,325**	217,668	**2,648,781**
Total	**¥ 305,879**	¥ 234,924	**$ 2,762,137**

7. MONETARY ASSETS HELD IN TRUST (CONTINUED) CONSOLIDATED

(b) The fair value and the unrealized gain or loss which is included in net gain (loss) on monetary assets held in trust for trading purposes as of March 31, 2019 and 2018 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2019		2018		**2019**	
	Fair value	**Unrealized loss**	Fair value	Unrealized gain	**Fair value**	**Unrealized loss**
Trading purposes	**¥ 12,553**	**¥ 170**	¥ 17,255	¥ 13	**$ 113,356**	**$ 1,541**

(c) The acquisition cost and the carrying amount of monetary assets held in trust for other than trading purposes as of March 31, 2019 and 2018 were as follows:

	Millions of yen							
	2019				2018			
	Acquisition cost	**Gross unrealized gain**	**Gross unrealized loss**	**Carrying amount**	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Carrying amount
Other	**¥ 294,432**	**¥ 247**	**¥ 1,353**	**¥ 293,325**	¥ 218,191	¥ 104	¥ 626	¥ 217,668

	Thousands of U.S. dollars			
	2019			
	Acquisition cost	**Gross unrealized gain**	**Gross unrealized loss**	**Carrying amount**
Other	**$ 2,658,769**	**$ 2,233**	**$ 12,221**	**$ 2,648,781**

8. SECURITIES CONSOLIDATED

(a) Securities as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Trading securities	**¥ 0**	¥ 0	**$ 0**
Securities being held to maturity	**399,201**	481,303	**3,604,853**
Securities available for sale:			
Securities carried at fair value	**624,563**	534,752	**5,639,907**
Securities carried at cost whose fair value cannot be reliably determined	**35,658**	42,757	**322,001**
Investments in unconsolidated subsidiaries and affiliates	**70,863**	64,708	**639,908**
Total	**¥ 1,130,286**	¥ 1,123,522	**$ 10,206,669**

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, 2019 and 2018 were ¥5,643 million (U.S.$50,965 thousand) and ¥6,960 million, respectively.

The amount of guarantee obligations for privately-placed bonds (Paragraph 3 of Article 2 of the Financial Instruments and Exchange Act) included in securities as of March 31, 2019 and 2018 were ¥3,580 million (U.S.$32,328 thousand) and ¥1,000 million, respectively.

8. SECURITIES (CONTINUED) CONSOLIDATED

(b) The amortized/acquisition cost and the fair values of securities (other than trading securities) as of March 31, 2019 and 2018 were as follows:

Millions of yen

	2019				2018			
	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	**¥ 399,201**	**¥ 3,204**	**¥ –**	**¥ 402,406**	¥ 481,303	¥ 3,372	¥ –	¥ 484,676
Total	**¥ 399,201**	**¥ 3,204**	**¥ –**	**¥ 402,406**	¥ 481,303	¥ 3,372	¥ –	¥ 484,676
Securities available for sale:								
Equity securities	**¥ 9,194**	**¥ 8,481**	**¥ 308**	**¥ 17,367**	¥ 10,533	¥ 10,885	¥ 265	¥ 21,152
Japanese national government bonds	**101,496**	**889**	**–**	**102,386**	23,231	18	–	23,249
Japanese local government bonds	**–**	**–**	**–**	**–**	2,300	15	–	2,315
Japanese corporate bonds	**172,232**	**355**	**1,440**	**171,148**	159,168	215	1,951	157,433
Foreign securities	**331,234**	**3,347**	**1,903**	**332,677**	328,459	1,458	3,757	326,160
Other[1]	**1,068**	**–**	**85**	**982**	3,874	598	20	4,452
Total	**¥ 615,226**	**¥ 13,074**	**¥ 3,737**	**¥ 624,563**	¥ 527,567	¥ 13,191	¥ 5,994	¥ 534,763

Thousands of U.S. dollars

	2019			
	Amortized/ Acquisition cost	**Gross unrealized gain**	**Gross unrealized loss**	**Fair value**
Securities being held to maturity:				
Japanese national government bonds	**$ 3,604,853**	**$ 28,938**	**$ –**	**$ 3,633,791**
Total	**$ 3,604,853**	**$ 28,938**	**$ –**	**$ 3,633,791**
Securities available for sale:				
Equity securities	**$ 83,031**	**$ 76,589**	**$ 2,787**	**$ 156,833**
Japanese national government bonds	**916,534**	**8,036**	**–**	**924,570**
Japanese local government bonds	**–**	**–**	**–**	**–**
Japanese corporate bonds	**1,555,287**	**3,214**	**13,006**	**1,545,495**
Foreign securities	**2,991,097**	**30,226**	**17,190**	**3,004,133**
Other[1]	**9,646**	**–**	**770**	**8,875**
Total	**$ 5,555,594**	**$ 118,066**	**$ 33,753**	**$ 5,639,907**

Note:1 This includes other monetary claims purchased whose fair value can be reliably determined.

In the event individual securities (except for those whose fair value cannot be reliably determined), other than trading securities, experience a decline in fair value which is significant as compared to the acquisition cost of such securities, the securities are written down as the decline in fair value is deemed to be other than temporary, and the difference is recorded as an impairment loss.

Impairment loss on such securities for the fiscal year ended March 31, 2019, was ¥636 million (U.S.$5,744 thousand), which consisted of ¥186 million (U.S.$1,681 thousand) for equity securities, ¥449 million (U.S.$4,058 thousand) for Japanese corporate bonds and ¥0 million (U.S.$5 thousand) for foreign securities.

Impairment loss on such securities for the fiscal year ended March 31, 2018, was ¥0 million, which was related to foreign securities.

The Group's rules for the determination of whether an other-than-temporary impairment has occurred differ by the obligor classification of the security issuer based upon the Group's self-assessment guidelines. The details of these rules are as follows:

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

8. SECURITIES (CONTINUED) CONSOLIDATED

"Legally bankrupt" obligors are those who have already gone bankrupt from a legal and/or formal perspective.
"Virtually bankrupt" obligors are those who have not yet legally or formally gone bankrupt but who are substantially in bankruptcy because they are in serious financial difficulties and are not deemed to be capable of restructuring.
"Possibly bankrupt" obligors are those who are not yet in bankruptcy but are in financial difficulties and are very likely to go bankrupt in the future.
"Need caution" obligors are those who are in need of close attention because there are problems with their borrowings.
"Normal" obligors are those whose business conditions are favorable and who are deemed not to have any particular problems in their financial position.

(c) Unrealized gain (loss) on available-for-sale securities as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Unrealized gain (loss) before deferred tax on:			
Available-for-sale securities	**¥ 9,336**	¥ 7,196	**$ 84,313**
The Group's interests in available-for-sale securities held by partnerships recorded as securities whose fair value cannot be reliably determined and other adjustments	**(1,468)**	283	**(13,260)**
Other monetary assets held in trust	**(1,106)**	(522)	**(9,988)**
Deferred tax liabilities	**(1,477)**	(1,377)	**(13,341)**
Unrealized gain (loss) on available-for-sale securities before interest adjustments	**5,284**	5,579	**47,723**
Noncontrolling interests	**–**	(13)	**–**
The Group's interests in unrealized gain (loss) on available-for-sale securities held by affiliates to which the equity method is applied	**4,756**	(378)	**42,951**
Unrealized gain (loss) on available-for-sale securities	**¥ 10,041**	¥ 5,187	**$ 90,673**

(d) Available-for-sale securities sold during the fiscal year ended March 31, 2019 and 2018 were as follows:

	Millions of yen					
	2019			2018		
	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	**¥ 1,516**	**¥ 530**	**¥ 242**	¥ 11,521	¥ 7,032	¥ 18
Japanese national government bonds	**571,927**	**1,074**	**143**	330,840	692	11
Japanese local government bonds	**27,572**	**40**	**25**	26,103	12	27
Japanese corporate bonds	**58,517**	**113**	**4**	95,075	212	7
Foreign securities	**730,211**	**3,069**	**990**	662,215	3,370	1,061
Other	**5,314**	**719**	**28**	28,737	1,223	427
Total	**¥ 1,395,060**	**¥ 5,548**	**¥ 1,433**	¥ 1,154,493	¥ 12,545	¥ 1,552

	Thousands of U.S. dollars		
	2019		
	Proceeds from sales	**Gains on sales**	**Losses on sales**
Available-for-sale securities sold:			
Equity securities	**$ 13,694**	**$ 4,787**	**$ 2,186**
Japanese national government bonds	**5,164,598**	**9,700**	**1,299**
Japanese local government bonds	**248,987**	**365**	**227**
Japanese corporate bonds	**528,423**	**1,026**	**40**
Foreign securities	**6,593,928**	**27,723**	**8,944**
Other	**47,988**	**6,501**	**253**
Total	**$ 12,597,618**	**$ 50,101**	**$ 12,948**

9. LOANS AND BILLS DISCOUNTED

CONSOLIDATED

Loans and bills discounted as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Loans on deeds	**¥ 4,228,572**	¥ 4,126,777	**$ 38,184,689**
Loans on bills	**10,474**	10,686	**94,590**
Bills discounted	**2,337**	2,603	**21,105**
Overdrafts	**745,455**	755,896	**6,731,580**
Total	**¥ 4,986,839**	¥ 4,895,963	**$ 45,031,963**

(a) Risk-monitored loans

Loans and bills discounted include loans to bankrupt obligors of ¥4,836 million (U.S.$43,673 thousand) and ¥5,622 million as of March 31, 2019 and 2018, respectively, as well as nonaccrual delinquent loans of ¥28,383 million (U.S.$256,305 thousand) and ¥31,178 million as of March 31, 2019 and 2018, respectively.

Nonaccrual delinquent loans include loans classified as “possibly bankrupt” and “virtually bankrupt” under the Group's self-assessment guidelines.

In addition to nonaccrual delinquent loans as defined, certain other loans classified as “substandard” under the Group's self-assessment guidelines include loans past due for three months or more.

Loans past due for three months or more consist of loans for which the principal and/or interest is three months or more past due, but excluding loans to bankrupt obligors and nonaccrual delinquent loans. The balances of loans past due for three months or more as of March 31, 2019 and 2018 were ¥880 million (U.S.$7,950 thousand) and ¥1,842 million, respectively.

Restructured loans are loans where the Group relaxes lending conditions, such as by reducing the original interest rate, or by forbearing interest payments or principal repayments to support the borrower's reorganization, but excluding loans to bankrupt obligors, nonaccrual delinquent loans or loans past due for three months or more. The outstanding balances of restructured loans as of March 31, 2019 and 2018 were ¥43,458 million (U.S.$392,439 thousand) and ¥36,257 million, respectively.

(b) Loan participations

The total amounts accounted for as the transfer of loans by loan participations as of March 31, 2019 and 2018 were ¥7,477 million (U.S.$67,524 thousand) and ¥7,811 million, respectively. This “offbalance sheet” treatment is in accordance with guidelines issued by the JICPA. The total amounts of such loans in which the Bank participated were ¥12,400 million (U. S. $111,980 thousand) and ¥12,974 million as of March 31, 2019 and 2018, 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, 2019 and 2018 were ¥2,337 million (U.S. $21,105 thousand) and ¥2,603 million, respectively.

(d) Loan commitments

The Bank and certain consolidated subsidiaries set credit lines of overdrafts and issue commitments to extend credit to meet the financing needs of customers. The unfulfilled amounts of these commitments were ¥3,041,385 million (U.S.$27,464,198 thousand) and ¥3,348,354 million as of March 31, 2019 and 2018, out of which the amounts with the commitments of the agreements expiring within one year or being able to be cancelled at any time with no condition were ¥2,676,954 million (U.S.$24,173,326 thousand) and ¥3,016,034 million as of March 31, 2019 and 2018, respectively. Since a large majority of these commitments expire without being drawn upon, the unfulfilled amounts do not necessarily represent future cash requirements. Many such agreements include conditions granting the Bank and its consolidated subsidiaries the right to reject the drawdown or to reduce the amount on the basis of changes in the financial circumstances of the borrower or other reasonable grounds.

In addition, the Bank obtains collateral when necessary to reduce credit risk related to these commitments.

10. FOREIGN EXCHANGES CONSOLIDATED

Foreign exchange assets and liabilities as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Foreign exchange assets:			
Foreign bills receivable	**¥ 1,059**	¥ 1,777	**$ 9,565**
Due from foreign banks	**28,487**	30,734	**257,248**
Total	**¥ 29,546**	¥ 32,511	**$ 266,813**
Foreign exchange liabilities:			
Foreign bills sold	**¥ –**	¥ 80	**$ –**
Foreign bills payable	**471**	22	**4,256**
Total	**¥ 471**	¥ 102	**$ 4,256**

11. OTHER ASSETS CONSOLIDATED

Other assets as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Accrued income	**¥ 17,482**	¥ 15,522	**$ 157,868**
Prepaid expenses	**4,631**	3,991	**41,827**
Fair value of derivatives	**54,984**	73,656	**496,522**
Accounts receivable	**40,918**	30,608	**369,505**
Installment receivables	**562,236**	558,843	**5,077,089**
Security deposits	**14,121**	11,028	**127,521**
Suspense payments	**14,814**	20,474	**133,781**
Margin deposits for futures transactions	**4,852**	4,582	**43,821**
Cash collateral paid for financial instruments	**41,914**	50,527	**378,494**
Other	**95,329**	86,976	**860,838**
Total	**¥ 851,287**	¥ 856,213	**$ 7,687,266**

Installment receivables in "Other assets" as of March 31, 2019 and 2018 include credits to bankrupt obligors of ¥0 million (U.S.$3 thousand) and ¥48 million, nonaccrual delinquent credits of ¥5,957 million (U.S.$53,797 thousand) and ¥7,244 million, credits past due for three months or more of ¥823 million (U.S.$7,441 thousand) and ¥382 million, and restructured credits of ¥212 million (U.S.$1,915 thousand) and ¥98 million, respectively.

12. PREMISES AND EQUIPMENT CONSOLIDATED

Premises and equipment as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Buildings	**¥ 29,825**	¥ 28,203	**$ 269,331**
Land	**2,665**	2,680	**24,070**
Tangible leased assets as lessor	**53,836**	56,578	**486,155**
Other	**28,103**	28,286	**253,777**
Subtotal	**114,431**	115,748	**1,033,333**
Accumulated depreciation	**(69,089)**	(65,486)	**(623,892)**
Net book value	**¥ 45,341**	¥ 50,261	**$ 409,442**

13. INTANGIBLE ASSETS CONSOLIDATED

Intangible assets as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Software:			
Software	**¥ 51,465**	¥ 17,605	**$ 464,743**
Software in progress	**3,033**	27,692	**27,392**
Goodwill, net:			
Goodwill	**14,072**	15,355	**127,073**
Negative goodwill	**(3,082)**	(3,445)	**(27,837)**
Intangible assets acquired in business combinations	**690**	1,290	**6,239**
Intangible leased assets as lessor	**3**	0	**27**
Other	**1,007**	985	**9,096**
Total	**¥ 67,189**	¥ 59,484	**$ 606,733**

14. RESERVE FOR CREDIT LOSSES CONSOLIDATED

Reserve for credit losses as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Reserve for loan losses:			
General reserve for loan losses	**¥ 70,749**	¥ 75,545	**$ 638,882**
Specific reserve for loan losses	**27,285**	25,295	**246,389**
Total	**¥ 98,034**	¥ 100,840	**$ 885,272**

15. DEPOSITS, INCLUDING NEGOTIABLE CERTIFICATES OF DEPOSIT CONSOLIDATED

Deposits, including negotiable certificates of deposit, as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Current	**¥ 39,846**	¥ 37,299	**$ 359,820**
Ordinary	**2,537,841**	2,370,073	**22,917,114**
Notice	**13,897**	15,712	**125,492**
Time	**2,271,980**	2,691,014	**20,516,351**
Negotiable certificates of deposit	**570,580**	438,927	**5,152,437**
Other	**487,999**	514,069	**4,406,710**
Total	**¥ 5,922,145**	¥ 6,067,096	**$ 53,477,923**

16. DEBENTURES CONSOLIDATED

Debentures as of March 31, 2019 and 2018 consisted of the following:

					Millions of yen		Thousands of U.S. dollars
Issuer	Description	Issue	Maturity	Interest Rate (%)	**2019**	2018	**2019**
Shinsei Bank, Limited	Five-year coupon debentures[1]	Apr. 2013	Apr. 2018	0.08	**¥ –**	¥ 423	**$ –**
Total					**¥ –**	¥ 423	**$ –**

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

17. TRADING LIABILITIES CONSOLIDATED

Trading liabilities as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Derivatives for trading securities	**¥ 1,193**	¥ 1,205	**$ 10,779**
Derivatives for securities held to hedge trading transactions	**3,344**	9,630	**30,205**
Trading-related financial derivatives	**175,700**	171,121	**1,586,606**
Trading securities sold for short sales	**2,124**	2,625	**19,186**
Total	**¥ 182,363**	¥ 184,582	**$ 1,646,776**

18. BORROWED MONEY CONSOLIDATED

(a) Borrowed money as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Subordinated debt	**¥ —**	¥ 12,400	**$ —**
Other	**684,077**	727,178	**6,177,334**
Total	**¥ 684,077**	¥ 739,578	**$ 6,177,334**

(b) The weighted average interest rate applicable to the total balance of borrowed money as of March 31, 2019 was 0.49%.

(c) Annual maturities of borrowed money as of March 31, 2019 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2020	**¥ 247,979**	**$ 2,239,294**
2021	**124,890**	**1,127,783**
2022	**99,886**	**901,989**
2023	**48,816**	**440,824**
2024 and thereafter	**162,504**	**1,467,444**
Total	**¥ 684,077**	**$ 6,177,334**

19. CORPORATE BONDS — CONSOLIDATED

(a) Corporate bonds as of March 31, 2019 and 2018 consisted of the following:

Issuer	Description	Issue	Maturity	Interest Rate (%)	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Shinsei Bank, Limited	Unsecured straight bonds, payable in Euroyen[1]	Jun. 2018 to Sept. 2018	Sept. 2020 to Jul. 2038	0.53 to 1.654[4]	**¥ 2,335**	¥ –	**$ 21,085**
	Unsecured subordinated bonds, payable in Yen[2]	Jun. 2013 to Dec. 2013	Jun. 2023 to Dec. 2023	2.02 to 3.59	**–**	25,000	**–**
	Unsecured straight bond, payable in Yen[3]	Dec. 2014 to Dec. 2018	Dec. 2019 to Dec. 2023	0.21 to 0.416	**40,000**	20,000	**361,206**
Showa Leasing Co., Ltd.	Unsecured straight bond, payable in Yen[3]	Aug. 2015 to Jul. 2018	Aug. 2018 to Jul. 2023	0.19 to 0.48	**20,000**	20,000	**180,603**
APLUS FINANCIAL Co., Ltd.	Unsecured straight bond, payable in Yen[3]	Jun. 2015 and Oct. 2018	Jun. 2019 and Oct. 2023	0.24 to 0.64	**30,000**	20,000	**270,905**
Total					**¥ 92,335**	¥ 85,000	**$ 833,800**

1 This includes a series of straight bonds issued under Euro Medium Term Note Programme.
2 This includes a series of subordinated bonds, payable in Yen. ¥10,000 million (U.S.$90,302 thousand) and ¥15,000 million (U.S.$135,452 thousand) of the bonds have been redeemed on June, 2018 and December, 2018, respectively before their maturities.
3 These include series of straight bonds, payable in Yen.
4 The maximum and minimum rates under contracts are presented if the interest rates were not decided as of March 31, 2019 and 2018.

(b) Annual maturities of corporate bonds as of March 31, 2019 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2020	**¥ 25,000**	**$ 225,754**
2021	**15,735**	**142,090**
2022	**10,000**	**90,302**
2023	**–**	**–**
2024 and thereafter	**41,600**	**375,655**
Total	**¥ 92,335**	**$ 833,800**

20. OTHER LIABILITIES CONSOLIDATED

Other liabilities as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Accrued expenses	¥ 10,160	¥ 24,073	$ 91,748
Unearned income	23,662	24,027	213,674
Income taxes payable	3,548	2,980	32,048
Fair value of derivatives	62,590	74,588	565,199
Matured debentures, including interest	–	330	–
Accounts payable	63,973	58,548	577,691
Deferred gains on installment receivables and credit guarantees	30,195	30,414	272,668
Asset retirement obligations	9,262	8,954	83,643
Deposits payable	110,000	103,843	993,321
Cash collateral received for financial instruments	15,519	22,078	140,140
Other	18,470	17,892	166,794
Total	¥ 347,383	¥ 367,734	$ 3,136,925

21. EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN ASSETS CONSOLIDATED

(a) The changes in defined benefit obligation for the fiscal years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at beginning of the year	¥ 89,226	¥ 88,689	$ 805,732
Current service cost	4,002	4,138	36,147
Interest cost	987	983	8,920
Actuarial (gains) losses	1,756	(737)	15,863
Benefits paid	(4,278)	(3,847)	(38,639)
Balance at end of the year	¥ 91,695	¥ 89,226	$ 828,022

(b) The changes in plan assets for the fiscal years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at beginning of the year	¥ 94,121	¥ 87,508	$ 849,937
Expected return on plan assets	2,200	2,052	19,871
Actuarial gains (losses)	(1,741)	2,825	(15,728)
Contributions from the employer	3,542	5,227	31,986
Benefits paid	(3,728)	(3,492)	(33,669)
Balance at end of the year	¥ 94,394	¥ 94,121	$ 852,397

21. EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN ASSETS (CONTINUED) CONSOLIDATED

(c) A reconciliation between the liability and the asset recorded in the consolidated balance sheet and balances of defined benefit obligation and plan assets as of March 31, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Defined benefit obligation	**¥ 84,429**	¥ 82,027	**$ 762,413**
Plan assets	**(94,394)**	(94,121)	**(852,397)**
Subtotal	**(9,964)**	(12,094)	**(89,984)**
Unfunded defined benefit obligation	**7,265**	7,198	**65,610**
Net liability (asset) arising from benefit obligation	**¥ (2,699)**	¥ (4,895)	**$ (24,374)**

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Liability for retirement benefits	**¥ 8,232**	¥ 8,366	**$ 74,337**
Asset for retirement benefits	**(10,931)**	(13,261)	**(98,711)**
Net liability (asset) arising from benefit obligation	**¥ (2,699)**	¥ (4,895)	**$ (24,374)**

(d) The components of net periodic retirement benefit cost for the fiscal years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Current service cost	**¥ 4,002**	¥ 4,138	**$ 36,147**
Interest cost	**987**	983	**8,920**
Expected return on plan assets	**(2,200)**	(2,052)	**(19,871)**
Amortization of past service cost	**(100)**	(212)	**(908)**
Recognized actuarial (gains) losses	**1,075**	792	**9,710**
Other (primarily consists of extraordinary severance benefit)	**166**	71	**1,503**
Net periodic retirement benefit cost	**¥ 3,931**	¥ 3,721	**$ 35,501**

(e) Other comprehensive income on defined retirement benefit plans (before adjusting for tax effects) for the fiscal years ended March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Past service cost	**¥ (100)**	¥ (212)	**$ (908)**
Actuarial gains (losses)	**(2,423)**	4,355	**(21,881)**
Total	**¥ (2,523)**	¥ 4,143	**$ (22,789)**

(f) Accumulated other comprehensive income on defined retirement benefit plans (before adjusting for tax effects) as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Unrecognized past service cost	**¥ 167**	¥ 268	**$ 1,513**
Unrecognized actuarial gains (losses)	**204**	2,627	**1,847**
Total	**¥ 372**	¥ 2,895	**$ 3,359**

21. EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN ASSETS (CONTINUED) CONSOLIDATED

(g) Plan assets

(i) Components of plan assets
Plan assets as of March 31, 2019 and 2018 consisted of the following:

	2019	2018
Domestic bonds	**24.4%**	25.5%
Foreign bonds	**12.7**	11.1
Domestic equity securities	**19.8**	19.6
Foreign equity securities	**18.2**	18.3
Life insurance company accounts (general accounts)	**17.6**	17.4
Other	**7.3**	8.1
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, 2019, 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, 2019 and 2018 were set forth as follows:

	2019	2018
Discount rate	**0.43 - 1.20%**	0.43 - 1.20%
Long-term expected rate of return on plan assets	**2.00 - 3.50%**	2.00 - 3.50%
Expected future salary increase rate	**1.00 - 5.30%**	1.00 - 5.30%

22. ACCEPTANCES AND GUARANTEES CONSOLIDATED

Acceptances and guarantees as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Guarantees	**¥ 456,759**	¥ 395,301	**$ 4,124,607**

23. CONTINGENT LIABILITIES CONSOLIDATED

Contingent liabilities as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Agreement for the purchase of personal property	**¥ 821**	¥ 861	**$ 7,420**

A subsidiary has made agreements in which it will purchase the personal property collateralized by the creditor at a specified price if the borrower defaults. As a result, there is the possibility that the subsidiary assumes an obligation to purchase the collateral.

24. ASSETS PLEDGED AS COLLATERAL — CONSOLIDATED

Assets pledged as collateral and liabilities collateralized as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Assets pledged as collateral:			
Cash and due from banks	**¥ 10**	¥ 10	**$ 91**
Trading assets	**192**	195	**1,737**
Monetary assets held in trust	**426**	801	**3,856**
Securities	**654,692**	663,638	**5,911,976**
Loans and bills discounted	**102,872**	103,819	**928,955**
Lease receivables and leased investment assets	**4,767**	10,811	**43,052**
Other assets	**67,287**	105,606	**607,620**
Premises and equipment	**5,109**	5,962	**46,136**
Liabilities collateralized:			
Deposits, including negotiable certificates of deposit	**¥ 689**	¥ 909	**$ 6,225**
Payables under repurchase agreements	**59,098**	55,919	**533,671**
Payables under securities lending transactions	**510,229**	433,462	**4,607,458**
Borrowed money	**187,714**	261,947	**1,695,094**
Other liabilities	**29**	25	**265**
Acceptances and guarantees	**428**	556	**3,872**

In addition, nil and ¥60 million of cash and due from banks and nil and ¥8,089 million of securities as of March 31, 2019 and 2018, were pledged as collateral for transactions, including exchange settlements, swap transactions, replacement of margin for futures transactions and other.

Also, ¥4,852 million (U.S.$43,821 thousand) and ¥4,582 million of margin deposits for futures transactions outstanding, ¥14,121 million (U.S.$127,521 thousand) and ¥11,028 million of security deposits, ¥41,914 million (U.S.$378,494 thousand) and ¥50,527 million of cash collateral paid for financial instruments, ¥244 million (U.S.$2,211 thousand) and ¥155 million of margin on foreign exchange and ¥50,000 million (U.S.$451,508 thousand) and ¥48,888 million of cash collateral for Zengin-net were included in “Other assets” as of March 31, 2019 and 2018, respectively.

25. NONRECOURSE DEBTS — CONSOLIDATED

Nonrecourse debts in consolidated special purpose companies as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Nonrecourse debts:			
Borrowed money	**¥ –**	¥ 5,616	**$ –**
Assets corresponding to nonrecourse debts:			
Securities	**¥ –**	24,263	**$ –**

The above balances include certain amount of “Assets pledged as collateral” in Note 24.

26. EQUITY

CONSOLIDATED

Shinsei Bank executed a 1-for-10 reverse stock split on October 1, 2017 based on the number of shares held by shareholders, who were recorded in the Register of Shareholders as of the end of the day on September 30, 2017.

In accordance with a decrease in the number of outstanding shares after the above reverse stock split, the aggregate number of authorized shares decreased at the one-tenth on October 1, 2017, and the number as of March 31, 2019 was 400,000 thousand shares.

The following table shows changes in the number of shares of common stock.

	Thousands	
	Issued number of shares	Number of treasury stock
Fiscal year ended March 31, 2018:		
Beginning of year	2,750,346	161,955
Increase[1]	–	5,971
Decrease[2,3]	(2,475,312)	(145,761)
End of year	275,034	22,166
Fiscal year ended March 31, 2019:		
Beginning of year	**275,034**	**22,166**
Increase[4]	**–**	**7,652**
Decrease[5,6]	**(16,000)**	**(16,058)**
End of year	**259,034**	**13,760**

1 The increase of 5,971 thousand treasury stocks is associated with the repurchase of 1 thousand shares less than one unit and the repurchase of 5,969 thousand shares from market.
2 The decrease of 2,475,312 thousand common stocks is associated with the reverse stock split (1-for-10 reverse stock split on October 1, 2017).
3 The decrease of 145,761 thousand treasury stocks is associated with the reverse stock split noted in 2.
4 The increase of 7,652 thousand treasury stocks is associated with the repurchase of 0 thousand shares less than one unit and the repurchase of 7,652 thousand shares from market.
5 The decrease of 16,000 thousand common stocks is associated with the cancellation of treasury stocks.
6 The decrease of 16,058 thousand thousand treasury stocks is associated with the cancellation of 16,000 thousand treasury stocks, the transfer of 14 thousand shares upon exercise of the stock option (stock acquisition rights), and the disposal of 44 thousand shares as a restricted stock compensation.

Japanese banks are subject to the Companies Act of Japan (the "Companies Act") and the Banking Act. The significant provisions in the Companies Act and the Banking Act that affect financial and accounting matters are summarized below:

(a) Dividends
Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

The Bank meets all of the above criteria and its articles of incorporation prescribe the authority for dividend declaration by the Board of Directors.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to certain limitations and additional requirements.

Interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company stipulate it. The Companies Act and the Banking Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock.

(b) Increases/decreases and transfer of common stock, reserve and surplus
The Banking Act requires that an amount equal to 20% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 100% of the common stock.

The Companies Act provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights
The Act also provides for purchasing treasury stock and disposing of such treasury stock by resolution of the Board of Directors. The total carrying amount of the monies, etc. delivered to shareholders for treasury stock purchased may not exceed the surplus available for dividend as at the day on which such act takes effect. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

27. STOCK ACQUISITION RIGHTS CONSOLIDATED

The Bank and a subsidiary issue stock acquisition rights as a stock option plan to directors, executive officers and employees of the Bank and its subsidiaries.

Some stock acquisition rights provide eligible individuals (the "holders") with the right to purchase stock of the issuers, without any cash consideration, others with offsetting the remuneration claims against the issuers. The amount of money to be paid upon exercising stock acquisition rights is the amount calculated by multiplying the payment amount per share (the "exercise price") by the number of shares that can be purchased through the exercise of one stock acquisition right. Conditions are stipulated in the "Agreement on the Grant of Stock Acquisition Rights" entered between the issuers and the holders to whom stock acquisition rights were allotted based on the resolution of the annual general meeting of shareholders and the meeting of the Board of Directors which resolves the issuance of stock acquisition rights subsequent to the shareholders' meeting.

Also, the Bank introduced a new remuneration plan, a restricted stock compensation plan, for the purpose of granting a long-term incentive to eligible directors and executive officers, etc. (the "recipients") and promoting shared value with shareholders, during the fiscal year ended March 31, 2019.

Recipients will make in-kind contributions of monetary compensation claims to be provided by the Bank in accordance with the restricted stock compensation plan, and, in return, receive shares of common stock of the Bank that will be issued or disposed of by the Bank. On issuing or disposing of common stock of the Bank based on the restricted stock compensation plan, the Bank shall enter into a restricted stock allotment agreement with recipients.

The following table shows the details of stock acquisition rights and restricted stocks granted during the fiscal year ended March 31, 2019.

(a) Stock-based compensation expenses for the fiscal years ended March 31, 2019 and 2018 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
General and administrative expenses	**¥ 99**	¥ 39	**$ 902**

(b) Gains on unexercised and forfeited stock acquisition rights for the fiscal years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Other gains (losses), net	**¥ 218**	¥ 293	**$ 1,974**

(c) Details of stock options
Stock options outstanding as of March 31, 2019 and 2018 were as follows:

(i) The Bank

	Date of issuance	Total number of stock options (shares) at the issuance	Total number of holders at the issuance	Exercise period	Exercise price (Yen)	Fair value at the grant date (Yen)
20th	May 30, 2008	283,000	124	June 1, 2010 - May 13, 2018	4,160	1,580 or 1,690
21st	May 30, 2008	208,100	30	June 1, 2010 - May 13, 2018	4,160	1,580 or 1,690
22nd	July 10, 2008	20,300	43	July 1, 2010 - June 24, 2018	4,070	1,270 or 1,370
23rd	December 1, 2008	9,700	17	December 1, 2010 - November 11, 2018	2,210	530 or 570
1st (Share compensation-type) [1]	May 26, 2016	13,430	2	May 27, 2016 - May 26, 2046	1	1,620
2nd (Share compensation-type) [1]	May 25, 2017	16,730	2	May 26, 2017 - May 25, 2047	1	1,780
3rd (Share compensation-type) [1]	May 28, 2018	13,220	2	May 29, 2018 - May 28, 2048	1	1,724

※ The above table was stated in terms of the number of shares after considering the Bank executed a one-for-ten reverse stock split of common shares on October 1, 2017.

1 These are the Bank's issuance of equity remuneration type of stock options with JPY 1 of exercise price, only for the Bank's directors (excluding outside directors).

27. STOCK ACQUISITION RIGHTS (CONTINUED) CONSOLIDATED

(ii) OJBC Co. Ltd

	Date of issuance	Total number of stock options (shares) at the issuance	Total number of holders at the issuance	Exercise period	Exercise price (USD)	Fair value at the grant date (USD)
1st[1]	April 28, 2015	2,114,680	8	April 28, 2017 - April 28, 2025	1.10	0.26
2nd[1]	May 25, 2016	72,920	1	May 25, 2018 - May 25, 2026	1.10	0.15
3rd[1]	April 30, 2018	109,380	2	April 30, 2020 - April 30, 2028	1.10	0.22

1 These stock acquisition rights allow option holders to acquire Class B Preferred shares of OJBC Co. Ltd.

(d) The number of stock options and movement therein
The number of stock options and price information is as follows:
(i) The Bank

	20th	21st	22nd	23rd
Fiscal year ended March 31, 2019				
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	113,900	4,200	17,800	5,000
Vested during the year	–	–	–	–
Exercised during the year	–	–	–	–
Forfeited during the year	113,900	4,200	17,800	5,000
Exercisable at the end of the year	–	–	–	–
Exercise price (Yen)	4,160	4,160	4,070	2,210
Weighted average stock price at the date of exercise (Yen)	–	–	–	–

	1st (Share compensation-type)	2nd (Share compensation-type)	3rd (Share compensation-type)
Fiscal year ended March 31, 2019			
Nonvested (share)			
Outstanding at the beginning of the year	–	–	–
Granted during the year	–	–	13,220
Forfeited during the year	–	–	–
Vested during the year	–	–	13,220
Outstanding at the end of the year	–	–	–
Vested (share)			
Outstanding at the beginning of the year	13,430	16,730	–
Vested during the year	–	–	13,220
Exercised during the year	4,480	5,580	4,410
Forfeited during the year	–	–	–
Exercisable at the end of the year	8,950	11,150	8,810
Exercise price (Yen)	1	1	1
Weighted average stock price at the date of exercise (Yen)	1,697	1,697	1,697

27. STOCK ACQUISITION RIGHTS (CONTINUED) CONSOLIDATED

(ⅱ) OJBC Co. Ltd

	1st	2nd	3rd
Fiscal year ended March 31, 2019			
Nonvested (share)			
Outstanding at the beginning of the year	–	72,920	–
Granted during the year	–	–	109,380
Forfeited during the year	–	–	–
Vested during the year	–	72,920	–
Outstanding at the end of the year	–	–	109,380
Vested (share)			
Outstanding at the beginning of the year	1,786,540	–	–
Vested during the year	–	72,920	–
Exercised during the year	–	–	–
Forfeited during the year	72,920	–	–
Exercisable at the end of the year	1,713,620	72,920	–
Exercise price (USD)	1.10	1.10	1.10
Weighted average stock price at the date of exercise (USD)	–	–	–

(e) Measurement of the fair value of stock options

The following shows the assumptions used to measure the fair value of the stock options granted during fiscal years ended March 31, 2019.

(i) The Bank

a) Method used: Black-Scholes option pricing model

b) Major inputs and variables to the model

	3rd (Share compensation-type)
Exercise period	From May 29, 2018 to May 28, 2048
Expected volatility[1]	36.289%
Expected life[2]	7.0 years
Expected dividends[3]	¥10.0/Share
Risk-free interest rate[4]	-0.056%

1 Measured based on the historical stock price corresponding to expected life (from May 29, 2011 to May 28, 2018).
2 Estimated based on the retirement data of the director and statutory executive officers of the Bank for the past 10 years, as the reasonable estimate is difficult without enough data.
3 Based on the actual dividend for the fiscal year ended in March, 2018 (¥10.0/Share).
4 Used the average compound yield of Long term JGB with the maturity that is approximate to expected life.

(ⅱ) OJBC Co. Ltd

a) Method used: Binominal model

b) Major inputs and variables to the model

	3rd
Exercise period	From April 30, 2020 to April 30, 2028
Expected volatility[1]	27.45%
Expected life[2]	10.0 years
Expected dividends[3]	–
Risk-free interest rate[4]	2.95%

1 Measured based on the historical stock price of comparable similar companies.
2 Assumed based on the term from grant date to the end of exercise period.
3 Based on the recent actual dividend (0%).
4 Used the yield of US Treasury Bond with the maturity that is equivalent to expected life.

(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. STOCK ACQUISITION RIGHTS (CONTINUED) CONSOLIDATED

(g) Details of restricted stock compensation
The following shows the details of restricted stocks granted during fiscal years ended March 31, 2019.

	Number of shares granted	Total number of recipients	Transfer restriction period	Fair value at the grant date (Yen)
Granted on July 19, 2018	11,675	2	July 19, 2018 - July 18, 2021	1,713
Granted on October 31, 2018	32,447	33	October 31, 2018 - July 18, 2021	1,725

These restricted stocks have the following cancellation conditions;
On the condition that the recipient has maintained his/her position of executive director, etc. of the Bank or its subsidiary continuously during the transfer restriction period, the transfer restriction shall be cancelled at the expiration of the transfer restriction period. If the recipient loses the position of executive director, etc. of the Bank or its subsidiary prior to the expiration of the transfer restriction period, the transfer restrictions will be immediately removed. The number of shares subject to removal of transfer restrictions are obtained by multiplying the number of allotted stocks held by the recipient at the time of his/her resignation or retirement by the value obtained as a result of dividing the period of service of the recipient or during the transfer restriction period (on a monthly basis) by 12. The Bank shall automatically acquire, without consideration, the allotted stocks for which transfer restrictions have not been removed at the time of expiration of the transfer restriction period or at the time of removal of the transfer restrictions.

(h) The number of restricted stocks and movement therein
The number of restricted stocks is as follows:

	Granted on July 19, 2018	Granted on October 31, 2018
Fiscal year ended March 31, 2019		
Number of shares before the cancellation of transfer restrictions		
Outstanding at the end of the last fiscal year	–	–
Granted during the fiscal year	11,675	32,447
Acquisition without consideration by the Bank	–	–
Cancellation of the transfer restrictions	–	–
Outstanding at the end of the fiscal year	11,675	32,447

28. NET TRADING INCOME (LOSS) CONSOLIDATED

Net trading income (loss) for the fiscal years ended March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Income (loss) from trading securities	**¥ 2,458**	¥ 3,814	**$ 22,203**
Income (loss) from securities held to hedge trading transactions	**272**	49	**2,457**
Income (loss) from trading-related financial derivatives	**3,936**	4,627	**35,549**
Other, net	**6**	52	**56**
Total	**¥ 6,673**	¥ 8,542	**$ 60,265**

29. OTHER BUSINESS INCOME (LOSS), NET CONSOLIDATED

"Other, net" in other business income (loss), net, for the fiscal years ended March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Income (loss) from derivatives entered into for banking purposes, net	**¥ (515)**	¥ (46)	**$ (4,659)**
Equity in net income (loss) of affiliates	**5,697**	5,152	**51,452**
Gain on lease cancellation and other lease income (loss), net	**2,239**	2,111	**20,225**
Other, net	**2,465**	2,035	**22,261**
Total	**¥ 9,886**	¥ 9,253	**$ 89,279**

30. NET CREDIT COSTS CONSOLIDATED

Net credit costs for the fiscal years ended March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Losses on write-off or sales of loans	**¥ 426**	¥ 541	**$ 3,856**
Net provision (reversal) of reserve for loan losses:			
Net provision (reversal) of general reserve for loan losses	**17,246**	28,051	**155,742**
Net provision (reversal) of specific reserve for loan losses	**17,994**	14,978	**162,497**
Net provision (reversal) of reserve for loan losses to restructuring countries	**–**	(0)	**–**
Subtotal	**35,241**	43,030	**318,239**
Other credit costs (recoveries) relating to leasing business	**338**	645	**3,058**
Recoveries of written-off claims	**(6,658)**	(6,946)	**(60,128)**
Total	**¥ 29,348**	¥ 37,270	**$ 265,024**

31. OTHER GAINS (LOSSES), NET CONSOLIDATED

Other gains (losses), net for the fiscal years ended March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Net gain (loss) on disposal of premises and equipment	**¥ (67)**	¥ 543	**$ (612)**
Gains on write-off of unclaimed debentures	**321**	3,189	**2,902**
Provision for reimbursement of debentures	**(122)**	(1,211)	**(1,103)**
Gains on write-off of unclaimed deposits	**419**	470	**3,788**
Reversal (provision) of reserve for losses on interest repayment	**2,333**	6,052	**21,071**
Impairment losses on long-lived assets	**(955)**	(1,834)	**(8,626)**
Loss on liquidation of subsidiaries	**(3)**	(30)	**(31)**
Loss on change in equity of affiliates	**–**	(234)	**–**
Gains on unexercised and forfeited stock acquisition rights	**218**	293	**1,974**
Other, net	**637**	383	**5,760**
Total	**¥ 2,782**	¥ 7,621	**$ 25,123**

• Impairment losses on long-lived assets

For the fiscal years ended March 31, 2019 and 2018, respectively, "Impairment losses on long-lived assets" of ¥955 million (U.S.$8,626 thousand) and ¥1,834 million were recognized mainly on the properties of the Bank's branches and ATMs for the Individual Business which were decided to be closed and on the unused IT-related properties.

32. INCOME TAXES

CONSOLIDATED

The Group is subject to a number of taxes based on income, such as corporate tax, inhabitant tax and enterprise tax, which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.6% and 30.8% for the fiscal years ended March 31, 2019 and 2018, 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, 2019 and 2018 was as follows:

	2019	2018
Normal effective statutory tax rate	**30.6%**	30.8%
Increase (decrease) in taxes resulting from:		
Amortization of goodwill	**1.0**	1.5
Equity in net income/loss of affiliates	**(2.2)**	(0.6)
Other nondeductible expenses	**0.1**	0.5
Foreign tax	**0.0**	0.0
Change in valuation allowance	**(26.4)**	(90.9)
Expiration of tax loss carryforwards	**1.3**	61.5
Other	**0.0**	3.9
Actual effective tax rate	**4.5%**	6.9%

(b) The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities, as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Deferred tax assets:			
Tax loss carryforwards [ii]	**¥ 72,264**	¥ 74,315	**$ 652,563**
Reserve for credit losses	**70,443**	71,817	**636,118**
Reserve for losses on interest repayments	**21,632**	25,590	**195,341**
Deferred loss on derivatives under hedge accounting	**5,572**	5,305	**50,321**
Securities	**4,560**	5,747	**41,181**
Liabilities for retirement benefits	**3,382**	2,668	**30,548**
Monetary assets held in trust	**591**	5,073	**5,341**
Other	**19,819**	18,439	**178,975**
Subtotal	**198,267**	208,957	**1.790,388**
Valuation allowance for tax loss carryforwards	**(67,030)**	–	**(605,298)**
Valuation allowance for deductible temporary differences	**(106,466)**	–	**(961,411)**
Total valuation allowance [i]	**(173,497)**	(185,443)	**(1,566,710)**
Total deferred tax assets	**24,770**	23,513	**223,678**
Offset with deferred tax liabilities	**(9,673)**	(8,808)	**(87,353)**
Net deferred tax assets	**¥ 15,096**	¥ 14,705	**$ 136,325**
Deferred tax liabilities:			
Assets for retirement benefits	**¥ 3,043**	¥ 3,428	**$ 27,480**
The liability adjustment account	**1,723**	–	**15,565**
Deferred gain on derivatives under hedge accounting	**1,696**	2,038	**15,319**
Unrealized gain on available-for-sale securities	**1,695**	1,777	**15,306**
Asset retirement costs included in premises and equipment	**1,103**	966	**9,962**
Temporary differences due to business combination (primarily related to identified intangible assets)	**363**	519	**3,279**
Other	**48**	77	**441**
Total deferred tax liabilities	**9,673**	8,808	**87,353**
Offset with deferred tax assets	**(9,673)**	(8,808)	**(87,353)**
Net deferred tax liabilities	**¥ –**	¥ –	**$ –**

(i) Total valuation allowance has decreased by 11,946 million (U.S.$107,879 thousand) from the previous year. This is mainly caused by the decrease in deductible temporary differences related to monetary assets held in trust of the Bank and reserve for losses on interest repayments of Shinsei Financial, and the decrease in tax loss carryforwards due to the use of tax loss carryforwards.

32. INCOME TAXES (CONTINUED) CONSOLIDATED

(ii) The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of March 31, 2019, were as follows:

	Millions of yen						
	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Deferred tax assets relating to tax loss carryforwards[1]	¥7,347	¥11,152	¥7,914	¥9,235	¥12,918	¥23,696	¥72,264
Less valuation allowances for tax loss carryforwards	(¥3,865)	(¥9,795)	(¥7,823)	(¥9,172)	(¥12,837)	(¥23,536)	(¥67,030)
Net deferred tax assets relating to tax loss carryforwards	¥3,482	¥1,356	¥91	¥63	¥80	¥159	¥5,234[2]

	Thousands of U.S. dollars						
	1 year or less	Over 1 year to 2 years	Over 2 years to 3 Years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Deferred tax assets relating to tax loss carryforwards[1]	$66,346	$100,712	$71,472	$83,398	$116,655	$213,980	$652,563
Less valuation allowances for tax loss carryforwards	($34,903)	($88,458)	($70,645)	($82,826)	($115,927)	($212,539)	($605,298)
Net deferred tax assets relating to tax loss carryforwards	$31,443	$12,254	$826	$573	$727	$1,441	$47,264[2]

1 The amounts of tax loss carryforwards are obtained as a result of multiplying the statutory effective tax rate.
2 The tax loss carryforwards resulted from the disposal of the non-performing loans in the prior fiscal years. Certain tax loss carryforwards are determined to be collectible as it is probable that consolidated taxable income would be generated based on the expected profitability of the consolidated taxpayer including the Bank as the consolidated parent corporation under consolidated tax filing system. The collectability of the deferred tax assets is considered by corporate tax, inhabitant tax and enterprise tax, respectively.

(c) Changes in presentation
The Bank applies "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28 issued in February 16 2018, thereafter "Partial Amendments") from the beginning of the fiscal year, and changed the presentation in this income tax notes. According to paragraph 3 to 5 of the "Partial Amendments", the Bank added the statements as established by the interpretation 8 (expect for the total valuation allowance) and the interpretation 9 of "Accounting Standard for Tax Effect Accounting." Note that corresponding figures in the prior fiscal year are not stated based on the transitional treatment in interpretation 7 of "Partial Amendments."

33. EARNINGS PER SHARE — CONSOLIDATED

A reconciliation of the difference between basic and diluted EARNINGS PER SHARE ("EPS") for the fiscal year ended March 31, 2019 and 2018 was as follows:

	Earnings (Millions of yen)	Weighted average shares (Thousands)	EPS (Yen)	EPS (U.S. dollars)
For the fiscal year ended March 31, 2019:				
Basic EPS				
Profit (loss) attributable to owners of the parent available to common shareholders	**¥ 52,319**	**247,670**	**¥ 211.24**	**$ 1.91**
Effect of dilutive securities				
Stock acquisition rights	**–**	**30**		
Diluted EPS				
Profit (loss) attributable to owners of the parent for computation	**¥ 52,319**	**247,700**	**¥ 211.22**	**$ 1.91**

	Earnings (Millions of yen)	Weighted average shares (Thousands)	EPS (Yen)
For the fiscal year ended March 31, 2018:			
Basic EPS			
Profit (loss) attributable to owners of the parent available to common shareholders	¥ 51,414	258,349	¥ 199.01
Effect of dilutive securities			
Stock acquisition rights	–	27	
Diluted EPS			
Profit (loss) attributable to owners of the parent for computation	¥ 51,414	258,376	¥ 198.98

34. OTHER COMPREHENSIVE INCOME — CONSOLIDATED

The components of other comprehensive income for the fiscal years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the fiscal year	**¥ 3,191**	¥ 3,070	**$ 28,824**
Reclassification adjustment to profit or loss	**(3,387)**	(10,772)	**(30,587)**
Amount before income tax effect	**(195)**	(7,701)	**(1,763)**
Income tax effect	**(99)**	1,733	**(902)**
Total	**(295)**	(5,968)	**(2,665)**
Deferred gain (loss) on derivatives under hedge accounting:			
Gains (losses) arising during the fiscal year	**(9,650)**	(6,828)	**(87,143)**
Reclassification adjustment to profit or loss	**7,780**	5,583	**70,262**
Amount before income tax effect	**(1,869)**	(1,245)	**(16,881)**
Income tax effect	**(64)**	713	**(582)**
Total	**(1,933)**	(532)	**(17,463)**
Foreign currency translation adjustments:			
Gains (losses) arising during the fiscal year	**(8)**	174	**(74)**
Reclassification adjustment to profit or loss	**3**	44	**31**
Amount before income tax effect	**(4)**	219	**(43)**
Income tax effect	**–**	–	**–**
Total	**(4)**	219	**(43)**
Defined retirement benefit plans:			
Gains (losses) arising during the fiscal year	**(3,187)**	3,376	**(28,784)**
Reclassification adjustment to profit or loss	**663**	767	**5,994**
Amount before income tax effect	**(2,523)**	4,143	**(22,789)**
Income tax effect	**815**	(709)	**7,362**
Total	**(1,708)**	3,434	**(15,427)**
Share of other comprehensive income in affiliates:			
Gains (losses) arising during the fiscal year	**2,216**	(1,027)	**20,012**
Reclassification adjustment to profit or loss	**(862)**	(221)	**(7,785)**
Amount before income tax effect	**1,354**	(1,248)	**12,227**
Income tax effect	**–**	–	**–**
Total	**1,354**	(1,248)	**12,227**
Total other comprehensive income	**¥ (2,588)**	¥ (4,095)	**$ (23,371)**

35. LEASE TRANSACTIONS CONSOLIDATED

(A) FINANCE LEASE TRANSACTIONS

AS LESSEE

(a) For finance lease transactions, where the ownership of the property is deemed to transfer to the lessee, lease assets are software included in "Intangible assets."

(b) For finance lease transactions, where the ownership of the property is not deemed to transfer to the lessee, lease assets are primarily buildings, tools, equipment and fixtures included in "Premises and equipment."

(c) Depreciation method is described in "(U) LEASE TRANSACTIONS" in Note 2 "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

AS LESSOR

(a) Breakdown of "Lease receivables and leased investment assets" as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Lease receivables	**¥ 52,009**	¥ 60,184	**$ 469,652**
Leased investment assets:			
Lease payment receivables	**136,866**	122,371	**1,235,924**
Estimated residual value	**4,994**	4,971	**45,101**
Interest equivalent	**(18,080)**	(16,399)	**(163,271)**
Other	**764**	301	**6,905**
Subtotal	**124,544**	111,245	**1,124,658**
Total	**¥ 176,553**	¥ 171,429	**$ 1,594,311**

(b) Lease payment receivables for "Lease receivables and leased investment assets" as of March 31, 2019 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	**¥ 16,989**	**$ 153,414**	**¥ 41,345**	**$ 373,358**
Due after one year within two years	**12,716**	**114,828**	**31,617**	**285,512**
Due after two years within three years	**10,069**	**90,927**	**23,378**	**211,109**
Due after three years within four years	**5,913**	**53,397**	**15,304**	**138,205**
Due after four years within five years	**3,973**	**35,878**	**8,666**	**78,261**
Due after five years	**4,986**	**45,032**	**16,553**	**149,479**
Total	**¥ 54,647**	**$ 493,477**	**¥ 136,866**	**$ 1,235,924**

(B) OPERATING LEASE TRANSACTIONS

Noncancelable operating lease obligations as lessee and lease payment receivables as lessor as of March 31, 2019 and 2018 were as follows:

AS LESSEE

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Lease obligations:			
Due within one year	**¥ 4,199**	¥ 4,587	**$ 37,923**
Due after one year	**10,524**	4,282	**95,040**
Total	**¥ 14,724**	¥ 8,869	**$ 132,964**

AS LESSOR

	Millions of yen		Thousands of U.S. dollars
	2019	2018	**2019**
Lease payment receivables:			
Due within one year	**¥ 4,847**	¥ 5,036	**$ 43,772**
Due after one year	**21,083**	24,487	**190,384**
Total	**¥ 25,930**	¥ 29,523	**$ 234,157**

36. SEGMENT INFORMATION CONSOLIDATED

(A) SEGMENT INFORMATION

(a) DESCRIPTION OF REPORTABLE SEGMENTS

Our reportable segments consist of businesses whose individual financial information is available and regular evaluation by the Executive Committee is made in order to decide how much resources are allocated.

The Group provides a wide variety of financial products and services to customers through our Institutional Business, Global Markets Business and Individual Business. These Businesses consist of operating segments which provide their respective financial products and services. The Institutional Business consists of the "Corporate Business," "Structured Finance," "Principal Transactions," and "Showa Leasing" and the Global Markets Business consists of the "Markets," and "Other Global Markets" as reportable segments. The Individual Business consists of "Retail Banking," "Shinsei Financial" and "APLUS FINANCIAL." Also, the business and operations excluding any of the Institutional Business, the Global Markets Business, and the Individual Business are classified as the "Corporate/Other." The "Treasury" in the "Corporate/Other" is a reportable segment.

In the Institutional Business, the "Corporate Business" segment provides financial products and services, advisory services, and trust business for corporate, public, and financial sectors. The "Structured Finance" segment provides real estate finance such as nonrecourse loans, financial products and services for real estate and construction industries, and financial products and services related to project finance and specialty finance, such as M&A finance. The "Principal Transactions" segment provides financial products and services related to credit trading and private equity businesses. "Showa Leasing" segment primarily provides financial products and services related to leasing.

In the Global Markets Business, the "Markets" segment engages in foreign exchanges, derivatives, equity-related transactions and other capital markets transactions. The "Other Global Markets" segment consists of securities business provided by Shinsei Securities, asset management and wealth management businesses.

In the Individual Business, the "Retail Banking" segment provides financial products and services for retail customers, "Shinsei Financial" segment, which consists of Shinsei Financial Co., Ltd., Shinsei Personal Loan Co., Ltd. and unsecured card loan business in the Bank, etc., provides consumer finance business. Also, after reviewing the Group's unsecured loan business strategy, in April 2018, the Group decided Shinsei Financial launched a new card loan product, "Lake ALSA", as a service to customers with consumer finance product needs, suspending applications and contracts from new customers of Shinsei Bank Card Loan—Lake in the Bank from April 2018. "APLUS FINANCIAL" segment provides installment sales credit, credit cards, loans and settlement services. The "Other" segment consists of profit and loss attributable to the Consumer Finance Headquarters and other subsidiaries.

In the Corporate/Other, the "Treasury" segment engages in ALM operations and fund raising including capital instruments.

(b) METHODS OF MEASUREMENT FOR THE AMOUNTS OF REVENUE, PROFIT (LOSS), ASSETS, LIABILITIES AND OTHER ITEMS BY REPORTABLE SEGMENTS

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES," except for interest on inter-segment transactions and indirect expense.

Interest on inter-segment transactions is calculated using an inter-office rate. Indirect expense is allocated, based on a predetermined internal rule, to each reportable segment according to the budget which is set at the beginning of the fiscal year.

36. SEGMENT INFORMATION (CONTINUED) CONSOLIDATED

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

	Millions of yen					
	Institutional Business				Global Markets Business	
Fiscal year ended March 31, 2019	Corporate Business	Structured Finance	Principal Transactions	Showa Leasing	Markets	Other Global Markets
Revenue[1]:	¥ 16,780	¥ 17,644	¥ 9,391	¥ 14,202	¥ 7,109	¥ 2,311
Net Interest Income	10,043	10,389	3,778	(65)	1,579	504
Noninterest Income[i]	6,737	7,254	5,613	14,267	5,529	1,806
Expenses[2]	11,827	7,796	4,039	9,838	3,759	3,334
Net Credit Costs (Recoveries)[3]	865	(2,198)	12	(615)	11	8
Segment Profit (Loss)	¥ 4,087	¥ 12,046	¥ 5,339	¥ 4,979	¥ 3,338	¥ (1,031)
Segment Assets[4,6, ii]	¥ 1,577,138	¥ 1,643,690	¥ 190,745	¥ 490,757	¥ 368,368	¥ 39,633
Segment Liabilities[5,6]	¥ 1,201,064	¥ 96,407	¥ 6,218	¥ 1,504	¥ 178,539	¥ 43,925
Includes:						
i . Equity in net income (loss) of affiliates	¥ –	¥ –	¥ 5,682	¥ 2	¥ –	¥ –
ii . Investment in affiliates	–	–	63,777	1,410	–	–
Other:						
Goodwill (Negative Goodwill):						
Amortization	¥ –	¥ –	¥ (0)	¥ 2,158	¥ –	¥ –
Unamortized balance	–	–	(2)	13,016	–	–
Intangible assets acquired in business combinations:						
Amortization	¥ –	¥ –	¥ –	¥ 236	¥ –	¥ –
Unamortized balance	–	–	–	690	–	–
Impairment losses on long-lived assets	¥ 98	¥ –	¥ 0	¥ –	¥ 0	¥ 114

	Millions of yen						
	Individual Business				Corporate/Other		
		Consumer Finance					
Fiscal year ended March 31, 2019	Retail Banking	Shinsei Financial	APLUS FINANCIAL	Other	Treasury	Other[7]	Total
Revenue[1]:	¥ 26,956	¥ 69,261	¥ 57,875	¥ 1,660	¥ 6,055	¥ 480	¥ 229,729
Net Interest Income	23,964	69,352	10,768	800	2,699	(0)	133,816
Noninterest Income[i]	2,991	(90)	47,107	859	3,355	480	95,913
Expenses[2]	27,680	33,483	38,175	1,767	1,698	1,335	144,735
Net Credit Costs (Recoveries)[3]	(24)	14,570	16,576	133	–	8	29,348
Segment Profit (Loss)	¥ (700)	¥ 21,208	¥ 3,123	¥ (240)	¥ 4,357	¥ (862)	¥ 55,645
Segment Assets[4,6, ii]	¥ 1,203,020	¥ 519,405	¥ 1,116,838	¥ 54,954	¥ 673,893	¥ 0	¥ 7,878,447
Segment Liabilities[5,6]	¥ 4,594,559	¥ 49,080	¥ 389,214	¥ 753	¥ –	¥ 0	¥ 6,561,268
Includes:							
i . Equity in net income (loss) of affiliates	¥ –	¥ –	¥ –	¥ 13	¥ –	¥ –	¥ 5,697
ii . Investment in affiliates	–	–	–	6,937	–	–	72,125
Other:							
Goodwill (Negative Goodwill):							
Amortization	¥ –	¥ 23	¥ 29	¥ –	¥ –	¥ –	¥ 2,211
Unamortized balance	–	(2,024)	–	–	–	–	10,989
Intangible assets acquired in business combinations:							
Amortization	¥ –	¥ 363	¥ –	¥ –	¥ –	¥ –	¥ 599
Unamortized balance	–	–	–	–	–	–	690
Impairment losses on long-lived assets	¥ 371	¥ 124	¥ –	¥ 0	¥ –	¥ 246	¥ 955

36. SEGMENT INFORMATION (CONTINUED) CONSOLIDATED

	Millions of yen					
	Institutional Business				Global Markets Business	
Fiscal year ended March 31, 2018	Corporate Business	Structured Finance	Principal Transactions	Showa Leasing	Markets	Other Global Markets
Revenue[1]:	¥ 18,781	¥ 17,050	¥ 12,853	¥ 15,985	¥ 8,581	¥ 2,839
Net Interest Income	10,005	9,584	5,022	(147)	1,684	509
Noninterest Income[i]	8,776	7,465	7,831	16,132	6,897	2,329
Expenses[2]	11,848	6,863	4,713	8,984	3,759	3,338
Net Credit Costs (Recoveries)[3]	293	1,754	(1,207)	2,793	(35)	57
Segment Profit (Loss)	¥ 6,639	¥ 8,432	¥ 9,347	¥ 4,207	¥ 4,857	¥ (556)
Segment Assets[4,6,ii]	¥ 1,592,790	¥ 1,396,630	¥ 193,795	¥ 502,802	¥ 361,331	¥ 46,424
Segment Liabilities[5,6]	¥ 1,026,134	¥ 76,375	¥ 16,909	¥ 2,064	¥ 185,391	¥ 78,324
Includes:						
i . Equity in net income (loss) of affiliates	¥ –	¥ –	¥ 3,265	¥ (1)	¥ –	¥ –
ii . Investment in affiliates	–	–	57,474	920	–	–
Other:						
Goodwill (Negative Goodwill):						
Amortization	¥ –	¥ –	¥ (0)	¥ 2,146	¥ –	¥ –
Unamortized balance	–	–	(2)	15,025	–	–
Intangible assets acquired in business combinations:						
Amortization	¥ –	¥ –	¥ –	¥ 268	¥ –	¥ –
Unamortized balance	–	–	–	927	–	–
Impairment losses on long-lived assets	¥ –	¥ 0	¥ 34	¥ –	¥ –	¥ –

	Millions of yen						
	Individual Business				Corporate/Other		
		Consumer Finance					
Fiscal year ended March 31, 2018	Retail Banking	Shinsei Financial	APLUS FINANCIAL	Other	Treasury	Other[7]	Total
Revenue[1]:	¥ 23,506	¥ 68,930	¥ 56,446	¥ 3,421	¥ 2,871	¥ 761	¥ 232,030
Net Interest Income	22,414	69,049	11,361	638	(1,340)	(6)	128,775
Noninterest Income[i]	1,092	(119)	45,084	2,783	4,212	767	103,254
Expenses[2]	29,210	32,445	36,670	1,343	1,792	1,613	142,584
Net Credit Costs (Recoveries)[3]	170	22,766	10,614	68	–	(5)	37,270
Segment Profit (Loss)	¥ (5,874)	¥ 13,717	¥ 9,161	¥ 2,009	¥ 1,079	¥ (846)	¥ 52,175
Segment Assets[4,6,ii]	¥ 1,282,996	¥ 524,077	¥ 1,032,687	¥ 45,041	¥ 671,034	¥ 0	¥ 7,649,612
Segment Liabilities[5,6]	¥ 4,886,499	¥ 53,296	¥ 321,869	¥ 538	¥ –	¥ 0	¥ 6,647,403
Includes:							
i . Equity in net income (loss) of affiliates	¥ –	¥ –	¥ –	¥ 1,888	¥ –	¥ –	¥ 5,152
ii . Investment in affiliates	–	–	–	7,087	–	–	65,482
Other:							
Goodwill (Negative Goodwill):							
Amortization	¥ –	¥ 627	¥ –	¥ –	¥ –	¥ –	¥ 2,773
Unamortized balance	–	(3,112)	–	–	–	–	11,910
Intangible assets acquired in business combinations:							
Amortization	¥ –	¥ 945	¥ –	¥ –	¥ –	¥ –	¥ 1,213
Unamortized balance	–	363	–	–	–	–	1,290
Impairment losses on long-lived assets	¥ 101	¥ 682	¥ –	¥ –	¥ –	¥ 1,015	¥ 1,834

36. SEGMENT INFORMATION (CONTINUED)

CONSOLIDATED

	Thousands of U.S. dollars					
	Institutional Business				Global Markets Business	
Fiscal year ended March 31, 2019	Corporate Business	Structured Finance	Principal Transactions	Showa Leasing	Markets	Other Global Markets
Revenue[1]:	$ 151,532	$ 159,330	$ 84,811	$ 128,248	$ 64,198	$ 20,872
Net Interest Income	90,690	93,823	34,120	(589)	14,266	4,557
Noninterest Income [i]	60,842	65,508	50,691	128,837	49,932	16,315
Expenses[2]	106,802	70,401	36,480	88,842	33,947	30,112
Net Credit Costs (Recoveries)[3]	7,815	(19,853)	114	(5,558)	104	78
Segment Profit (Loss)	$ 36,915	$ 108,782	$ 48,217	$ 44,964	$ 30,147	$ (9,318)
Segment Assets[4,6, ii]	$14,241,817	$14,842,792	$ 1,722,462	$ 4,431,621	$ 3,326,431	$ 357,897
Segment Liabilities[5,6]	$10,845,808	$ 870,575	$ 56,153	$ 13,587	$ 1,612,239	$ 396,653
Includes:						
i . Equity in net income (loss) of affiliates	$ –	$ –	$ 51,311	$ 23	$ –	$ –
ii . Investment in affiliates	–	–	575,924	12,734	–	–
Other:						
Goodwill (Negative Goodwill):						
Amortization	$ –	$ –	$ (5)	$ 19,496	$ –	$ –
Unamortized balance	–	–	(20)	117,539	–	–
Intangible assets acquired in business combinations:						
Amortization	$ –	$ –	$ –	$ 2,136	$ –	$ –
Unamortized balance	–	–	–	6,239	–	–
Impairment losses on long-lived assets	$ 887	$ –	$ –	$ –	$ –	$ 1,038

	Thousands of U.S. dollars						
	Individual Business				Corporate/Other		
		Consumer Finance					
Fiscal year ended March 31, 2019	Retail Banking	Shinsei Financial	APLUS FINANCIAL	Other	Treasury	Other[7]	Total
Revenue[1]:	$ 243,418	$ 625,445	$ 522,625	$ 14,995	$ 54,680	$ 4,341	$ 2,074,497
Net Interest Income	216,403	626,265	97,238	7,230	24,379	(1)	1,208,383
Noninterest Income [i]	27,015	(820)	425,387	7,765	30,301	4,342	866,114
Expenses[2]	249,959	302,357	344,733	15,961	15,335	12,058	1,306,986
Net Credit Costs (Recoveries)[3]	(219)	131,573	149,690	1,208	–	73	265,024
Segment Profit (Loss)	$ (6,322)	$ 191,515	$ 28,203	$ (2,173)	$ 39,345	$ (7,789)	$ 502,486
Segment Assets[4,6, ii]	$10,863,465	$ 4,690,319	$10,085,227	$ 496,251	$ 6,085,364	$	$71,143,646
Segment Liabilities[5,6]	$41,489,613	$ 443,201	$ 3,514,672	$ 6,806	$ –	$	$59,249,307
Includes:							
i . Equity in net income (loss) of affiliates	$ –	$ –	$ –	$ 118	$ –	$ –	$ 51,452
ii . Investment in affiliates	–	–	–	62,644	–	–	651,301
Other:							
Goodwill (Negative Goodwill):							
Amortization	$ –	$ 215	$ 263	$ –	$ –	$ –	$ 19,969
Unamortized balance	–	(18,283)	–	–	–	–	99,236
Intangible assets acquired in business combinations:							
Amortization	$ –	$ 3,282	$ –	$ –	$ –	$ –	$ 5,417
Unamortized balance	–	–	–	–	–	–	6,239
Impairment losses on long-lived assets	$ 3,351	$ 1,123	$ –	$ 0	$ –	$ 2,226	$ 8,626

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, amortization of actuarial gains or losses of retirement benefit cost and lump-sum payments.
3 "Net Credit Costs (Recoveries)" consists of provision/reversal of reserve for credit losses, losses on write-off/sales of loans and recoveries of written-off claims.
4 "Segment Assets" consists of other monetary claims purchased, trading assets, monetary assets held in trust, securities, loans and bills discounted, lease receivables and leased investment assets, installment receivables, tangible leased assets, intangible leased assets and customer's liabilities for acceptances and guarantees.
5 "Segment Liabilities" consists of deposits, including negotiable certificates of deposit, debentures, trading liabilities and acceptances and guarantees.
6 Regarding assets and liabilities not allocated to each business segment, there are related revenue and expense items which are allocated to each business segment based on a rational allocation method. For example, interest on other borrowings is considered a part of "Revenue" and included in segment income, although borrowed money is not allocated to each "Segment Liabilities." In addition, depreciation is considered a part of "Expenses" and included in segment income, although premises and equipment excluding tangible leased assets and intangible assets excluding intangible leased assets are not allocated to each "Segment Assets."
7 "Other" under the Corporate/Other includes company-wide accounts which are not included in our reportable segments, allocation variance of indirect expense and elimination amount of inter-segment transactions.

36. SEGMENT INFORMATION (CONTINUED) CONSOLIDATED

(d) RECONCILIATION BETWEEN THE SEGMENT INFORMATION AND THE CONSOLIDATED FINANCIAL STATEMENTS

(i) A reconciliation between total segment profit and income (loss) before income taxes on the consolidated statements of income for the fiscal years ended March 31, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
Fiscal Year ended March 31	**2019**	2018	**2019**
Total segment profit	**¥ 55,645**	¥ 52,175	**$ 502,486**
Amortization of goodwill	**(2,211)**	(2,773)	**(19,969)**
Amortization of intangible assets	**(599)**	(1,213)	**(5,417)**
Lump-sum payments	**(1,031)**	(397)	**(9,319)**
Other gains (losses), net	**2,782**	7,621	**25,123**
Income (loss) before income taxes	**¥ 54,584**	¥ 55,411	**$ 492,904**

(ii) A reconciliation between total segment assets and total assets on the consolidated balance sheets as of March 31, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2019**	2018	**2019**
Total segment assets	**¥ 7,878,447**	¥ 7,649,612	**$ 71,143,646**
Cash and due from banks	**1,355,966**	1,465,663	**12,244,592**
Receivables under securities borrowing transactions	**2,119**	2,629	**19,135**
Foreign exchanges	**29,546**	32,511	**266,813**
Other assets excluding installment receivables	**289,051**	297,369	**2,610,178**
Premises and equipment excluding tangible leased assets	**20,862**	22,263	**188,387**
Intangible assets excluding intangible leased assets	**67,186**	59,484	**606,706**
Assets for retirement benefits	**10,931**	13,261	**98,711**
Deferred tax assets	**15,096**	14,705	**136,325**
Reserve for credit losses	**(98,034)**	(100,840)	**(885,272)**
Total assets	**¥ 9,571,172**	¥ 9,456,660	**$ 86,429,222**

(iii) A reconciliation between total segment liabilities and total liabilities on the consolidated balance sheets as of March 31, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2019**	2018	**2019**
Total segment liabilities	**¥ 6,561,268**	¥ 6,647,403	**$ 59,249,307**
Call money	**145,000**	–	**1,309,373**
Payables under repurchase agreements	**59,098**	55,919	**533,671**
Payables under securities lending transactions	**510,229**	433,462	**4,607,458**
Borrowed money	**684,077**	739,578	**6,177,334**
Foreign exchanges	**471**	102	**4,256**
Short-term corporate bonds	**191,000**	175,700	**1,724,761**
Corporate bonds	**92,335**	85,000	**833,800**
Other liabilities	**347,383**	367,734	**3,136,925**
Accrued employees' bonuses	**8,598**	8,489	**77,649**
Accrued directors' bonuses	**44**	51	**404**
Liabilities for retirement benefits	**8,232**	8,366	**74,337**
Reserve for reimbursement of debentures	**3,764**	4,130	**33,991**
Reserve for losses on interest repayments	**63,025**	74,687	**569,131**
Total liabilities	**¥ 8,674,529**	¥ 8,600,625	**$ 78,332,396**

36. SEGMENT INFORMATION (CONTINUED) CONSOLIDATED

(B) RELATED INFORMATION

(a) INFORMATION BY SERVICES

Income regarding major services for the fiscal years ended March 31, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
Fiscal Year ended March 31	**2019**	2018	**2019**
Loan Businesses	**¥ 146,836**	¥ 141,804	**$ 1,325,956**
Lease Businesses	**6,152**	6,105	**55,554**
Securities Investment Businesses	**12,908**	21,642	**116,568**
Installment Sales and Guarantee Businesses	**48,743**	47,926	**440,164**

(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, 2019 and 2018, therefore geographical revenue information is not presented.

(ii) PREMISES AND EQUIPMENT

The balance of domestic premises and equipment exceeded 90% of the total balance of premises and equipment on the consolidated balance sheets as of March 31, 2019 and 2018, 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, 2019 and 2018, therefore major customer information is not presented.

37. RELATED PARTY TRANSACTIONS CONSOLIDATED

Related party transactions for the fiscal years ended March 31, 2019 and 2018 were as follows:

		Amount of the transaction			Balance at the end of fiscal year			
		Millions of yen		Thousands of U.S. dollars		Millions of yen		Thousands of U.S. dollars
Related party	Description of the transaction	**2019**	2018	**2019**	Account name	**2019**	2018	**2019**
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]	**¥ 56**	¥ 143	**$ 514**	–	**¥ –**	¥ –	**$ –**
	Dividend	**2,798**	154	**25,266**	–	**–**	–	**–**
								–
J.C. Flowers III L.P.[1]	Investment[3]	**403**	245	**3,647**	–	**–**	–	**–**
	Dividend	**597**	532	**5,397**	–	**–**	–	**–**
						–		**–**
J.C. Flowers Ⅳ L.P.[1]	Investment[4]	**48**	54	**440**	–	**–**	–	**–**
Director								
Hideyuki Kudo	In-kind contributions of monetary compensation claims[5]	**¥ 12**	¥ –	**$ 117**	–	**¥ –**	¥ –	**$ –**

1 The fund is operated by J.C. Flowers & Co. LLC, of which J. Christopher Flowers, a director of the Bank, serves as the managing director and chief executive officer.
2 The committed investment amounts are U.S.$ 200 million based on the limited partnership agreement.
3 The committed investment amounts are U.S.$ 34,975 thousand based on the limited partnership agreement.
4 The committed investment amounts are U.S.$ 25 million based on the limited partnership agreement.
5 The in-kind contributions of the monetary compensation claims for the restricted stock compensation.

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES CONSOLIDATED

(A) GROUP POLICY FOR FINANCIAL INSTRUMENTS

The Group conducts total financial services, primarily basic banking business and other financial services such as securities business, trust business, consumer finance business, and commercial finance business.

For conducting these businesses, the Bank obtains retail customer deposits as a long-term and stable source of funding. In addition, the Bank diversifies sources of funding by securitization of loans or other assets. Subsidiaries and affiliates also use borrowings from other financial institutions as a source of funding.

(B) NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

(a) Financial assets

The financial assets held by the Group are exposed to the following risks:

Loans and bills discounted

Loans and bills discounted, which are primarily provided to domestic institutional and individual customers, are exposed to customer's credit risk and risk of fluctuation in interest rates.

Securities

Securities primarily consist of bonds and stocks and other investments such as foreign securities and investments 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 the purpose of collection, sale, or securitization. There is a possibility that the Group's profits and losses and financial condition will be badly affected if earnings from these assets are less than expected. These investments are exposed to the 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 the customer's credit risk and the risk of fluctuation in interest rates.

(b) Financial liabilities

Financial liabilities of the Group are mainly deposits. In addition to the risk of fluctuation in interest rates, the Group has funding liquidity risk that sufficient funding would become difficult or more expensive in the case of deterioration in the Group's financial position.

By utilizing time deposits as an important Asset Liability Management (ALM) measure, the Bank is striving to diversify funding maturities and to disperse refunding dates. Without solely relying on interbank funding, the Bank is aiming to cover its funding needs through core retail deposits and corporate deposits as well as capital.

(c) Derivative transactions

The Group enters into the following derivative transactions to provide products for customer needs, to maximize the profit of the Bank's own trading account and for asset and liability management, hedging transactions and other purposes.

(1) Interest rate related	Interest rate swap, Futures 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 futures option
(5) Credit derivative	Credit default option, and other

Among the risks associated with derivative transactions, market risk, credit risk and liquidity risk are to be specially noted for risk management.

(1) Market Risk	Risk that losses are incurred associated with changes in the value of financial instruments from fluctuation in market price, as well as volatilities inherent in derivative instruments
(2) Credit Risk	Risk that losses are incurred associated with the counter-party defaulting on contractual terms
(3) Liquidity Risk	Risk that additional costs are incurred associated with closing out the position of the financial instrument held

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

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

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) CONSOLIDATED

(C) RISK MANAGEMENT FOR FINANCIAL INSTRUMENTS

(a) Credit risk management

The Group's model for credit risk management focuses on securing adequate return on risk, avoiding excessive concentration in particular sectors or to particular customer groups, and managing the credit portfolio with an analysis of potential losses under a worst-case scenario.

Concrete policies and guidelines related to credit risk management of corporate business are clarified in the Group's detailed procedures, and credit risk management processes are roughly classified into credit risk management for individual transactions and portfolio-based credit risk management.

As for credit risk management for individual transactions, approval authority level is determined in accordance with transaction amount, aggregate credit exposure to obligor's group companies, credit rating, and so on. The Group has an approval system in which decisions are made jointly by the business promotion section and the credit assessment section, and the final authority and decision rests with the credit assessment section.

On portfolio-based credit risk management, to diversify risks in terms of industries, ratings and customer groups, the risk management divisions monitor the segment-specific risk diversification status and also rating fluctuations related to customers within the portfolios. The division uses this information to provide comprehensive reports to the Group Risk Policy Committee on a quarterly basis.

Credit risks in credit transactions are quantified based on the probability of default by obligor rating, loss given default, and unexpected loss ratio. In order to decrease credit risk of obligors, the Group secures collateral and guarantees for the protection of its claims, the values of which are checked more than once a year. Quasi credit risks involved in market transactions, such as derivative transactions, are controlled based on fair values and estimations of future value fluctuations and are reflected in the valuation of derivative transactions.

As for credit risk management of the consumer finance business, risk management divisions of each Group Company monitor leading indicators for quality of screening, quality of portfolio and performance of collection of claims monthly to recognize and tackle the aggravation of credit cost promptly. In case of any aggravation, the Group takes action to tackle it.

To take the risk strategy above, the Group Individual Banking Risk Management Division in the Bank holds monthly performance review, analyzes and monitors these leading indicators, confers with the persons in charge of risk management of each Group Company on their policies and strategies, and carries out the necessary measures. The division does not merely avoid losses but also produces a balanced strategy with appropriate risk and return attributes and reports this business performance to the Group Risk Policy Committee quarterly.

(b) Market risk management

Market risks which are associated with changes in the value of financial assets and liabilities, including off-balance-sheet transactions, from fluctuations in interest rates, foreign exchange rates, stock prices and other market-related indices, have an effect on our financial performance.

The Group manages market risk by segregating the overall balance sheet, including off-balance-sheet transactions, into a trading business and a banking business. At the Market Business Management Committee, the senior review and decision-making for the management of the trading business are performed. At the Group ALM Committee, the senior review and decision-making for the management mainly related to asset/liability management of the banking business are performed.

To control total market risk amounts properly, the trading business includes the banking account transactions in “Securities” and “Derivative instruments,” which are desirable to manage the total risk amount in combination with the trading business in light of the purpose and format of the transaction, in addition to the trading account transactions.

The actual risk limits for asset/liability management of the trading business, such as the value-at-risk (VaR) method, are approved by the Group Executive Committee based on “Trading Business Risk Management Policy.” The Market Business Management Committee meets monthly to review reports from the Group Integrated Risk Management Division and front office.

The interest rate risk of the net asset and/or liability in the banking business, which has interest rate sensitivity, is managed by the Group ALM Committee based on “Group ALM Policy.”

The Group Integrated Risk Management Division is responsible for appropriate monitoring and reporting of market risk in both the Group's trading business and banking business. In addition to reporting risk information to management, administrative divisions and front office units, the Group Integrated Risk Management Division carries out regular risk analyses and makes recommendations. Market risk involved in the trading business is managed by the Trading Division and Investment Business Division, and market risk of the balance sheet involved in the banking business is managed by the Group Treasury Division.

Market risk is managed by quantifying on a daily basis and making risk adjustment in response to market conditions.

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) CONSOLIDATED

Quantitative information on market risk is as follows:

(i) Amount of market risk associated with the trading business
The Group uses VaR for quantitative analysis on market risk associated with the trading business. For calculating VaR, the historical simulation method (in principle, holding period of 10 days, confidence interval of 99%, and observation period of 250 business days) has been adopted.

The VaR in the Group's trading business as of March 31, 2019 and 2018 were ¥1,859 million (U. S. $16,788 thousand) and ¥1,275 million in the aggregate, respectively.

The Group conducts back testing to compare VaR calculated using the model with actual loss amounts. According to the results of back testing conducted, it is believed that the measurement model the Group uses is adequate enough to accurately capture market risk. It should be noted that VaR measures and calculates the amount of market risk at certain probability levels statistically based on historical market fluctuation, and therefore there may be cases where risk cannot be captured in such situations when market conditions are changing dramatically beyond what was experienced historically.

(ii) Amount of market risk associated with the banking business
The Group's main financial instruments which are affected by interest rate risk, one of the major risk variables, includes "Call loans," "Receivables under resale agreements," "Receivables under securities borrowing transactions," "Other monetary claims purchased," "Monetary assets held in trust," bonds other than trading business in "Securities," "Loans and bills discounted," "Lease receivables and leased investment assets," "Installment receivables," "Deposits, including negotiable certificates of deposit," "Debentures," "Call money," "Payables under repurchase agreements," "Payables under securities lending transactions," "Borrowed money," "Short-term corporate bonds," "Corporate bonds" and interest rate swaps other than trading business in "Derivative instruments." As for these financial assets and liabilities, the Group uses the amount of impact on economic values, which is calculated using fluctuation range of interest rates by 100 basis points (1%) for quantitative analysis to manage fluctuation risk of interest rates. The amount of such impact on economic values is calculated by categorizing the exposure amount of these financial assets and liabilities according to the term of interest payments and using the above fluctuation range of interest rates. The Bank calculates the amount of impact on economic values while reflecting the non-linear risk due to prepayment to appropriately estimate the fluctuation risk of interest rates. Assuming all risk variables except for interest rate are constant, the Group estimated that the economic value would decrease by ¥48,588 million (U.S. $438,761 thousand) and ¥53,257 million in case of an increase of the index interest rates by 100 basis points (1%), and would decrease by ¥5,848 million (U.S.$52,815 thousand) and ¥3,470 million in case of a decrease by 100 basis points (1%),as of March 31, 2019 and 2018, respectively. Such amount of impact on economic value is calculated based on the assumption that all risk variables except for interest rate are constant, and correlation between interest rate and other risk variables is not taken into consideration.

(c) Liquidity risk management
The Group ALM Committee, which is the senior review and decision-making body for the management of funding liquidity risk, manages funding liquidity risk by establishing funding gap limits and minimum liquidity reserve levels. In accordance with the "Cash Liquidity Risk Management Policy," the Bank has a structure to conduct two or more liquidity measurements and to secure available reserves over the net cumulative outflow forecasted in an emergency situation.

To manage the market liquidity risk for marketable instruments, the Group has trading limits and monitors the amounts of marketable instruments in view of the attributes of marketable instruments. Moreover, liquidity reserves for the trading account are calculated monthly and are reflected valuation of derivative transactions.

(D) CONCENTRATION OF CREDIT RISK
As of March 31, 2019, loans to the financial and insurance industry were approximately 11% of the total loans and bills discounted, and those to the real estate industry were approximately 12%, approximately 30% of which are nonrecourse loans for real estate.

As of March 31, 2018, loans to the financial and insurance industry were approximately 11% of the total loans and bills discounted, and those to the real estate industry were approximately 12%, approximately 30% of which are nonrecourse loans for real estate.

(E) FAIR VALUE OF FINANCIAL INSTRUMENTS
Fair value of financial instruments includes the value calculated rationally in cases where no market price is available besides the value based on market price. Certain assumptions have been adopted for the calculation, so that the value calculated may not be the same when assumptions that differ from the Group's calculation are adopted.

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) CONSOLIDATED

Fair values of financial instruments as of March 31, 2019 and 2018 were as follows:

	Millions of yen					
	2019			2018		
	Carrying amount	**Fair value**	**Unrealized gain (loss)**	Carrying amount	Fair value	Unrealized gain (loss)
Assets:						
(1) Cash and due from banks	**¥ 1,355,966**	**¥ 1,355,966**	**¥ –**	¥ 1,465,663	¥ 1,465,663	¥ –
(2) Receivables under securities borrowing transactions	**2,119**	**2,119**	**–**	2,629	2,629	–
(3) Other monetary claims purchased						
Trading purposes	**2,853**	**2,853**	**–**	1,705	1,705	–
Other[1]	**27,987**	**28,287**	**300**	34,322	35,078	755
(4) Trading assets						
Securities held for trading purposes	**3,445**	**3,445**	**–**	4,589	4,589	–
(5) Monetary assets held in trust[1]	**304,039**	**309,452**	**5,412**	234,249	238,341	4,092
(6) Securities						
Trading securities	**0**	**0**	**–**	0	0	–
Securities being held to maturity	**399,201**	**402,406**	**3,204**	481,303	484,676	3,372
Securities available for sale	**624,563**	**624,563**	**–**	534,752	534,752	–
Equity securities of affiliates	**57,345**	**43,837**	**(13,508)**	51,960	39,079	(12,880)
(7) Loans and bills discounted[2]	**4,986,839**			4,895,963		
Reserve for credit losses	**(63,890)**			(67,160)		
Net	**4,922,948**	**5,114,537**	**191,588**	4,828,803	4,997,458	168,655
(8) Lease receivables and leased investment assets	**176,553**			171,429		
Estimated Residual Value[3]	**(4,952)**			(4,971)		
Reserve for credit losses	**(1,487)**			(2,019)		
Net	**170,114**	**176,338**	**6,224**	164,439	168,611	4,172
(9) Other assets						
Installment receivables	**562,236**			558,843		
Deferred gains on installment receivables	**(11,246)**			(11,883)		
Reserve for credit losses	**(9,962)**			(9,802)		
Net	**541,027**	**594,686**	**53,659**	537,158	581,827	44,669
Total	**¥ 8,411,611**	**¥ 8,658,493**	**¥ 246,881**	¥ 8,341,578	¥ 8,554,414	¥ 212,836
Liabilities:						
(1) Deposits, including negotiable certificates of deposit	**¥ 5,922,145**	**¥ 5,919,691**	**¥ 2,453**	¥ 6,067,096	¥ 6,065,652	¥ 1,444
(2) Debentures	**–**	**–**	**–**	423	423	(0)
(3) Call money	**145,000**	**145,000**	**–**	–	–	–
(4) Payables under repurchase agreements	**59,098**	**59,098**	**–**	55,919	55,919	–
(5) Payables under securities lending transactions	**510,229**	**510,229**	**–**	433,462	433,462	–
(6) Trading liabilities						
Trading securities sold for short sales	**2,124**	**2,124**	**–**	2,625	2,625	–
(7) Borrowed money	**684,077**	**684,028**	**49**	739,578	739,603	(24)
(8) Short-term corporate bonds	**191,000**	**191,000**	**–**	175,700	175,700	–
(9) Corporate bonds	**92,335**	**92,373**	**(38)**	85,000	85,228	(228)
Total	**¥ 7,606,011**	**¥ 7,603,547**	**¥ 2,464**	¥ 7,559,805	¥ 7,558,613	¥ 1,191
Derivative instruments[4]:						
Hedge accounting is not applied	**¥ 22,481**	**¥ 22,481**	**¥ –**	¥ 19,528	¥ 19,528	¥ –
Hedge accounting is applied	**(9,356)**	**(9,356)**	**–**	(1,712)	(1,712)	–
Total	**¥ 13,125**	**¥ 13,125**	**¥ –**	¥ 17,815	¥ 17,815	¥ –

	Contract amount	**Fair value**	Contract amount	Fair value
Other:				
Guarantee contracts[5]	**¥ 456,759**	**¥ 8,792**	¥ 395,301	¥ 2,318

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) CONSOLIDATED

	Thousands of U.S. dollars		
	2019		
	Carrying amount	Fair value	Unrealized gain (loss)
Assets:			
(1) Cash and due from banks	$ 12,244,592	$ 12,244,592	$ –
(2) Receivables under securities borrowing transactions	19,135	19,135	–
(3) Other monetary claims purchased			
Trading purposes	25,769	25,769	–
Other[1]	252,731	255,440	2,709
(4) Trading assets			
Securities held for trading purposes	31,113	31,113	–
(5) Monetary assets held in trust[1]	2,745,524	2,794,403	48,879
(6) Securities			
Trading securities	0	0	–
Securities being held to maturity	3,604,853	3,633,791	28,938
Securities available for sale	5,639,907	5,639,907	–
Equity securities of affiliates	517,839	395,860	(121,980)
(7) Loans and bills discounted[2]	45,031,963		
Reserve for credit losses	(576,944)		
Net	44,455,019	46,185,094	1,730,075
(8) Lease receivables and leased investment assets	1,594,311		
Estimated residual value[3]	(44,723)		
Reserve for credit losses	(13,429)		
Net	1,536,159	1,592,368	56,209
(9) Other assets			
Installment receivables	5,077,089		
Deferred gains on installment receivables	(101,561)		
Reserve for credit losses	(89,965)		
Net	4,885,563	5,370,113	484,551
Total	$ 75,958,204	$ 78,187,585	$ 2,229,382
Liabilities:			
(1) Deposits, including negotiable certificates of deposit	$ 53,477,923	$ 53,455,770	$ 22,153
(2) Debentures	–	–	–
(3) Call money	1,309,373	1,309,373	–
(4) Payables under repurchase agreements	533,671	533,671	–
(5) Payables under securities lending transactions	4,607,458	4,607,458	–
(6) Trading liabilities			
Trading securities sold for short sales	19,186	19,186	–
(7) Borrowed money	6,177,334	6,176,890	444
(8) Short-term corporate bonds	1,724,761	1,724,761	–
(9) Corporate bonds	833,800	834,145	(345)
Total	$ 68,683,506	$ 68,661,253	$ 22,253
Derivative instruments[4]:			
Hedge accounting is not applied	$ 203,014	$ 203,014	$ –
Hedge accounting is applied	(84,493)	(84,493)	–
Total	$ 118,521	$ 118,521	$ –

	Contract amount	Fair value
Other:		
Guarantee contracts[5]	$ 4,124,607	$ 79,399

1 Carrying amounts of Other monetary claims purchased and Monetary assets held in trust are presented as the amount net of reserve for credit losses because they are immaterial.
2 For consumer loans held by consolidated subsidiaries included in Loans and bills discounted, reserve for losses on interest repayments of ¥63,025 million (U.S.$569,131 thousand) and ¥74,687 million was recognized for estimated losses on reimbursements of excess interest payments as of March 31, 2019 and 2018 respectively, which included the reserve for losses on interest repayments that have a possibility of being appropriated for loan principal in the future.
3 Estimated residual value of leased investment assets arising from finance lease transactions, where the ownership of the property is not deemed to transfer to the lessee, is deducted from leased investment assets.
4 Derivative instruments include derivative transactions both in trading assets and liabilities, and in other assets and liabilities. Derivative instruments are presented as net of assets and liabilities and presented with ( ) when a liability stands on a net basis.
5 Contract amount for guarantee contracts presents the amount of "Acceptances and guarantees" on the consolidated balance sheets.

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) CONSOLIDATED

(Note 1) Valuation methodologies for financial instruments

Assets:

(1) Cash and due from banks
The fair values are measured at carrying amounts because the fair values of due from banks with no maturity are approximate to the carrying amounts. Likewise, for due from banks with a maturity, the fair values are measured at carrying amounts because most of them are with short maturities of six months or less, therefore the fair values are approximate to the carrying amounts.

(2) Receivables under securities borrowing transactions
The fair values are measured at carrying amounts because most of them are with short maturities of three months or less, therefore the fair values are approximate to the carrying amounts.

(3) Other monetary claims purchased
The fair values are measured at quoted prices from third parties or determined using the DCF method.

(4) Trading assets
The fair values are measured at market prices or quoted prices from third parties, or determined using the DCF method.

(5) Monetary assets held in trust
The fair values are determined using the DCF method based on the characteristics of the components of the entrusted assets.

(6) Securities
The fair values of marketable equity securities are measured at closing prices on exchanges. The fair values of bonds and mutual funds are measured at market prices or quoted prices from third parties or determined using the DCF method.

(7) Loans and bills discounted
The fair values of loans and bills discounted with a fixed interest rate are determined by discounting contractual cash flows, and the fair values of loans and bills discounted with a floating interest rate are determined by discounting expected cash flows based on the forward rates (for loans and bills discounted hedged by interest rate swaps which meet specific criteria, summing up the cash flows from the interest rate swaps), using the risk-free rate adjusted to account for credit risk (after consideration of collateral) with CDS spread etc. corresponding to the internal credit rating of each borrower. The fair values of housing loans are determined by discounting expected cash flows at the rates that consist of the risk free rate and spread that would be applied for the new housing loans with the same terms at the consolidated balance sheet date. The fair values of consumer loans are determined by discounting expected cash flows that reflect expected loss at the rates that consist of the risk-free rate and certain costs, by a group of similar product types and customer segments.

Regarding loans to obligors classified as “legally bankrupt,” “virtually bankrupt” or “possibly bankrupt,” fair values are measured at carrying amounts net of reserves for loan losses because the fair values of those loans are approximate to the carrying amounts net of reserves for loan losses, which are calculated based on the DCF method described in “(N) RESERVE FOR CREDIT LOSSES” in Note 2 “SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES” or based on amounts which are expected to be collected through the disposal of collateral or execution of guarantees.

(8) Lease receivables and leased investment assets
The fair values are primarily determined by discounting contractual cash flows at the rates that would be applied for the new contracts by a group of major product categories.

(9) Installment receivables
The fair values are primarily determined by discounting expected cash flows that reflect the probability of prepayment at the rates that consist of the risk-free rate, credit risk and certain costs, by major product category groups.

Liabilities:

(1) Deposits, including negotiable certificates of deposit
The fair values of demand deposits, such as current deposits and ordinary deposits are recognized as the payment amount at the consolidated balance sheet date.

The fair values of the deposits with maturities of six months or less are approximate to carrying amounts because of their short term maturities. The fair values of time deposits and negotiable certificates of deposit are determined by discounting expected cash flows at the rates that consist of the risk free rate and spread that would be applied for the new contracts with the same terms at the consolidated balance sheet date.

(2) Debentures and (9) Corporate bonds
The fair values of marketable corporate bonds are measured at market prices.

The fair values of nonmarketable corporate bonds under the Medium Term Note program are determined by discounting expected cash flows at the actual average funding rates of corporate time deposits etc. funded within the past three months of the consolidated balance sheet date. The fair values of retail debentures are determined by discounting contractual cash flows at the latest actual funding rate of large-denomination (¥10 million or more) time deposits.

The fair values of step-up callable subordinated bonds are determined by discounting expected cash flows, which reflect the probability of early redemption at the rates that consist of the risk-free rate and the CDS spread of the Bank.

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) CONSOLIDATED

(3) Call money, (4) Payables under repurchase agreements and (5) Payables under securities lending transactions
The fair values are approximate to the carrying amounts for call money and bills sold, payables under repurchase agreements, and payables under securities lending transactions with short maturities of three months or less.

(6) Trading liabilities
The fair values are measured at market prices.

(7) Borrowed money
The fair values of borrowed money with fixed interest rates are primarily determined by discounting contractual cash flows (for borrowed money hedged by interest rate swaps which meet specific matching criteria, the contractual cash flows include the cash flows of the interest rate swaps), and the fair values of borrowed money with floating interest rates are determined by discounting expected cash flows on forward rates, at the funding rates that reflect the credit risk of the borrower.

The fair values of step-up callable subordinated borrowings are determined by discounting expected cash flows that reflect the probability of early redemption at the rates that consist of the risk-free rate and the CDS spread of the Bank.

(8) Short-term corporate bonds
The fair values are approximate to the carrying amounts because most of them are with short maturities of one year or less.

Derivative instruments:
The fair values are primarily measured at closing prices on exchanges or determined using the DCF method or option-pricing models.

Other:
Guarantee contracts
The fair values are determined by discounting the amount of difference between the original contractual cash flows and the expected cash flows that would be applied for the new contracts with the same terms at the risk-free rate.

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

	Millions of yen		Thousands of U.S. dollars
As of March 31,	**2019**	2018	**2019**
Equity securities without readily available market price[1,2]	**¥ 14,342**	¥ 13,579	**$ 129,519**
Investment in partnerships and others[1,2]	**34,833**	41,925	**314,551**
Total	**¥ 49,176**	¥ 55,505	**$ 444,070**

1 Equity securities without readily available market prices 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 prices, 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, 2019 and 2018, impairment losses on equity securities without readily available market price of ¥1,439 million (U.S.$12,996 thousand) and ¥661 million, and on investment in partnerships and others of ¥1,441 million (U.S.$13,015 thousand) and ¥170 million were recognized, respectively.

(Note 3) Maturity analysis for financial assets with contractual maturities

	Millions of yen			
As of March 31, 2019	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years
Due from banks	**¥1,351,049**	**¥ –**	**¥ –**	**¥ –**
Receivables under securities borrowing transactions	**2,119**	**–**	**–**	**–**
Other monetary claims purchased				
Other than trading purposes	**14,562**	**3,000**	**826**	**9,746**
Securities				
Held-to-maturity	**120,000**	**230,000**	**5,000**	**40,000**
Available-for-sale	**26,317**	**119,977**	**121,259**	**322,524**
Loans and bills discounted	**1,222,409**	**1,342,949**	**873,513**	**1,520,287**
Lease receivables and leased investment assets	**53,318**	**72,745**	**31,794**	**18,668**
Installment receivables	**144,394**	**180,553**	**77,907**	**153,635**
Total	**¥2,934,170**	**¥1,949,225**	**¥1,110,300**	**¥2,064,861**

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES (CONTINUED) CONSOLIDATED

As of March 31, 2019	Thousands of U.S. dollars 1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years
Due from banks	$12,200,198	$ –	$ –	$ –
Receivables under securities borrowing transactions	19,135	–	–	–
Other monetary claims purchased				
Other than trading purposes	131,504	27,090	7,460	88,010
Securities				
Held-to-maturity	1,083,619	2,076,937	45,151	361,206
Available-for-sale	237,653	1,083,420	1,094,997	2,912,449
Loans and bills discounted	11,038,550	12,127,047	7,887,965	13,728,440
Lease receivables and leased investment assets	481,472	656,906	287,109	168,578
Installment receivables	1,303,902	1,630,423	703,514	1,387,352
Total	$26,496,034	$17,601,824	$10,026,196	$18,646,035

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, 2019	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[1]	¥ 5,404,938	¥ 207,990	¥ 152,792	¥ 156,423
Debentures	–	–	–	–
Call money	145,000	–	–	–
Payables under repurchase agreements	59,098	–	–	–
Payables under securities lending transactions	510,229	–	–	–
Borrowed money	247,979	224,776	74,719	136,602
Short-term corporate bonds	191,000	–	–	–
Corporate bonds	25,000	25,735	40,000	1,600
Total	¥ 6,583,246	¥ 458,502	¥ 267,511	¥ 294,625

As of March 31, 2019	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[1]	$48,807,467	$ 1,878,187	$ 1,379,738	$ 1,412,532
Debentures	–	–	–	–
Call money	1,309,373	–	–	–
Payables under repurchase agreements	533,671	–	–	–
Payables under securities lending transactions	4,607,458	–	–	–
Borrowed money	2,239,294	2,029,772	674,730	1,233,538
Short-term corporate bonds	1,724,761	–	–	–
Corporate bonds	225,754	232,391	361,206	14,448
Total	$59,447,778	$ 4,140,350	$ 2,415,674	$ 2,660,518

1 The cash flow of demand deposits is included in "1 year or less."

39. DERIVATIVE FINANCIAL INSTRUMENTS — CONSOLIDATED

(A) DERIVATIVE TRANSACTIONS TO WHICH HEDGE ACCOUNTING WAS NOT APPLIED

The fair values of derivatives on the consolidated balance sheets as of March 31, 2019 and 2018 are adjusted for credit risk by a reduction of ¥1,427 million (U.S.$12,891 thousand) and ¥1,399 million, respectively, and also adjusted for liquidity risk by a reduction of ¥1,766 million (U.S.$15,950 thousand) and ¥1,676 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, 2019 and 2018 were as follows:

	Millions of yen							
	2019				2018			
	Contract/Notional principal				Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**	Total	Maturity over 1 year	Fair value	Unrealized gain (loss)
Futures contracts (listed):								
Sold	**¥ –**	**¥ –**	**¥ –**	**¥ –**	¥ 260	¥ –	¥ 1	¥ 1
Bought	**16,299**	**1,610**	**34**	**34**	1,678	1,031	1	1
Interest rate options (listed):								
Sold	**–**	**–**	**–**	**–**	–	–	–	–
Bought	**–**	**–**	**–**	**–**	–	–	–	–
Interest rate swaps (over-the-counter):								
Receive fixed and pay floating	**4,447,768**	**3,791,287**	**173,548**	**173,548**	4,594,421	3,884,522	152,090	152,090
Receive floating and pay fixed	**4,092,652**	**3,442,857**	**(154,298)**	**(154,298)**	4,110,663	3,521,558	(136,761)	(136,761)
Receive floating and pay floating	**1,738,708**	**1,425,081**	**2,101**	**2,101**	1,714,535	1,429,030	1,848	1,848
Interest rate swaptions (over-the-counter):								
Sold	**846,584**	**566,584**	**(1,957)**	**(630)**	832,134	567,634	(1,597)	(131)
Bought	**741,327**	**706,698**	**(571)**	**(2,134)**	871,620	732,911	418	(1,855)
Interest rate options (over-the-counter):								
Sold	**12,156**	**12,156**	**(85)**	**135**	17,280	11,780	(160)	148
Bought	**9,156**	**9,156**	**41**	**(28)**	13,780	8,780	99	1
Total			**¥ 18,812**	**¥ 18,727**			¥ 15,941	¥ 15,342

	Thousands of U.S. dollars			
	2019			
	Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**
Futures contracts (listed):				
Sold	**$ –**	**$ –**	**$ –**	**$ –**
Bought	**147,187**	**14,542**	**314**	**314**
Interest rate options (listed):				
Sold	**–**	**–**	**–**	**–**
Bought	**–**	**–**	**–**	**–**
Interest rate swaps (over-the-counter):				
Receive fixed and pay floating	**40,164,063**	**34,235,932**	**1,567,173**	**1,567,173**
Receive floating and pay fixed	**36,957,314**	**31,089,560**	**(1,393,345)**	**(1,393,345)**
Receive floating and pay floating	**15,700,817**	**12,868,711**	**18,974**	**18,974**
Interest rate swaptions (over-the-counter):				
Sold	**7,644,793**	**5,116,348**	**(17,680)**	**(5,695)**
Bought	**6,694,305**	**6,381,600**	**(5,160)**	**(19,277)**
Interest rate options (over-the-counter):				
Sold	**109,772**	**109,772**	**(770)**	**1,224**
Bought	**82,681**	**82,681**	**374**	**(255)**
Total			**$ 169,880**	**$ 169,115**

Notes:
(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in the consolidated statement of income.
(2) The fair values of listed transactions represent the closing price on the Tokyo Financial Exchange and other exchanges. The fair values of over-the-counter transactions are calculated primarily by using the DCF method or option pricing models.

39. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED) CONSOLIDATED

(b) CURRENCY-RELATED TRANSACTIONS

Currency-related transactions as of March 31, 2019 and 2018 were as follows:

	Millions of yen							
	2019				2018			
	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)	**¥ 386,172**	**¥ 334,939**	**¥ 1,000**	**¥ 1,000**	¥ 423,375	¥ 298,609	¥ 438	¥ 438
Forward foreign exchange contracts (over-the-counter):								
Sold	**1,057,595**	**45,219**	**4,201**	**4,201**	894,307	21,452	12,162	12,162
Bought	**723,974**	**56,323**	**1,523**	**1,523**	744,366	47,985	(10,234)	(10,234)
Currency options (over-the-counter):								
Sold	**885,386**	**451,408**	**(19,365)**	**14,084**	927,123	380,604	(21,366)	9,789
Bought	**805,446**	**372,724**	**16,403**	**(4,244)**	909,315	340,542	21,199	2,052
Total			**¥ 3,763**	**¥ 16,566**			¥ 2,199	¥ 14,209

	Thousands of U.S. dollars			
	2019			
	Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**
Currency swaps (over-the-counter)	**$ 3,487,199**	**$ 3,024,559**	**$ 9,036**	**$ 9,036**
Forward foreign exchange contracts (over-the-counter):				
Sold	**9,550,258**	**408,341**	**37,943**	**37,943**
Bought	**6,537,609**	**508,611**	**13,756**	**13,756**
Currency options (over-the-counter):				
Sold	**7,995,180**	**4,076,293**	**(174,873)**	**127,184**
Bought	**7,273,313**	**3,365,762**	**148,122**	**(38,324)**
Total			**$ 33,985**	**$ 149,595**

Notes:

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in the consolidated statement of income.

(2) The fair values are calculated primarily by using the DCF method or option pricing models.

39. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED) CONSOLIDATED

(c) EQUITY-RELATED TRANSACTIONS

Equity-related transactions as of March 31, 2019 and 2018 were as follows:

	Millions of yen							
	2019				2018			
	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	**¥ 7,263**	**¥ –**	**¥ 275**	**¥ 275**	¥ 16,957	¥ 7,537	¥ (1,153)	¥ (1,153)
Bought	**1,948**	**1,137**	**(118)**	**(118)**	2,360	–	42	42
Equity index options (listed):								
Sold	**62,716**	**7,712**	**(1,675)**	**1,255**	64,166	26,712	(4,769)	(68)
Bought	**64,400**	**11,125**	**1,520**	**(1,408)**	82,268	28,500	6,074	1,054
Equity options (over-the-counter):								
Sold	**6,424**	**2,800**	**(2,729)**	**(2,026)**	10,836	6,424	(4,611)	(3,255)
Bought	**10,945**	**3,172**	**5,304**	**3,575**	14,377	10,945	8,584	5,957
Other (over-the-counter):								
Sold	**–**	**–**	**–**	**–**	–	–	–	–
Bought	**735**	**735**	**18**	**18**	100	100	(1)	(1)
Total			**¥ 2,594**	**¥ 1,571**			¥ 4,164	¥ 2,576

	Thousands of U.S. dollars			
	2019			
	Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**
Equity index futures (listed):				
Sold	**$ 65,589**	**$ –**	**$ 2,489**	**$ 2,489**
Bought	**17,598**	**10,272**	**(1,074)**	**(1,074)**
Equity index options (listed):				
Sold	**566,338**	**69,645**	**(15,129)**	**11,336**
Bought	**581,542**	**100,461**	**13,731**	**(12,716)**
Equity options (over-the-counter):				
Sold	**58,013**	**25,292**	**(24,652)**	**(18,296)**
Bought	**98,840**	**28,644**	**47,900**	**32,286**
Other (over-the-counter):				
Sold	**–**	**–**	**–**	**–**
Bought	**6,637**	**6,637**	**167**	**167**
Total			**$ 23,432**	**$ 14,193**

Notes:

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in the consolidated statement of income.

(2) The fair values of listed transactions represent the closing price on the Osaka Exchange and other exchanges. The fair values of over-the-counter transactions are calculated primarily by using the DCF method or option pricing model.

39. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

CONSOLIDATED

(d) BOND-RELATED TRANSACTIONS

Bond-related transactions as of March 31, 2019 and 2018 were as follows:

	Millions of yen							
	2019				2018			
	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	**¥ 21,840**	**¥ –**	**¥ (55)**	**¥ (55)**	¥ 26,031	¥ –	¥ (95)	¥ (95)
Bought	**27,095**	**–**	**318**	**318**	19,728	–	73	73
Bond options (listed):								
Sold	**–**	**–**	**–**	**–**	–	–	–	–
Bought	**–**	**–**	**–**	**–**	13,545	–	9	(9)
Total			**¥ 263**	**¥ 263**			¥ (12)	¥ (31)

	Thousands of U.S. dollars			
	2019			
	Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**
Bond futures (listed):				
Sold	**$ 197,224**	**$ –**	**$ (501)**	**$ (501)**
Bought	**244,673**	**–**	**2,877**	**2,877**
Bond options (listed):				
Sold	**–**	**–**	**–**	**–**
Bought	**–**	**–**	**–**	**–**
Total			**$ 2,376**	**$ 2,376**

Notes:

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in the consolidated statement of 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 option pricing model.

(e) CREDIT DERIVATIVES TRANSACTIONS

Credit derivatives transactions as of March 31, 2019 and 2018 were as follows:

	Millions of yen							
	2019				2018			
	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	**¥ 46,000**	**¥ 27,000**	**¥ 622**	**¥ 622**	¥ 82,550	¥ 44,000	¥ 965	¥ 965
Bought	**46,000**	**27,000**	**(380)**	**(380)**	82,000	43,000	(654)	(654)
Total			**¥ 241**	**¥ 241**			¥ 310	¥ 310

	Thousands of U.S. dollars			
	2019			
	Contract/Notional principal			
	Total	**Maturity over 1 year**	**Fair value**	**Unrealized gain (loss)**
Credit default option (over-the-counter):				
Sold	**$ 415,387**	**$ 243,814**	**$ 5,619**	**$ 5,619**
Bought	**415,387**	**243,814**	**(3,437)**	**(3,437)**
Total			**$ 2,182**	**$ 2,182**

Notes:

(1) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in the consolidated statement of income.

(2) The fair values are calculated primarily by using the DCF method.

(3) "Sold" stands for accepting credit risk and "Bought" stands for transferring credit risk.

39. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED) CONSOLIDATED

(B) DERIVATIVE TRANSACTIONS TO WHICH HEDGE ACCOUNTING WAS APPLIED

(a) INTEREST RATE-RELATED TRANSACTIONS

Interest rate-related transactions which are accounted for using the deferral method as of March 31, 2019 and 2018 were as follows:

	Millions of yen					
	2019			2018		
	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	**¥ 106,000**	**¥ 84,000**	**¥ 2,473**	¥ 406,000	¥ 88,000	¥ 2,238
Receive floating and pay fixed	**183,408**	**161,408**	**(16,168)**	243,319	181,743	(14,050)
Total			**¥ (13,695)**			¥ (11,812)

	Thousands of U.S. dollars		
	2019		
	Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**
Interest rate swaps:			
Receive fixed and pay floating	**$ 957,197**	**$ 758,534**	**$ 22,332**
Receive floating and pay fixed	**1,656,208**	**1,457,544**	**(146,007)**
Total			**$ (123,675)**

Notes:

(1) Most of the hedged items are interest-bearing assets and liabilities such as loans and bills discounted, available-for-sale securities (bonds) and deposits, including negotiable certificate of deposit.

(2) Interest rate swaps are primarily accounted for using the deferral method in accordance with Industry Audit Committee Report No. 24 of the JICPA.

(3) The fair values are calculated primarily by using the DCF method.

39. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED) CONSOLIDATED

Interest rate swaps which meet specific matching criteria as of March 31, 2019 and 2018 were as follows:

	Millions of yen					
	2019			2018		
	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	**¥ 28,358**	**¥ 25,000**	**¥ –**	¥ 31,029	¥ 27,684	¥ –

	Thousands of U.S. dollars		
	2019		
	Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**
Interest rate swaps:			
Receive floating and pay fixed	**$ 256,081**	**$ 225,761**	**$ –**

Notes:
(1) The hedged items are loans and bills discounted and borrowed money.
(2) Interest rate swaps which meet specific matching criteria are accounted for as component of hedged loans and bills discounted and borrowed money. Therefore, the fair value of those interest rate swaps is included in the fair value of loans and bills discounted and borrowed money in fair value information shown in Note 38 “FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES.”

(b) CURRENCY-RELATED TRANSACTIONS

Currency-related transactions which are accounted for using the deferral method as of March 31, 2019 and 2018 were as follows:

	Millions of yen					
	2019			2018		
	Contract/Notional principal			Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**	Total	Maturity over 1 year	Fair value
Currency swaps	**¥ 317,139**	**¥ 242,940**	**¥ 4,338**	¥ 235,580	¥ 193,121	¥ 10,100

	Thousands of U.S. dollars		
	2019		
	Contract/Notional principal		
	Total	**Maturity over 1 year**	**Fair value**
Currency swaps	**$ 2,863,819**	**$ 2,193,790**	**$ 39,182**

Notes:
(1) Most of the hedged items are foreign currency denominated loans and bills discounted, securities, deposits, and foreign exchanges.
(2) Currency swap transactions are primarily accounted for using the deferral method in accordance with Industry Audit Committee Report No. 25 of the JICPA.
(3) The fair values are calculated primarily by using the DCF method.

40. SUBSEQUENT EVENTS

CONSOLIDATED

(A) DIVIDENDS

The following appropriation of retained earnings of the Bank for the fiscal year ended March 31, 2019 was approved at the meeting of the Board of Directors held on May 15, 2019:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, common stock, ¥10.00 (U.S.$0.1) per share	**¥ 2,452**	**$ 22,149**

(B) ACQUISITION OF SHARES OF SHINKO LEASE CO., LTD.

On April 23, 2019, Showa Leasing Co., Ltd., a subsidiary of the Bank, concluded the share purchase agreement with Mitsubishi UFJ Lease & Finance Company Limited, the current parent company of SHINKO LEASE CO., LTD. Showa Leasing Co., Ltd. will purchase the shares of SHINKO LEASE CO., LTD. on July 1, 2019 as the settlement date.

(a) Outline of the business combination

(i) Name and business description of the acquired company
Name: SHINKO LEASE CO., LTD.
Business description: General leasing business

(ii) Purpose of the acquisition
For revenue growth of the Group.

(iii) Date on which the business combination was effected
July 1, 2019 (Planned)

(iv) Legal form of the business combination
Acquisition of shares with cash consideration

(v) Company name after the business combination
A change of the company name is not planned.

(vi) Percentage of voting rights acquired
80%

(vii) Basis for determination of the acquiring company
Showa Leasing Co., Ltd., will acquire the shares by cash.

(b) Acquisition costs of the shares and their breakdown

Not disclosed by agreement between the related parties

(c) Major acquisition-related costs and their breakdown

Not determined

(d) Amount, reason of the occurrence, and amortization method and period, of goodwill

Not determined

(e) Amounts and breakdown of assets and liabilities on the date of the business combination

These amounts are in the process of being calculated.

(C) ACQUISITION OF TREASURY SHARES

On May 15, 2019, 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

As a part of the Bank's efforts to achieve the repayment of public funds, a resolution to undertake the acquisition of treasury shares has been approved in light of factors such as the Bank's current capital position, earnings 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.

40. SUBSEQUENT EVENTS (CONTINUED) CONSOLIDATED

(b) Details of acquisition

(i) Type of shares to be repurchased

Common stock

(ii) Total Number of shares to be repurchased

(Up to) 23,500 thousand shares (9.58% of total number of common shares issued excluding treasury shares)

(iii) Total repurchase amount

(Up to) ¥23,500 million (U.S.$212,209 thousand)

(iv) Acquisition period

From May 16, 2019 to March 31, 2020

In accordance with the aforementioned resolution by the Board of Directors, the Bank has undertaken the acquisition of treasury shares as follows:

(i) Type of shares repurchased

Common stock

(ii) Total Number of shares repurchased

848,000 shares

(iii) Total amount of repurchase

¥1,321,725,400 (U.S.$11,935 thousand)

(iv) Acquisition period

From May 16, 2019 to May 31, 2019

(v) Acquisition method

Open market purchase on the Tokyo Stock Exchange

INDEPENDENT AUDITORS' REPORT

Deloitte.

Deloitte Touche Tohmatsu LLC
Marunouchi Nijubashi Building
3-2-3 Marunouchi, Chiyoda-ku
Tokyo 100-8360
Japan

Tel: +81 (3) 6213 1000
Fax: +81 (3) 6213 1005
www.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Shinsei Bank, Limited:

We have audited the accompanying consolidated balance sheet of Shinsei Bank, Limited (the "Bank") and its consolidated subsidiaries as of March 31, 2019, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Bank and its consolidated subsidiaries as of March 31, 2019, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 13, 2019

Member of
Deloitte Touche Tohmatsu Limited

NONCONSOLIDATED BALANCE SHEET (UNAUDITED)

Shinsei Bank, Limited
As of March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note)
	2019	2018	**2019**
ASSETS			
Cash and due from banks	**¥ 1,280,991**	¥ 1,391,303	**$ 11,567,556**
Other monetary claims purchased	**10,809**	115,458	**97,609**
Trading assets	**200,276**	199,866	**1,808,525**
Monetary assets held in trust	**198,717**	117,756	**1,794,449**
Securities	**1,445,927**	1,452,342	**13,056,956**
Loans and bills discounted	**4,932,610**	4,637,953	**44,542,265**
Foreign exchanges	**29,546**	32,511	**266,813**
Other assets	**190,104**	223,082	**1,716,677**
Premises and equipment	**12,610**	14,031	**113,879**
Intangible assets	**26,483**	23,139	**239,153**
Prepaid pension cost	**6,849**	6,362	**61,854**
Deferred tax assets	**1,127**	573	**10,182**
Customers' liabilities for acceptances and guarantees	**18,060**	19,810	**163,090**
Reserve for credit losses	**(25,519)**	(26,721)	**(230,447)**
Total assets	**¥ 8,328,595**	¥ 8,207,471	**$ 75,208,560**
LIABILITIES AND EQUITY			
Liabilities:			
Deposits, including negotiable certificates of deposit	**¥ 6,206,867**	¥ 6,228,183	**$ 56,049,009**
Debentures	**–**	423	**–**
Call money	**145,000**	–	**1,309,373**
Payables under repurchase agreements	**59,098**	55,919	**533,671**
Payables under securities lending transactions	**510,229**	433,462	**4,607,458**
Trading liabilities	**179,749**	181,337	**1,623,163**
Borrowed money	**195,628**	263,114	**1,766,557**
Foreign exchanges	**471**	102	**4,256**
Corporate bonds	**42,335**	45,000	**382,292**
Other liabilities	**113,903**	140,685	**1,028,571**
Accrued employees' bonuses	**4,847**	4,740	**43,772**
Reserve for reimbursement of debentures	**3,764**	4,130	**33,991**
Acceptances and guarantees	**18,060**	19,810	**163,090**
Total liabilities	**7,479,955**	7,376,910	**67,545,202**
Equity:			
Common stock	**512,204**	512,204	**4,625,290**
Capital surplus	**79,465**	79,465	**717,590**
Stock acquisition rights	**49**	270	**447**
Retained earnings:			
Legal reserve	**15,243**	14,738	**137,654**
Unappropriated retained earnings	**292,611**	324,912	**2,642,326**
Unrealized gain (loss) on available-for-sale securities	**4,719**	4,268	**42,618**
Deferred gain (loss) on derivatives under hedge accounting	**(17,925)**	(15,759)	**(161,868)**
Treasury stock, at cost	**(37,729)**	(89,540)	**(340,699)**
Total equity	**848,640**	830,560	**7,663,358**
Total liabilities and equity	**¥ 8,328,595**	¥ 8,207,471	**$ 75,208,560**

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥110.74=U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2019.

NONCONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

Shinsei Bank, Limited
For the fiscal year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note)
	2019	2018	**2019**
Interest income:			
Interest on loans and bills discounted	**¥ 101,293**	¥ 94,304	**$ 914,696**
Interest and dividends on securities	**21,413**	25,441	**193,369**
Interest on deposits with banks	**1,113**	1,036	**10,053**
Other interest income	**644**	1,051	**5,819**
Total interest income	**124,464**	121,833	**1,123,937**
Interest expenses:			
Interest on deposits, including negotiable certificates of deposit	**7,807**	9,025	**70,499**
Interest and discounts on debentures	**0**	3	**1**
Interest on other borrowings	**589**	547	**5,326**
Interest on corporate bonds	**313**	761	**2,834**
Other interest expenses	**9,291**	6,146	**83,906**
Total interest expenses	**18,002**	16,483	**162,566**
Net interest income	**106,462**	105,350	**961,371**
Fees and commissions income	**19,484**	17,227	**175,948**
Fees and commissions expenses	**29,660**	29,698	**267,839**
Net fees and commissions	**(10,176)**	(12,470)	**(91,892)**
Net trading income	**4,194**	4,575	**37,875**
Other business income (loss), net:			
Net gain (loss) on monetary assets held in trust	**1,464**	2,026	**13,222**
Net gain (loss) on foreign exchanges	**5,741**	8,213	**51,844**
Net gain (loss) on securities	**1,256**	6,362	**11,350**
Net gain (loss) on other monetary claims purchased	**344**	291	**3,112**
Other, net	**43**	588	**388**
Net other business income (loss)	**8,850**	17,483	**79,918**
Total revenue	**109,330**	114,938	**987,272**
General and administrative expenses:			
Personnel expenses	**27,755**	27,824	**250,636**
Premises expenses	**12,023**	12,738	**108,574**
Technology and data processing expenses	**11,556**	11,008	**104,360**
Advertising expenses	**882**	7,202	**7,968**
Consumption and property taxes	**5,821**	5,629	**52,567**
Deposit insurance premium	**1,645**	1,775	**14,862**
Other general and administrative expenses	**12,813**	13,273	**115,705**
Total general and administrative expenses	**72,498**	79,453	**654,672**
Net business profit	**36,832**	35,485	**332,600**
Net credit costs (recoveries)	**(730)**	1,295	**(6,593)**
Other gains (losses), net	**(1,530)**	6,798	**(13,817)**
Income (loss) before income taxes	**36,032**	40,989	**325,376**
Income taxes (benefit):			
Current	**1,679**	(2,656)	**15,169**
Deferred	**(1,091)**	3,136	**(9,856)**
Net income (loss)	**¥ 35,443**	¥ 40,510	**$ 320,062**

	Yen		U.S. dollars (Note)
Basic earnings per share	**¥ 143.10**	¥ 156.80	**$ 1.29**
Diluted earnings per share	**¥ 143.09**	¥ 156.78	**$ 1.29**

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥110.74=U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2019. Shinsei Bank executed a 1-for-10 reverse stock split on October 1, 2017. The above earnings per share data is calculated as if the reverse stock split had been implemented at the beginning of the fiscal year ended March 31, 2018.

NONCONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Shinsei Bank, Limited
For the fiscal year ended March 31, 2019

	Millions of yen									
		Capital surplus			Retained earnings					
	Common stock	Additional paid-in capital	Other capital surplus	Stock acquisition rights	Legal reserve	Unappropriated retained earnings	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Treasury stock, at cost	Total equity
BALANCE, April 1, 2017	¥ 512,204	¥ 79,465	¥ –	¥ 534	¥ 14,220	¥ 287,508	¥ 9,444	¥ (15,894)	¥ (79,539)	¥ 807,944
Dividends					517	(3,106)				(2,588)
Net income (loss)						40,510				40,510
Purchase of treasury stock									(10,001)	(10,001)
Disposal of treasury stock			–						–	–
Cancellation of treasury stock			–						–	–
Transfer to capital surplus from retained earnings			–			–				–
Net change during the year				(264)			(5,175)	135		(5,304)
BALANCE, March 31, 2018	**512,204**	**79,465**	**–**	**270**	**14,738**	**324,912**	**4,268**	**(15,759)**	**(89,540)**	**830,560**
Dividends					**505**	**(3,034)**				**(2,528)**
Net income (loss)						**35,443**				**35,443**
Purchase of treasury stock									**(12,999)**	**(12,999)**
Disposal of treasury stock			**(78)**						**178**	**100**
Cancellation of treasury stock			**(64,632)**						**64,632**	**–**
Transfer to capital surplus from retained earnings			**64,710**			**(64,710)**				**–**
Net change during the year				**(220)**			**450**	**(2,166)**		**(1,936)**
BALANCE, March 31, 2019	**¥ 512,204**	**¥ 79,465**	**¥ –**	**¥ 49**	**¥ 15,243**	**¥ 292,611**	**¥ 4,719**	**¥ (17,925)**	**¥ (37,729)**	**¥ 848,640**

	Thousands of U.S. dollars (Note)									
		Capital surplus			Retained earnings					
	Common stock	Additional paid-in capital	Other capital surplus	Stock acquisition rights	Legal reserve	Unappropriated retained earnings	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Treasury stock, at cost	Total equity
BALANCE, March 31, 2018	**$ 4,625,290**	**$ 717,590**	**$ –**	**$ 2,439**	**$ 133,087**	**$ 2,934,015**	**$ 38,550**	**$ (142,307)**	**$ (808,569)**	**$ 7,500,095**
Dividends					**4,567**	**(27,401)**				**(22,834)**
Net income (loss)						**320,062**				**320,062**
Purchase of treasury stock									**(117,390)**	**(117,390)**
Disposal of treasury stock			**(706)**						**1,616**	**910**
Cancellation of treasury stock			**(583,644)**						**583,644**	**–**
Transfer to capital surplus from retained earnings			**584,350**			**(584,350)**				**–**
Net change during the year				**(1,992)**			**4,068**	**(19,561)**		**(17,485)**
BALANCE, March 31, 2019	**$ 4,625,290**	**$ 717,590**	**$ –**	**$ 447**	**$ 137,654**	**$ 2,642,326**	**$ 42,618**	**$ (161,868)**	**$ (340,699)**	**$ 7,663,358**

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥110.74=U.S.$1.00, the rate of exchange prevailing on the Tokyo foreign exchange market on March 31, 2019.

CAPITAL ADEQUACY REQUIREMENT (BASEL ACCORD) PILLAR III (MARKET DISCIPLINE) DISCLOSURE

This chapter describes information that needs to be disclosed in disclosure documents related to the reported business year pursuant to the Financial Services Agency Notice No. 7 of 2014 (Basel Accord - Pillar III: Market Discipline) as the "matters concerning the status of capital adequacy separately prescribed by the Commissioner of the Financial Services Agency" as provided in Article 19-2 (1) (v) (d) of the Ordinance for Enforcement of the Banking Act (Ministry of Finance Ordinance No. 10 of 1982).

"Accord" in this chapter refers to the Financial Services Agency Notice No. 19 of 2006 (Basel Accord - Pillar I: Minimum Capital Ratio).

QUALITATIVE DISCLOSURE

1. RANGE OF CONSOLIDATION

(1) DIFFERENCES BETWEEN COMPANIES WHICH BELONG TO THE GROUP OF COMPANIES (CONSOLIDATED GROUP) SUBJECTED TO CALCULATION OF THE CONSOLIDATED CAPITAL RATIOS BASED ON THE ACCORD'S ARTICLE 26 AND COMPANIES INCLUDED IN THE SCOPE OF ACCOUNTING CONSOLIDATION AND REASONS FOR DIFFERENCES

• There are no differences.

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

i) Number of consolidated subsidiaries
83 consolidated subsidiaries.

ii) Major consolidated subsidiaries
- Shinsei Trust & Banking Co., Ltd. (trust banking)
- Shinsei Securities Co., Ltd. (securities)
- APLUS FINANCIAL Co., Ltd. (installment credit)
- Showa Leasing Co., Ltd. (leasing)
- Shinsei Personal Loan Co., Ltd. (consumer finance)
- SHINSEI FINANCIAL Co., Ltd. (consumer finance)
- Shinsei Investment & Finance Limited (financial instruments business)

(3) NUMBER AND NAMES OF FINANCIAL AFFILIATES UNDER ARTICLE 32 OF THE ACCORD AND TOTAL ASSETS AND NET ASSETS AMOUNTS ON BALANCE SHEET AND MAJOR BUSINESS OF THOSE FINANCIAL AFFILIATES

• There are no financial affiliate companies.

(4) NAMES OF COMPANIES WHICH BELONG TO THE CONSOLIDATED GROUP BUT ARE NOT INCLUDED IN THE SCOPE OF ACCOUNTING CONSOLIDATION OR COMPANIES WHICH DO NOT BELONG TO THE CONSOLIDATED GROUP BUT ARE INCLUDED IN THE SCOPE OF ACCOUNTING CONSOLIDATION, AND TOTAL ASSETS AND NET ASSETS AMOUNTS ON BALANCE SHEET AND MAJOR BUSINESS OF THOSE COMPANIES

• There are no companies that are subject to the above.

(5) SUMMARY OF RESTRICTIONS ON TRANSFER OF CASH AND CAPITAL IN THE CONSOLIDATED GROUP

• There are no particular restrictions.

2. TYPES OF CAPITAL INSTRUMENTS

The Bank has raised capital through the issuance of common shares. During the fiscal year 2018, all perpetual subordinated loans and dated subordinated bonds and loans issued before March 31, 2014, which had been included in "Core capital: instruments and reserves" under transitional arrangements, have been repaid or redeemed prior to their maturities.

3. ENHANCEMENT OF GROUP GOVERNANCE SYSTEMS

The Group Integrated Risk Management Division, the Group Portfolio Risk Management Division and the Group Individual Banking Risk Management Division were established in order to integrate and centralize the risk management functions of the Bank and the Group member companies along with the establishment of the Group Headquarters.

The group will advance the system to improve the overall productivity by centralization of risk management tasks of the Group member companies.

4. ASSESSMENT OF CAPITAL ADEQUACY OF THE BANK GROUP

As part of its comprehensive risk management, Risk Capital is under the budget control on a consolidated basis. In concrete terms, the Bank determines a Risk Capital budget in consideration of its source of capital. The amount of Risk Capital compared to its source of capital and its budget is monitored on a monthly basis, and senior management, e. g. the Group Executive Committee of each month, receives a report on a regular basis. Additionally, in regards to regulatory capital, capital ratio is reported at the above mentioned reporting to the Group Executive Committee, allowing senior management to monitor and assess the overall availability of capital. At least once a year, the Bank performs stress tests on its estimates of Risk Capital and regulatory capital.

5. CREDIT RISK MANAGEMENT POLICIES AND PROCEDURES

CREDIT RISK MANAGEMENT SYSTEM

Credit risk is defined as the risk of loss due to a counterpart defaulting on contractual debt obligations. Our model for credit risk management focuses on securing adequate return on risk, avoiding excessive concentration in particular sectors or to particular obligors, and managing the risk with an awareness of maximum loss amount from credit portfolio.

To achieve these goals, the Bank defines the policy to gain or restrict risk regarding customer attributes, products, markets, the type of industry and the form of transaction, etc. in the "Credit Risk Policy," and clarifies basic policies of credit operations and specific guidelines for credit risk management in this "Credit Risk Policy," "Credit Procedures" and other procedures. And Risk Integrated Section of the Group Headquarters which is organizationally independent from credit business line, designs the system of managing risk objectively. The credit risk management processes are roughly classified into credit risk management for individual transactions and portfolio-based credit risk management, as follows.

QUALITATIVE DISCLOSURE (CONTINUED)

CREDIT RISK MANAGEMENT FOR INDIVIDUAL TRANSACTIONS

(1) Organization and Systems

In principle, a credit provision is consulted jointly by the sales promotion divisions and the credit risk management divisions that are independent from the sales promotion divisions and have veto rights. Thus the transparent and strict decision making processes are secured and the framework to put a brake on the sales promotion division has been established. Each transaction is discussed and approved by the Transaction Committee, etc. The level of approval authority over the obligor whose group companies should be taken into consideration is decided based mainly on the total exposure to the obligor group and ratings, and the decision is made strictly.

Among receivables that must be paid attention, for those that falls under a certain category decided by rating, the exposure, reserve, etc., the obligor's business performance are monitored by the Doubtful Debt Committee so that the Bank is able to take preventive measures, and by deciding the measures to handle the obligor in future, the Bank is making efforts to minimize credit-related costs and to ensure soundness of assets.

(2) Obligor Rating System

For corporate exposures, the Bank uses an internal obligor rating system with the following characteristics:

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

More specifically, obligor ratings are determined by applying adjustments with qualitative factors to the model ratings calculated by our estimation models, which are based on external ratings etc. Obligor ratings shall be determined by credit risk management divisions, and reviewed regularly and continuously.

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

Furthermore, the Bank also applies a facility rating system based on expected losses that allows for improvement in the credit status, such as collateral and/or covenants, from the perspective of obligor ratings and the credit status of individual transactions.

An obligor rating system and facility rating system similar to those adopted in the Bank have been implemented for large amount leasing receivables of Showa Leasing.

(3) Pool Classification

The Bank assigns retail exposures to specific pools based on risk profile such as obligor characteristics and transaction characteristics that create reasonably homogeneous sub-portfolios. Major retail exposures to which pool classification is applied are housing loans and unsecured personal loans of the Bank, installment sales credit receivables of APLUS, unsecured personal loans of Shinsei Financial, and small-lot leasing receivables of Showa Leasing.

PORTFOLIO-BASED CREDIT RISK MANAGEMENT

It is essential that credit risks are diversified in terms of industries as well as ratings. This is done on a portfolio basis, which is an aggregation of transactions, and operations of individual transactions must be conducted based on appropriate risk analyses. The bank monitors the segment-specific risk diversification status including industry classifications, ratings, products, and regions, and undertakes analyses from the product-specific perspectives based on each risk profile. Portfolio Risk Management Division uses this information to improve portfolio management operations and provide reports to senior management on a monthly as well as on an ad hoc basis.

PRINCIPAL "CREDIT RISK MANAGEMENT STANDARDS"

For Basel Regulation, the Foundation Internal Ratings-Based Approach (F-IRB) has been adopted by the Bank for calculation of credit risk-weighted assets. In accordance with this approach, the Bank established "Credit Risk Management Standards," a set of policy, standards/guideline and procedures, which define the Bank's internal rating system design and operations, internal control, use of internal rating and risk quantification.

These Standards contain "Basic Principles of the Internal Rating System for Credit Risk" as the highest level policy to define basic framework of overall internal rating systems. Details of management policy and procedures are defined in the form of subordinate specific rules for each group of exposures in the portfolio.

Summary of internal rating system of each group of exposures is shown in "EXHIBIT."

INTERNAL CONTROL ROLES AND RESPONSIBILITIES

The Bank Group's internal control system for credit risk management has been set up in accordance with current regulations.

(1) Credit Risk Management Divisions

Group Portfolio Risk Management Division undertake the roles and responsibilities for management of credit risk of the bank and is responsible for integrated management of credit risk across the bank group.

(2) Senior Management Control/Oversight

Control and oversight for internal rating systems by senior management is defined in "Credit Risk Management Standards," and is performed in an appropriate manner.

(3) Audit Section

The Internal Audit Divisions within the Bank and its subsidiaries evaluate the internal rating system employed by the Bank Group and ensures the system is in compliance with existing regulations.

APPLICATION OF THE INTERNAL RATING SYSTEM

The Bank uses its own internal rating systems for portfolios to which the F-IRB Approach are applied. These items are listed in the "Exhibit" for each portfolio.

The internal rating system is applied to corporate and retail exposures as categorized below. The rules for applying the internal rating system are part of the Bank's overall "Credit Risk Management Standards."

(1) Corporate Exposure

Corporate exposure, financial institution exposure, and sovereign exposure are included. Basic standards and related detailed rules for design and operations of internal rating system, which are benchmarked against R&I rating and categorized as 0A, and 1A-9E, are applied. Corporate exposure includes Specialized Lending such as Non-Recourse Real Estate Loans, Project Finance, etc. using slotting criteria categorized as Strong, Good, Satisfactory, Weak, and Default. Specific rating standards are established for each type of finance.

QUALITATIVE DISCLOSURE (CONTINUED)

(2) Retail Exposure

Retail exposures are defined as:

- Exposures subject to pool management
- Claims against an individual (except for a claim for the purpose of funding business operations), or claims against a corporation (including an individual with the purpose of funding a business) with an outstanding amount of less than ¥100 million after the "aggregation" (nayose) on a consolidated basis.

Features of these products and credit analysis standards may vary between the Bank and its subsidiaries. As such, specific pool classification systems for each product are applied at each entity, in accordance with established guidelines.

ESTIMATION AND VALIDATION OF PARAMETERS

The approach for estimation and validation of parameters such as Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) is set forth in "Credit Risk Management Standards." Ratings, pool classifications and estimated parameters are also used for internal control.

STRESS TESTS

Specific implementation guidelines are established for stress tests used in the assessment of capital adequacy, and credit risk stress tests to assess the effect of certain specific conditions on the Bank's regulatory capital requirements. Stress test results are reported to senior management at least once a year.

RESERVE POLICY

A reserve for credit losses of the Bank and its subsidiaries is provided as detailed below, pursuant to the predetermined internal rules for providing such reserves according to the obligor categorizations based on the self assessment of their assets.

A general reserve for claims against normal obligors, needcaution obligors and substandard obligors is provided based on the specific actual past loss experience.

A specific reserve for claims to possibly bankrupt, virtually bankrupt and legally bankrupt obligors is provided based on the full amount of the unsecured, un-guaranteed portion of the respective claims after a solvency assessment.

For claims against obligors that are possibly bankrupt (that is, those that are not presently bankrupt but are likely to go bankrupt in the future), a specific reserve is provided for the amount considered to be necessary based on an overall solvency assessment performed for the amount of claims, net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

For claims against obligors that are legally bankrupt (due to bankruptcy and special liquidation) or virtually bankrupt, a specific reserve is provided based on the amount of claims, net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

The reserve for loans to restructuring countries is provided based on the amount of expected losses due to the political and economic situation in each country.

Additionally, with regard to claims against possibly bankrupt obligors and substandard obligors, a reserve is provided based on the discounted cash flow method when the obligor's future cash flows for debt service are reasonably estimable and the balance of claims to such obligors is large.

TRANSITION PLAN FOR MOVING A PORTION OF THE BANK'S PORTFOLIO, WHICH HAS NOT YET APPLIED F-IRB, FROM THE STANDARDIZED APPROACH TO THE F-IRB APPROACH

Expected IRB roll-out periods of assets currently evaluated using the Standardized Approach, and the F-IRB Approach will be applied at a future date to secure sufficient data observation periods are as follows:
Not applicable.

In the case of portfolios to which the Standardized Approach is applied, the Bank will use ratings from the following qualified rating agencies to determine exposure risk weights:
S&P, Moody's, Fitch, R&I and JCR.

6. CREDIT RISK MITIGATION POLICIES AND PROCEDURES

(1) Policies and framework for mitigating credit risk

The Bank mitigates credit exposure with collateral and guarantees to reduce the credit risk of obligors. The Bank has a clear framework regarding methods for mitigating credit risk. Basic procedures and descriptions of controls, as well as types of standard collateral, guarantees necessary in granting credit, evaluation methods for different types of credit and collateral, possible "haircuts" to collateral and regular revaluation of collateral, are stipulated in the Bank's credit procedures.

(2) Controls concerning overall methods to mitigate credit risk

The Bank uses net exposure for capital calculations after netting deposit and loan claims. All collateral and guarantees are registered in a dedicated system. The information is linked to obligor and credit account data. Collateral and guarantees are revalued at least once a year. Perfection of security interest, currency, date and correlation between collateral and counterparty are checked.

(3) Eligible financial asset collateral

Financial asset collateral types are defined by the Bank to include deposits, fixed income securities, equities and commercial paper.

(4) Eligible collateralized claims

Collateral types in this category include commercial bills, rights to claim return of security deposits, rights to claim return of construction funds, loan receivables, leasing and sales installment receivables and beneficial interests in trust.

(5) Eligible real estate collateral

Collateral types in this category include land and buildings, plants and foundations including industrial foundations.

(6) Other asset-backed collateral

Eligible other asset-backed collateral is defined by the Bank as aircraft and ships.

(7) Guarantees

Guarantors are classified into the following categories: governments, central banks, municipalities, public institutions, credit guarantee associations, banks, general business entities and individuals.

QUALITATIVE DISCLOSURE (CONTINUED)

7. POLICIES AND PROCEDURES FOR COUNTERPARTIES OF DERIVATIVE PRODUCT AND TRANSACTIONS WITH LONG-HORIZON SETTLEMENT PERIODS

(1) COUNTERPARTY RISK

Counterparty credit risk arising from market trading, such as derivatives, is controlled based on current fair value and estimation of future fair value volatility. Estimation of future fair value volatility covers various products including exotic derivatives, and considers risk mitigation effect by collateral as well as netting effect by the ISDA Credit Support Annex (CSA) etc.

As the risk associated with market trade changes by market rate fluctuation after the trade, the Bank controls it based on estimation of future fair value volatility.

(2) ALLOCATION OF CREDIT LIMITS

Counterparty limits due to derivatives transactions are established based on counterparty's specific situation, and credit limits are managed as appropriate on both a counterparty limit basis, and total credit limit basis where counterparty limit is added to any other credit exposure for each obligor in order to reflect the Bank's overall exposure.

(3) CREDIT ENHANCEMENT BASED ON COLLATERAL AND RESERVES

Credit enhancement measures are taken to mitigate the Bank's concerns regarding certain obligors' credit quality as well as concentration risk in the Bank's portfolio.

The Bank follows the guidelines outlined in the ISDA CSA, which has been accepted by many financial institutions. Reserves are calculated based on expected losses according to the counterparty's credit quality, and are taken into consideration in the mark-to-market process.

(4) POSSIBILITY OF THE BANK POSTING ADDITIONAL COLLATERAL DUE TO A DECLINE IN THE BANK'S CREDIT QUALITY

If the Bank's credit quality were to decline and be reflected as such in the assignment of lower external ratings, the Bank may be required to provide additional collateral to counterparties in transactions subject to the ISDA CSA.

8. EQUITY RISK MANAGEMENT

The Bank's equity investments are mainly composed of strategic merger/acquisition or business alliance related transactions, which are approved by the Group Executive Committee, and investment business related transactions, which are approved by the Transaction Committee (TC).

The risk management methodologies for these investments are determined based on their investment types and purposes. Each risk is recognized and monitored appropriately by evaluating underlying assets/enterprise value. For securities that do not have fair market value, self assessment is conducted every quarter.

Investments in subsidiaries and affiliates are carried at cost determined by the moving average method. Available-for-sale securities are carried at fair value at the balance sheet date (cost of securities sold is determined by the moving average method) in principle, with the exception of those whose fair value cannot be reliably determined, which are carried at cost determined by the moving average method.

9. SECURITIZATION EXPOSURE RISK MANAGEMENT POLICIES AND RISK CHARACTERISTICS

BANK RULES

The Bank manages securitization transactions as follows:

(1) Originator

For fundraising, mitigation of exposure concentration, transfer of credit risk and balance sheet management purposes, the Bank securitizes loans and the Bank's subsidiaries securitize financial assets such as credit card and consumer loan receivables.

As an originator, the Bank manages the credit risk of its securitized transactions using the assumption that original assets are maintained on its books. Since the purpose of these transactions includes acquiring funds, mitigating exposure concentration, transferring credit risk and managing the Bank's balance sheet, securitization transactions are a tool to control liquidity risk.

(2) Investor

In order to invest in assets whose credit risks are different from those of existing corporate exposure and to enhance the profitearning opportunity, the Bank selectively invests in securitization transactions, including re-securitization as well as securitization defined as non-re-securitization as per Clause 2 a or b in Article 1 of Administrative Notice, which are backed by various financial products.

The Bank also re-securitizes some securitized products of which the Bank has purchased and may hold the subordinated/residual portion.

As a general rule, Risk Management Section which is fully independent from Business Sections, manages the risks arising from securitization exposure, and risk management/monitoring methodologies and risk taking/reduction policies are specified according to the types of products. Although the Bank does not actively intend to increase securitization exposure at this moment, aforementioned procedure defined in “5. Credit Risk Management and Procedures, Credit Risk Management of Specific Transactions” will be followed for new investments after specifying and recognizing the risk profile, product specifics, nature of underlying assets and structure including credit enhancement, etc.

(3) Servicer

The Bank acts as a servicer when loans, which were originated by the Bank, are used as underlying assets in securitization.

Similarly, when financial assets such as credit card and consumer loan receivables originated by the Bank's subsidiaries are used as underlying assets for a securitization, the subsidiary serves as a servicer.

(4) Swap provider

In some transactions wherein the Bank is the arranger, the Bank provides swaps in order to mitigate interest rate risk within a specified range or to manage any cashflow difference between interest from underlying assets and coupons from the securities backed by the same assets.

Securitized exposure includes various risk characteristics that are unique to each product, as well as general risks, such as credit risk, market risk, and liquidity risk.

The Bank does not act as a credit enhancement provider/liquidity provider in any transaction. The Bank does not conduct ABCP business as well.

QUALITATIVE DISCLOSURE (CONTINUED)

When the Bank acquires and monitors securitized exposures, outside ratings and their changes are closely watched as one of the effective indicators. Moreover, when the Bank assigns internal ratings, risk characteristics and structural characteristics are understood and future performance forecast is analyzed, without depending solely on outside ratings.

Investment decisions are made based on the results of such analysis and expected return. Even after an investment is made, various covenants and triggers are checked based on trustee reports and servicer reports. A continuous and regular monitoring framework is established whereby information on comprehensive risk characteristics and performance of securitized exposures and underlying assets is captured in a timely manner.

Risk capital is measured based on internal ratings assigned for each transaction. For investments in securities without a fair market value or its track record, risks are understood and controlled through self-assessments.

In terms of the reporting, overall situation of the Bank's portfolio including the securitization exposure is reported to the senior management via the Group Risk Policy Committee etc on a monthly or a quarterly basis. The report includes information of exposure, risk quantification, change in the portfolio, and risk profiles.

POLICIES USING SECURITIZATION TRANSACTIONS FOR CREDIT RISK MITIGATION

The Bank is not using securitization transactions for credit risk mitigation.

CALCULATION METHODS FOR DETERMINING THE AMOUNT OF CREDIT RISK IN THE CONTEXT OF SECURITIZATION EXPOSURE

Risk weights are calculated based on internal rules entitled “Standards for Administering Risk Weight Calculation for Securitization Exposure.” The amount of credit risk assets related to securitization exposures is calculated using the Internal Ratings-Based Approach (IRBA), the External Ratings-Based Approach (ERBA), or the Standardized Approach (SA).

The risk assets of securitization exposures for which any methods mentioned above are not available, are calculated in 1,250%.

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 Internal Ratings-Based Approach (IRBA), the External Ratings-Based Approach (ERBA), or the Standardized Approach (SA).

TYPE OF SECURITIZATION-PURPOSE-CONDUITS FOR SECURITIZATION TRANSACTIONS OF THIRD PARTIES' ASSETS, AND WHETHER THE BANK HOLDS RELATED SECURITIZATION EXPOSURE

The Bank securitizes third parties' assets using “trust” as a part of its businesses. However, the Bank does not hold related securitization exposure.

NONCONSOLIDATED SUBSIDIARIES AND AFFILIATES WHO HOLD SECURITIZATION EXPOSURES RELATED TO THE BANK'S ORIGINATED SECURITIZATION TRANSACTIONS

No securitization exposures related to the Bank's originated securitization transactions are held by the Bank's nonconsolidated subsidiaries and affiliates.

ACCOUNTING POLICY ADOPTED FOR SECURITIZATION TRANSACTIONS

(1) When assets to be securitized are owned by the Bank, securitization assets are removed from the balance sheet and assignment of gains and losses are calculated based on the financial component (*zaimu-kousei-youso*) approach.

The assets sold and retained interests are recognized as separate components of a transfer of financial assets. Those components in the transferred assets are measured by allocating the previous carrying amount between the assets sold and retained interests based on the relative fair values at the time of transfer. Based on the calculated values of assets that are sold, gains or losses on the transfer are recognized.

However, when assets are securitized for fundraising purposes, the book value to be credited on the balance sheet is adjusted in order to prevent generating any initial profits, after removing the assets from the balance sheet using the financial component approach.

(2) When the Bank purchases securitized products, Accounting Standards for Financial Products apply to each financial asset.

(3) Fee income earned by the Bank in arranging securitization for other parties (no investment) is treated as noninterest income.

QUALIFIED RATING AGENCIES WHOSE RATINGS ARE USED BY THE BANK IN DETERMINING SECURITIZED EXPOSURE TYPE-SPECIFIC RISK WEIGHTS:

S&P, Moody's, Fitch, R&I, and JCR.

SUMMARY OF INTERNAL VALUATION METHOD FOR SECURITIZATION

The Bank is not using the internal valuation method for securitization.

SIGNIFICANT CHANGES OF QUANTITATIVE INFORMATION

There are no significant changes of quantitative information.

10. MARKET RISK MANAGEMENT POLICIES AND PROCEDURES

a) POLICY AND PROCEDURE FOR RISK MANAGEMENT

(1) DEFINITION OF MARKET RISK

Market risk is the risk of incurring losses due to changes in interest rates, FX rates, stock prices, etc.

QUALITATIVE DISCLOSURE (CONTINUED)

(2) MARKET RISK MANAGEMENT POLICY

The Executive Committee makes important decisions concerning trading business. The Committee approves important items relating to market risk, including "Trading Business Risk Management Policy" and qualitative limits of Value at Risk and Loss limit for the Bank and its Securities.

The Market Business Management Committee regularly controls market risk management and risk review of trading businesses. The Committee reviews monthly individual limit settings, customer related business movement, profit and loss/market risk situation and inherent market products risk in the business as a whole and makes decision on risk management. The market risk reports are delivered to the Head of Integrated Risk Management and to the front office.

(3) MARKET RISK MANAGEMENT FRAMEWORK

We have established effective organizational framework for check and balance by making front office unit, back office unit and middle office management unit independent respectively. The Integrated Risk Management Division, the middle office unit, is responsible for the objective and timely recognition, monitoring and reporting of these market risks and carries out regular risk analysis and recommendations, as well as timely and appropriately providing management and front office unit.

(4) QUANTITATIVE MARKET RISK MANAGEMENT

The market risk is managed based on the VaR limit and loss limit which are determined by the Executive Committee. The bank also set sensitivity limits relating to interest rate and FX rate etc. and implement stress testing based on various market shocks to enhance market risk management.

The Integrated Risk Management Division is consistently responsible for risk measurement and its control stipulating its definitions and rules.

b) NAME OF METHODOLOGY FOR MARKET RISK MEASUREMENT

The internal-model method has been adopted for general market risk at market risk measurement and the standardized method for specific risk (except for securities) 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 (except for securities)	Standardized method	
Shinsei Securities	General Market Risk	Internal Model Method • Historical Simulation Method	Standardized Method
	Specific Risk (except for securities)	Standardized Method	
Other Subsidiaries		–	Standardized Method

c) ADEQUATE PRICING METHOD ACCORDING TO TRANSACTION PROFILE TAKING POSSIBILITIES INTO CONSIDERATION THAT ACTUAL HOLDING PERIOD MAY EXCEED EXPECTED HOLDING PERIOD

The VaR framework is using this 10-day for holding period. Market liquidity of all trading book's products are high enough, and we evaluate adequately the pricing according to the products profile including the independent price valuation process.

d) INTERNAL MODEL METHOD AND BACK-TESTING, STRESS-TESTING

The Bank and Shinsei Securities use a historical simulation VaR for internal model at general market risk measurement (a 99% confidential level, 10 day holding period, 250 observation days). Please refer to following table for VaR data and Stressed VaR.

		Millions of yen	
		Consolidated	Nonconsolidated
VaR at the end of year		1,098	1,040
through FY	High	1,577	1,527
	Mean	904	854
	Low	631	570

		Millions of yen	
		Consolidated	Nonconsolidated
Stressed VaR at the end of year		3,879	3,692
through FY	High	4,625	4,497
	Mean	3,328	3,163
	Low	2,605	2,350

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 2018 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.

QUALITATIVE DISCLOSURE (CONTINUED)

11. BANKING BOOK INTEREST RATE RISK MANAGEMENT

A. Overview of risk management policy and procedure
Interest rate risk is the risk of losses on the current value of assets and liabilities whose cash flow mismatch may be impacted by interest rates due to market interest rate fluctuations.

The interest rate risk of the banking account is managed and administered pursuant to the Group Asset Liability Management Policy. In order to appropriately control interest rate risk, at the beginning of each fiscal year the Group ALM Committee determines limits for the Bank and its group companies, such as the interest rate sensitivity limit and the loss limit. At the monthly meetings, the Group ALM Committee makes comprehensive decisions on assets and liabilities based on the monitoring of the limits and net interest income (NII).

In addition to monthly reporting to the Group ALM Committee, the Group Integrated Risk Management Division, which is independent of the front offices, monitors the status of acquiring the risk and observing the limits on a daily basis and reports the results to management.

B. Overview of the interest rate risk calculation method for the banking account used by the Bank and its consolidated subsidiaries for internal control
Based on the banking IR sensitivity calculation procedure, a rule subordinate to the Group Asset Liability Management Policy and the procedure related to interest rate risk of banking account is calculated as follows.

1) Calculation method
We measure the change of economic value of the banking book (ΔEVE) per currency by means the three scenarios of IRRBB: parallel shock up, parallel shock down and steepener shock. and use maximum ΔEVE across three scenarios. The aggregation of ΔEVE for each currency is performed by simple addition of only positive values. In the measurement, future cash flows use interest rates including spreads, but discount rates do not include spreads.

2) Subject assets and liabilities
Subject assets and liabilities of the Bank and its main subsidiaries are deposits, loans, JGBs, and other assets and liabilities whose future cash flow is impacted by interest rates fluctuation.

3) Measurement premise
ΔEVE 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 (Up to 20 years, average period 2.9 year) 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.

c. Time deposits
We use a model for early withdrawal rates for retail time deposits, and use conservative assumptions for other early withdrawal rates for time deposits.

Millions of yen

IRRBB1:Interest rate risk

No		A	B	C	D
		ΔEVE		ΔNII	
		End of the year	End of last year	End of the year	End of last year
1	parallel shock up	63,397	–	–	–
2	parallel shock down	11,644	–	–	–
3	steepener shock	29,041	–	–	–
4	Flattener shock	–	–	–	–
5	Short rate up shock	–	–	–	–
6	Short rate down shock	–	–	–	–
7	Max	63,397	–	–	–
		E		F	
		End of the year		End of last year	
8	Core capital	795,301		–	

12. OPERATIONAL RISK MANAGEMENT POLICIES AND PROCEDURES

MANAGEMENT POLICIES AND PROCEDURES
(1) Definition of Operational Risk
The Bank classifies operational risk into several risk categories, such as operational and administrative risk, compliance risk, labor-related risk, systems risk, extensive disaster risk and material object risk, which are applied across the Bank and its consolidated subsidiaries.

QUALITATIVE DISCLOSURE (CONTINUED)

(2) Operational Risk Management System

The Bank manages operational risk at multiple levels as follows:

- Management by business lines according to the nature of each business
- Cross-organizational management by designated management divisions for respective risk categories mentioned above (hereinafter "designated management divisions") and by the firmwide management division of operational risk (hereinafter "firm-wide management division")
- Verification by the Group Internal Audit Division on the appropriateness and effectiveness of the overall risk management system
- Based on reports and proposals, the Board of Directors etc. makes decisions on important items, including general rules and organizational changes related to operational risk management

The designated management divisions and the firm-wide management division are independent from business lines, which are accountable for earnings, and promoting management of overall operational risk and each risk category. The divisions develop uniform management standards and procedures, capture and evaluate errors and irregularities, conduct causal analysis and support establishment of recurrence prevention measures. Moreover, the divisions meet on a regular basis to discuss challenges and measures for operational risk management, as well as to share information.

Operational risk is recognized and evaluated through review of internal errors and irregularities that have occurred, as well as through consideration of potential errors and irregularity scenarios that may occur less frequently but may have a significant impact. Uniform standards for collection and evaluation of errors and irregularities are established to capture and/or evaluate significant actual errors and/or irregularities on a regular basis. Procedures are determined to ensure that potential errors and irregular scenarios for each business operation are specified and their frequency and severity are evaluated in a complete and appropriate manner on an at least an annual basis.

Such identified and evaluated risks are reported to senior management by the designated management divisions and the firm-wide management division and are used in Risk Capital measurement for internal management purposes.

(3) "Operational Risk Management Standards"

"Operational Risk Management Standards" are a set of policies and procedures used to define the organizational framework, specific methods and processes for operational risk management. They are composed of the following:

- "Operational Risk Management Policy"
- Specific management rules
- Management rules at consolidated subsidiaries

"Operational Risk Management Policy" is the highest set of rules on operational risk management. To ensure comprehensive and consistent operational risk management within the Bank Group, the Policy establishes risk definitions, governance and basic policies on operational risk management, and the basic framework for risk capture, evaluation, monitoring, reporting, control and mitigation.

Specific management rules include management standards and procedures for each respective operational risk category, and for new businesses and products.

Management rules at each consolidated subsidiary are composed of comprehensive rules on overall operational risk management and specific rules for respective operational risk categories. Consolidated subsidiaries establish, revise and repeal rules with the approval of their Board of Directors, according to their risk characteristics and specific internal controls. Their establishment, revision and repeal are subject to prior discussions with and after-the-fact reports to the Bank to ensure consistency with the Bank's risk management rules.

METHODOLOGY TO CALCULATE OPERATIONAL RISK UNDER BASEL REGULATION

The Standardized Approach is adopted by the Bank.

Amount of required capital for Operational Risk at the end of fiscal year 2018:

	Millions of yen	
	Required capital amount (Consolidated)	Required capital amount (Nonconsolidated)
The Standardized Approach	¥ 30,347	¥ 15,025

QUALITATIVE DISCLOSURE (CONTINUED)

EXHIBIT: SUMMARY OF INTERNAL RATING SYSTEM

Type of Exposures	Corporate Exposures (Shinsei Bank, and Showa Leasing (large amount exposures))	
	(a) Corporate Exposures, (b) Sovereign Exposures, (c) Exposures to Banks, and (d) Equity Exposures (Exposures to which Internal Rating and PD/LGD approach is applied)	(e) Specialized Lending
Structure of Internal Rating System	A obligor rating system benchmarked against external ratings (R&I) which reflects credit status of obligor is in place. Obligor rating is derived from quantitative score calculated from model prepared by using external ratings etc. as a benchmark based on the financial data of a customer, and determined taking into account of influence from group companies and future financial projection. Obligor ratings for Sovereign/Bank exposures are assigned based on specific rules.	A facility rating system based on degree of expected loss ratio according to the transaction type is in place for specialized lending assets whose interest payments and principal repayments are heavily dependent on the profit of assets and the business. Ratings are assessed according to facility type as follows. • Real estate nonrecourse loans are decided by adding qualitative adjustments to quantitative index based on the LTV. • Ratings for project finance or non-recourse shipping finance are decided by comprehensively considering financial indices such as DSCR and the assessment of each risk factor that has an impact on the operation of the project. Regarding nonrecourse shipping finance, evaluation of ship is also considered in the risk assessment.
Usage of Various Estimated Value (Use Test)	Obligor rating and facility rating are used in the standards of credit approval authority procedures, pricing, portfolio management, and allocating Risk Capital.	
Management of Internal Rating System, and Rating Assignment Procedures	Group Portfolio Risk Management Division (GPRMD) of the Bank is in charge of designing the rating system and ratings are assigned by the section in charge of credit analysis.	
Validation Procedures	Back testing, rating transition analyses, the reasonability of the rating and appropriateness of the rating process are conducted in a multifaceted manner for validation of rating and parameters by using internal and external data.	According to the type of transactions, rating transition analyses, the reasonability of the rating and appropriateness of the rating process are conducted for validation of rating by using internal and external data.
Estimation of Parameters	Definition of Default Obligor categorization under self assessment falls to sub-standard (9B) or lower, etc. PD Long-term averages are calculated based on internal data, and margin for estimation error is added to derive estimates. LGD/EAD Parameters are not estimated as a bank using Fundamental Internal Ratings-Based Approach.	Internal ratings are allocated to slotting criteria, and parameters are not estimated.

QUALITATIVE DISCLOSURE (CONTINUED)

EXHIBIT: SUMMARY OF INTERNAL RATING SYSTEM

Type of Exposures	Retail Exposures (Shinsei Bank)		Retail Exposures (APLUS FINANCIAL, APLUS, APLUS PERSONAL LOAN, Zen-Nichi Shinpan, Shinsei Financial, Shinsei Personal Loan and Showa Leasing)
	(f) Residential Mortgage Exposures	(g) Qualifying Revolving Retail Exposures	(h) Qualifying Revolving Retail Exposures, (i) Other Retail Exposures
Structure of Internal Rating System	Assignment of Pool Category to each exposure shall be conducted so that risk is appropriately categorized, taking into account the obligor's risk characteristics, transaction's risk characteristics and the delinquency status of the exposure. (In addition to housing loans described above, housing loans originated by lenders other than the Bank and purchased as portfolios by the Bank are managed as purchased receivables.)	Portfolios which the bank originated are classified as qualifying revolving retail exposures. Pools are classified quantitatively by obligor risk characteristics and etc.	Portfolios of the Bank's subsidiaries are classified as qualifying revolving retail exposures (such as unsecured personal loans, credit cards) or other retail exposures (such as installment sales credit receivables, small-lot lease receivables) according to credit facility types. (Housing loan portfolios of APLUS and Zen-Nichi Shinpan are classified as residential mortgage exposures). Exposures are assigned to appropriate pools established for each subsidiary, considering obligor risk characteristics, transaction risk characteristics, and delinquency status.
Usage of Various Estimated Value (Use Test)	Pool classification and PD/LGD/EAD estimates are used for calculating and allocating Risk Capital.	Pool classification and PD/LGD/EAD estimates are used for calculating and allocating Risk Capital.	Pool classification and PD/LGD/EAD estimates are used for calculating and allocating Risk Capital.
Management of Internal Rating System, and Rating Assignment Procedures	Group Portfolio Risk Management Division (GPRMD) of the Bank is in charge of internal rating system design, pool assignment and also estimates/validates parameters.	GPRMD of the Bank is in charge of internal rating system design, pool assignment and also estimates/validates parameters with guarantee company in the Shinsei group.	GPRMD of the Bank is in charge of internal rating system design, pool assignment and also estimates/validates parameters with subsidiaries.
Validation Procedures	Key methodologies of validation are as follows: • PD: Validation whether gap between PD estimates/theoretical PD values by age of exposures based on the PD seasoning curve and historical PD • LGD: Validation whether gap between LGD estimates and historical LGD remain within a certain confidence level, and validation whether estimated collateral sale price is conservative.	Key methodologies of validation are as follows: • PD: Validation of accordance between PD estimates and historical PD, and validation of PD and rating goodness of fit • LGD: Validation if gap between LGD estimates and historical LGD remain within a certain confidence level • Pool classification: Validation on default predictive power	Key methodologies of validation are as follows: • PD: Validation of accordance between PD estimates and historical PD, and validation of PD and rating goodness of fit • LGD: Validation if gap between LGD estimates and historical LGD remain within a certain confidence level • Pool classification: Validation on default predictive power
Estimation of Parameters	Definition of Default Any of the following: i) past due three months or more, ii) relaxation of terms and conditions, iii) legal bankruptcy PD/LGD PD/LGD are estimated using the Bank's historical data and the margin for estimation error is added to derive estimates. The seasoning characteristics of default for PD and collection from collateral sale value for LGD are taken into consideration.	Definition of Default Subrogated for late payment and etc. PD/LGD/EAD PD/LGD/EAD are estimated on pool by pool basis, using the historical data. Long-term averages are calculated based on these data, and margin for estimation error is added to derive estimates.	Definition of Default Any of the following: i) past due three months or more, ii) relaxation of terms and conditions, iii) legal bankruptcy, etc. PD/LGD/EAD PD/LGD/EAD are estimated on pool by pool basis, using the Bank's subsidiaries' historical data. Long-term averages are calculated based on these data, and margin for estimation error is added to derive estimates.

QUALITATIVE DISCLOSURE (CONTINUED)

SHINSEI BANK CORPORATE OBLIGOR RATING SYSTEM

Obligor Rating Categories	Corresponding Rating Assigned by R & I	Summary
0A		1. Japanese Government, BOJ. 2. Government-affiliated agencies, expected high certainty from strong backup by the Government.
1A	AAA	Highest capability to meet its financial commitments on the obligations and many other positive factors.
2A	AA+	Very high capability to meet its financial commitment on the obligation and other positive factors.
2B	AA	
2C	AA-	
3A	A+	High capability to meet its financial commitments on the obligations and some good factors.
3B	A	
3C	A-	
4A	BBB+	There is adequate certainty of the fulfillment of obligations, but there are also some factors requiring attention in the event of serious adverse economic conditions in the future.
4B	BBB	
4C	BBB-	
5A	BB+	No problem regarding the certainty of the fulfillment of obligations for the time being, but some factors need to be closely watched in the event of adverse economic conditions in the future.
5B	BB	
5C	BB-	
6A	B+	No problem regarding the certainty of the fulfillment of obligations in the present situation, but special supervision is needed to monitor the trends in business performance and the protection of credit exposure.
6B	B	
6C	B-	
9A		Classified as “Other Need Caution” in the self-assessment.
9B		Classified as “Sub-Standard” in the self-assessment.
9C		Classified as “Possibly Bankrupt” in the self-assessment.
9D		Classified as “Virtually Bankrupt” in the self-assessment.
9E		Classified as “Bankrupt” in the self-assessment.

With regard to the internal controls related to the calculation of the capital adequacy ratio, 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 Professional Business Practice Guidelines 4465, as per 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

As of March 31 Items	March 31, 2019 Basel III (Domestic Standard)	March 31, 2018 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	¥ 897,092	¥ 860,010	
of which: capital and capital surplus	590,710	590,710	
of which: retained earnings	346,562	361,368	
of which: treasury stock (–)	37,729	89,540	
of which: earning to be distributed (–)	2,452	2,528	
of which: other than above	–	–	
Accumulated other comprehensive income (amount allowed to be included in Core capital)	(1,149)	98	¥ 417
of which: foreign currency translation adjustment	(1,527)	(1,573)	
of which: amount related defined benefit	378	1,671	417
Stock acquisition right to common shares and preferred shares with a compulsory conversion clause	49	318	
Adjusted noncontrolling interests (amount allowed to be included in Core capital)	10	10	
Total of reserves included in Core capital: instruments and reserves	611	431	
of which: general reserve for loan losses included in Core capital	611	431	
of which: eligible provision included in Core capital	–	–	
Eligible noncumulative perpetual preferred shares subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	–	–	
Eligible capital instruments subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	–	37,400	
Capital instruments issued through measures for capital enhancement by public institutions (amount allowed to be included in Core capital: instruments and reserves)	–	–	
Land revaluation excess after 55% discount (amount allowed to be included in Core capital: instruments and reserves)	–	–	
Noncontrolling interests subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	2,964	1,647	
Core capital: instruments and reserves (A)	¥ 899,577	¥ 899,917	
Core capital: regulatory adjustments (2)			
Total amount of intangible assets (excluding those relating to mortgage servicing rights)	¥ 52,790	¥ 38,495	¥ 6,422
of which: goodwill (including those equivalent)	13,798	11,910	–
of which: other intangibles other than goodwill and mortgage servicing rights	38,991	26,585	6,422
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	7,251	5,599	1,399
Shortfall of eligible provisions to expected losses	36,650	28,976	–
Gain on sale of securitization	–	5,370	–
Gains and losses due to changes in own credit risk on fair valued liabilities	–	–	–
Net defined benefit asset	7,584	7,360	1,840
Investments in own shares (excluding those reported in the net assets section)	0	–	–
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)	¥ 104,276	¥ 85,801	
Capital (consolidated)			
Capital (consolidated) ((A)–(B)) (C)	¥ 795,301	¥ 814,115	
Risk-weighted assets, etc.			
Total amount of credit risk-weighted assets	¥ 6,177,810	¥ 5,809,201	
of which: total amount included in risk-weighted assets by transitional arrangements	(330)	6,964	
of which: intangible assets (excluding those relating to goodwill and mortgage servicing rights)		6,422	
of which: deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		1,399	
of which: net defined benefit asset		1,840	
of which: significant investments in the common stock of Other Financial Institutions (net of eligible short positions)	(330)	(2,697)	
of which: other than above	–	–	
Market risk (derived by multiplying the capital requirement by 12.5)	154,082	161,545	
Operational risk (derived by multiplying the capital requirement by 12.5)	379,341	371,960	
Credit risk-weighted assets adjustments	–	–	
Operational risk adjustments	–	–	
Total amount of Risk-weighted assets (D)	¥ 6,711,235	¥ 6,342,708	
Capital ratio (consolidated)			
Capital ratio (consolidated) ((C)/(D))	11.85%	12.83%	

Note:Composition of Capital as of March 31,2019 is disclosed in the form of the Schedule No.12 of FSA Notice for Disclosure as the period for transitional arrangement has ended.

COMPOSITION OF CAPITAL DISCLOSURE (NONCONSOLIDATED)

Shinsei Bank

As of March 31 Items	**March 31, 2019 Basel III (Domestic Standard)**	March 31, 2018 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	**¥ 859,343**	¥ 839,251	
of which: capital and capital surplus	**591,670**	591,670	
of which: retained earnings	**307,855**	339,650	
of which: treasury stock (–)	**37,729**	89,540	
of which: earning to be distributed (–)	**2,452**	2,528	
of which: other than above	**–**	–	
Stock acquisition right to common shares and preferred shares with a compulsory conversion clause	**49**	270	
Total of reserves included in Core capital: instruments and reserves	**9**	16	
of which: general reserve for loan losses included in Core capital	**9**	16	
of which: eligible provision included in Core capital	**–**	–	
Eligible noncumulative perpetual preferred shares subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	**–**	–	
Eligible capital instruments subject to transitional arrangements (amount allowed to be included in Core capital: instruments and reserves)	**–**	37,400	
Capital instruments issued through measures for capital enhancement by public institutions (amount allowed to be included in Core capital: instruments and reserves)	**–**	–	
Land revaluation excess after 55% discount (amount allowed to be included in Core capital: instruments and reserves)	**–**	–	
Core capital: instruments and reserves (A)	**¥ 859,402**	¥ 876,938	
Core capital: regulatory adjustments (2)			
Total amount of intangible assets (excluding those relating to mortgage servicing rights)	**¥ 18,589**	¥ 13,249	¥ 3,070
of which: goodwill (including those equivalent)	**703**	869	–
of which: other intangibles other than goodwill and mortgage servicing rights	**17,886**	12,380	3,070
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	**2,545**	1,630	407
Shortfall of eligible provisions to expected losses	**24,866**	21,321	–
Gain on sale of securitization	**–**	5,370	–
Gains and losses due to changes in own credit risk on fair valued liabilities	**–**	–	–
Prepaid pension cost	**4,752**	3,531	882
Investments in own shares (excluding those reported in the net assets section)	**0**	–	–
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)	**¥ 50,754**	¥ 45,103	
Capital (nonconsolidated)			
Capital (nonconsolidated) ((A)–(B)) (C)	**¥ 808,647**	¥ 831,835	
Risk-weighted assets, etc.			
Total amount of credit risk-weighted assets	**¥ 5,554,802**	¥ 5,260,100	
of which: total amount included in risk-weighted assets by transitional arrangements	**(330)**	1,663	
of which: intangible assets (excluding those relating to goodwill and mortgage servicing rights)		3,070	
of which: deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		407	
of which: prepaid pension cost		882	
of which: significant investments in the common stock of Other Financial Institutions (net of eligible short positions)	**(330)**	(2,697)	
of which: other than above	**–**	–	
Market risk (derived by multiplying the capital requirement by 12.5)	**143,617**	151,634	
Operational risk (derived by multiplying the capital requirement by 12.5)	**187,814**	188,537	
Credit risk-weighted assets adjustments	**–**	–	
Operational risk adjustments	**–**	–	
Total amount of Risk-weighted assets (D)	**¥ 5,886,234**	¥ 5,600,271	
Capital ratio (nonconsolidated)			
Capital ratio (nonconsolidated) ((C)/(D))	**13.73%**	14.85%	

Note:Composition of Capital as of March 31,2019 is disclosed in the form of the Schedule No.11 of FSA Notice for Disclosure as the period for transitional arrangement has ended.

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	
	2019	2018
As of March 31	**Required capital amount**	Required capital amount
Shinsei Bank	**¥ 370**	¥ 411
Subsidiaries	**5,827**	3,992

Portfolios under the Internal Ratings-Based Approach (IRB)

	Millions of yen	
	2019	2018
As of March 31	**Required capital amount**	Required capital amount
Corporate (Excluding Specialized Lending) [1]	**¥ 151,474**	¥ 157,125
Specialized Lending [2]	**95,739**	83,800
Sovereign	**5,675**	5,581
Bank	**14,197**	9,911
Residential mortgages	**10,211**	11,777
Qualified revolving retails	**131,920**	143,012
Other retails	**163,258**	153,545
Equity	**19,980**	19,304
Fund	**16,337**	16,854
Securitization	**30,733**	22,351
Purchase receivables	**10,842**	10,302
Other assets	**3,432**	4,351
CVA risk	**10,520**	8,875
CCP risk	**92**	85
Total	**¥ 664,417**	¥ 646,880

Note: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	
	2019	2018
As of March 31	**Required capital amount**	Required capital amount
Market-Based Approach Simplified Method	**¥ 4,269**	¥ 4,327
PD/LGD Method	**2,600**	2,414
RW100% Applied	**4**	4
RW250% Applied	**13,106**	12,558
Total	**¥ 19,980**	¥ 19,304

(3) EXPOSURE RELATING TO INVESTMENT FUNDS

	Millions of yen	
	2019	2018
As of March 31	**Required capital amount**	Required capital amount
Before revision Look Through		¥ 1,604
Before revision Revised Naivete Majority		14,569
Before revision Simplified [400%]		679
Before revision Simplified [1,250%]		0
Look-through approach	**¥ 1,428**	
Mandate-based approach	**–**	
Probability-based approach [250%]	**–**	
Probability-based approach [400%]	**14,909**	
Fall-back approach [1,250%]	**0**	
Total	**¥ 16,337**	¥ 16,854

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(4) AMOUNT OF REQUIRED CAPITAL FOR MARKET RISK

	Millions of yen	
	2019	2018
As of March 31	**Required capital amount**	Required capital amount
The Standardized Approach	**¥ 549**	¥ 275
Interest rate risk	**26**	38
Equity position risk	**3**	5
FX risk	**486**	165
Securitization risk	**32**	65
The Internal Models Approach (IMA) (General Market Risk)	**11,777**	12,648

(5) AMOUNT OF REQUIRED CAPITAL FOR OPERATIONAL RISK

	Millions of yen	
	2019	2018
As of March 31	**Required capital amount**	Required capital amount
The Standardized Approach	**¥ 30,347**	¥ 29,756

(6) TOTAL REQUIRED CAPITAL (DOMESTIC STANDARD)

	Millions of yen	
As of March 31	**2019**	2018
Total Required Capital (Risk-weighted Assets x 4%)	**¥ 268,449**	¥ 253,708

3.CREDIT RISK EXPOSURE (EXCLUDING SECURITIZATION AND EXPOSURES RELATING TO INVESTMENT FUNDS)

(1) AMOUNT OF CREDIT RISK EXPOSURE
Geographic, Industries or Maturity

	Millions of yen							
	2019				2018			
	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	**¥ 316,377**	**¥ 299,301**	**¥ 1,000**	**¥ 16,075**	¥ 319,212	¥ 304,196	¥ 50	¥ 14,966
Agriculture	**337**	**337**	**–**	**–**	290	290	–	–
Mining	**916**	**914**	**–**	**1**	1,364	1,362	–	2
Construction	**49,082**	**48,882**	**200**	**–**	44,060	44,060	–	–
Electric power, gas, water supply	**418,610**	**398,856**	**–**	**19,753**	338,343	324,938	–	13,404
Information and communication	**55,913**	**55,911**	**–**	**1**	78,009	78,005	–	3
Transportation	**217,108**	**216,811**	**–**	**297**	233,957	229,542	3,699	715
Wholesale and retail	**202,430**	**189,350**	**100**	**12,980**	203,341	189,034	100	14,207
Finance and insurance	**2,084,941**	**1,924,388**	**138,599**	**21,953**	2,093,459	1,998,752	70,644	24,062
Real estate	**729,721**	**600,703**	**126,404**	**2,613**	715,145	583,631	128,750	2,763
Services	**534,336**	**533,148**	**801**	**386**	532,768	531,699	921	146
Government	**561,576**	**60,863**	**500,713**	**–**	572,768	67,964	504,804	–
Individuals	**3,215,767**	**3,215,476**	**–**	**290**	3,189,368	3,189,169	–	199
Others	**1,598**	**1,598**	**–**	**–**	4,041	4,041	–	–
Domestic Total	**8,388,718**	**7,546,545**	**767,817**	**74,354**	8,326,130	7,546,688	708,970	70,471
Foreign	**975,647**	**698,720**	**214,243**	**62,683**	954,813	650,320	235,999	68,493
Total	**¥ 9,364,365**	**¥ 8,245,266**	**¥ 982,061**	**¥ 137,038**	¥ 9,280,943	¥ 8,197,009	¥ 944,969	¥ 138,964
To 1 year	**1,646,275**	**1,491,754**	**138,853**	**15,667**	1,576,314	1,412,655	144,216	19,442
1 to 3 years	**1,889,961**	**1,522,330**	**347,489**	**20,141**	1,831,389	1,506,182	299,623	25,584
3 to 5 years	**1,063,870**	**889,137**	**150,362**	**24,370**	1,150,244	884,760	247,028	18,455
Over 5 years	**3,116,650**	**2,695,938**	**343,853**	**76,857**	2,914,747	2,586,166	253,099	75,481
Undated	**1,647,606**	**1,646,104**	**1,501**	**–**	1,808,247	1,807,245	1,001	–
Total	**¥ 9,364,365**	**¥ 8,245,266**	**¥ 982,061**	**¥ 137,038**	¥ 9,280,943	¥ 8,197,009	¥ 944,969	¥ 138,964

Note: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	
	2019	2018
As of March 31	**Default Exposure**	Default Exposure
Manufacturing	**¥ 4,163**	¥ 3,998
Agriculture	**47**	–
Mining	**–**	–
Construction	**910**	996
Electric power, gas, water supply	**–**	–
Information and communication	**576**	269
Transportation	**2,810**	1,823
Wholesale and retail	**4,491**	6,522
Finance and insurance	**267**	257
Real estate	**5,358**	221
Services	**3,148**	3,623
Government	**–**	–
Individuals	**120,854**	128,731
Others	**659**	2,614
Domestic Total	**143,288**	149,059
Foreign	**5,285**	4,687
Total	**¥ 148,573**	¥ 153,747

(3) AMOUNT OF LOAN LOSS RESERVES (GENERAL, SPECIFIC AND COUNTRY RISK) BEFORE PARTIAL WRITE-OFF

	Millions of yen					
	2019			2018		
As of March 31	**Start Amount**	**Change Amount**	**End Amount**	Start Amount	Change Amount	End Amount
General	**¥ 77,520**	**¥ (5,654)**	**¥ 71,866**	¥ 70,977	¥ 6,543	¥ 77,520
Specific	**86,823**	**(6,149)**	**80,674**	135,712	(48,889)	86,823
Country	**–**	**–**	**–**	0	(0)	–
Total	**¥ 164,343**	**¥ (11,803)**	**¥ 152,540**	¥ 206,690	¥ (42,346)	¥ 164,343

Geographic

	Millions of yen							
	2019				2018			
	Reserve Amount				Reserve Amount			
As of March 31	**Total**	**General**	**Specific**	**Country**	Total	General	Specific	Country
Domestic	**¥ 146,176**	**¥ 67,648**	**¥ 78,528**	**¥ –**	¥ 152,591	¥ 66,862	¥ 85,729	¥ –
Foreign	**6,363**	**4,217**	**2,145**	**–**	11,752	10,658	1,094	–
Total	**¥ 152,540**	**¥ 71,866**	**¥ 80,674**	**¥ –**	¥ 164,343	¥ 77,520	¥ 86,823	¥ –

Industries

	Millions of yen	
	2019	2018
As of March 31	**Reserve Amount**	Reserve Amount
Manufacturing	**¥ 3,453**	¥ 4,000
Agriculture	**43**	10
Mining	**6**	40
Construction	**762**	841
Electric power, gas, water supply	**2,868**	814
Information and communication	**988**	457
Transportation	**1,335**	2,824
Wholesale and retail	**4,055**	5,325
Finance and insurance	**2,081**	1,600
Real estate	**5,418**	3,763
Services	**5,571**	5,817
Government	**44**	31
Individuals	**117,109**	124,621
Others	**566**	576
Foreign	**6,363**	11,752
Non-classified	**1,871**	1,866
Total	**¥ 152,540**	¥ 164,343

Note:Although the specific allowance for credit losses does not include the allowance relating to any securitization exposures and exposures relating to funds, the allowance relating to these exposures is not excluded from both the general allowance for credit losses and the allowance for loans to specific foreign borrowers, because we do not manage provisioning with respect to each asset class based on Basel III.

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(4) AMOUNT OF WRITE-OFFS

Industries

	Millions of yen	
	FY2018	FY2017
	Amount of write-off	Amount of write-off
Manufacturing	**¥ 41**	¥ 402
Agriculture	**–**	–
Mining	**0**	–
Construction	**30**	19
Electric power, gas, water supply	**–**	–
Information and communication	**0**	3
Transportation	**0**	6
Wholesale and retail	**88**	179
Finance and insurance	**–**	4
Real estate	**0**	–
Services	**69**	466
Government	**–**	–
Individuals	**45,499**	56,249
Others	**–**	–
Foreign	**215**	1,864
Non-classified	**–**	–
Total	**¥ 45,947**	¥ 59,196

(5) AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)

	Millions of yen			
	2019		2018	
As of March 31	**Rated**	**Unrated**	Rated	Unrated
0%	**¥ 67**	**¥ 10,120**	¥ 51	¥ 8,043
10%	**–**	**–**	–	–
20%	**20,324**	**29**	23,995	29
35%	**–**	**3,039**	–	3,211
50%	**273**	**241**	46	243
75%	**–**	**41,228**	–	26,343
100%	**385**	**38,791**	724	27,271
150%	**–**	**1,325**	–	1,017
350%	**–**	**–**	–	–
1,250%	**–**	**–**	–	–
Total	**¥ 21,050**	**¥ 94,775**	¥ 24,818	¥ 66,160

(6) SPECIALIZED LENDING EXPOSURE UNDER SLOTTING CRITERIA AND EQUITY EXPOSURE UNDER MARKET-BASED SIMPLIFIED METHOD

Specialized lending excluding high-volatility commercial real estate

	Millions of yen	
As of March 31	**2019**	2018
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
50%	**¥ 224,936**	¥ 141,479
70%	**441,397**	431,582
90%	**121,918**	124,124
115%	**77,574**	55,764
250%	**42,456**	35,858
0% (Default)	**1,894**	–
Total	**¥ 910,177**	¥ 788,810

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

Specialized lending for high-volatility commercial real estate

As of March 31	Millions of yen 2019	2018
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
70%	**¥ 13,151**	¥ 11,108
95%	**26,461**	32,208
120%	**3,211**	6,077
140%	**30,518**	45,532
250%	**52,290**	40,306
0% (Default)	**3,432**	–
Total	**¥ 129,066**	¥ 135,233

Equity exposure under Market-Based Simplified Method

As of March 31	Millions of yen 2019	2018
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
300%	**¥ 6,092**	¥ 5,131
400%	**8,016**	8,909
Total	**¥ 14,109**	¥ 14,041

(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	2019					2018				
Credit Rating	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
0–4	**0.14%**	**44.83%**	**37.84%**	**¥1,573,544**	**¥ 159,750**	0.15%	44.87%	39.50%	¥1,539,812	¥ 162,674
5–6	**1.48%**	**44.01%**	**94.41%**	**695,731**	**91,660**	1.59%	44.04%	97.55%	701,607	86,656
9A	**9.39%**	**44.84%**	**185.49%**	**78,019**	**5,165**	9.72%	44.78%	188.60%	79,095	2,318
Default	**100.00%**	**49.32%**	**–**	**20,174**	**–**	100.00%	48.63%	–	23,262	535

Note: LGD is shown after credit risk mitigation

Sovereign

Millions of yen (except percentages)

As of March 31	2019					2018				
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%**	**3.25%**	**¥2,031,451**	**¥ 2,600**	0.00%	45.00%	2.85%	¥2,213,597	¥ 5,727
5–6	**0.81%**	**45.00%**	**66.61%**	**0**	**–**	0.56%	45.00%	55.42%	3,012	–
9A	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Default	**100.00%**	**45.00%**	**–**	**10**	**–**	100.00%	45.00%	–	10	–

Note: LGD is shown after credit risk mitigation

Bank

Millions of yen (except percentages)

As of March 31	2019					2018				
Credit Rating	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
0–4	**0.07%**	**44.97%**	**35.24%**	**¥ 171,117**	**¥ 80,799**	0.07%	44.97%	33.01%	¥ 178,652	¥ 88,986
5–6	**0.95%**	**45.00%**	**107.83%**	**20,365**	**2,391**	0.73%	45.00%	82.40%	24,211	3,700
9A	**9.39%**	**13.55%**	**51.72%**	**53,888**	**21,825**	9.72%	45.00%	183.01%	1,417	–
Default	**100.00%**	**45.00%**	**–**	**267**	**–**	–	–	–	–	–

Note: LGD is shown after credit risk mitigation

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

• 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	2019				2018			
Credit Rating	**PD**	**LGD**	**Risk Weight**	**Amount**	PD	LGD	Risk Weight	Amount
0–4	**0.13%**	**90.00%**	**207.43%**	**¥ 8,281**	0.13%	90.00%	207.13%	¥ 8,995
5–6	**1.65%**	**90.00%**	**354.76%**	**3,084**	1.28%	90.00%	309.12%	2,143
9A	**9.39%**	**90.00%**	**722.77%**	**350**	9.72%	90.00%	560.92%	572
Default	**100.00%**	**90.00%**	**1,125.00%**	**0**	100.00%	90.00%	1,125.00%	0

• Estimated average PD, LGD, risk weight ratio, Exposure at Default (EAD) (on- and off-balance), amount of undrawn commitments and estimated average Credit Conversion Factors (CCF) of undrawn commitments for residential mortgage exposure, qualified revolving retail exposure and other retail exposure

Residential mortgage exposure

Millions of yen (except percentages)

As of March 31	2019							2018						
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	**0.23%**	**16.27%**	**7.74%**	**¥ 1,186,746**	**¥ 2,964**	**¥ –**	**–**	0.25%	16.53%	8.50%	¥ 1,265,424	¥ 3,610	¥ –	–
Need caution	**64.90%**	**20.55%**	**76.63%**	**2,088**	**80**	**–**	**–**	66.13%	20.46%	73.40%	1,963	84	–	–
Default	**100.00%**	**40.32%**	**48.42%**	**3,197**	**14**	**–**	**–**	100.00%	39.11%	47.82%	3,600	31	–	–

Note: LGD is shown after credit risk mitigation

Qualified revolving retail exposure

Millions of yen (except percentages)

As of March 31	2019							2018						
Pool	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	**Undrawn Amount**	**Commitment CCF**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)	Undrawn Amount	Commitment CCF
Normal	**5.75%**	**76.35%**	**88.86%**	**¥ 536,398**	**¥ 147,318**	**¥ 3,644,066**	**4.04%**	5.98%	77.45%	91.78%	¥ 553,473	¥ 133,272	¥ 2,818,156	4.72%
Need caution	**80.90%**	**80.85%**	**117.73%**	**2,871**	**48**	**3,184**	**1.51%**	81.61%	81.73%	115.57%	3,003	50	3,408	1.46%
Default	**100.00%**	**71.34%**	**–**	**64,387**	**–**	**–**	**–**	100.00%	74.61%	–	71,500	–	–	–

Note: LGD is shown after credit risk mitigation

Other retail exposure

Millions of yen (except percentages)

As of March 31	2019							2018						
Pool	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	**Undrawn Amount**	**Commitment CCF**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)	Undrawn Amount	Commitment CCF
Normal	**3.39%**	**64.35%**	**86.08%**	**¥ 624,275**	**¥ 688,058**	**¥ 138,266**	**3.24%**	3.51%	63.78%	85.78%	¥ 562,425	¥ 645,997	¥ 110,768	3.74%
Need caution	**66.80%**	**52.60%**	**105.28%**	**5,250**	**2,084**	**16**	**0.00%**	68.05%	53.03%	104.74%	5,587	1,974	4	0.09%
Default	**100.00%**	**59.47%**	**4.62%**	**56,034**	**592**	**–**	**–**	100.00%	58.41%	1.38%	56,725	418	–	–

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

Millions of yen

	FY2018	FY2017	FY2016
Results of actual losses (a)	**¥ 1,736**	¥ 3,957	¥ 3,328
Expected losses (b)	**9,548**	9,527	9,544
Differences ((b) - (a))	**7,812**	5,570	6,216

Sovereign

Millions of yen

	FY2018	FY2017	FY2016
Results of actual losses (a)	**¥ –**	¥ –	¥ –
Expected losses (b)	**28**	34	26
Differences ((b) - (a))	**28**	34	26

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

Bank

	Millions of yen		
	FY2018	FY2017	FY2016
Results of actual losses (a)	**¥ 70**	¥ –	¥ –
Expected losses (b)	**117**	218	77
Differences ((b) - (a))	**47**	218	77

Residential mortgage exposure

	Millions of yen		
	FY2018	FY2017	FY2016
Results of actual losses (a)	**¥ 156**	¥ 304	¥ 247
Expected losses (b)	**931**	1,197	1,104
Differences ((b) - (a))	**774**	893	857

Qualified revolving retail exposure

	Millions of yen		
	FY2018	FY2017	FY2016
Results of actual losses (a)	**¥ 23,718**	¥ 24,482	¥ 21,768
Expected losses (b)	**38,842**	35,921	32,694
Differences ((b) - (a))	**15,123**	11,439	10,926

Other retail exposure

	Millions of yen		
	FY2018	FY2017	FY2016
Results of actual losses (a)	**¥ 8,076**	¥ 7,916	¥ 7,118
Expected losses (b)	**24,934**	21,771	19,234
Differences ((b) - (a))	**16,858**	13,854	12,115

[Analysis]
The result of actual losses for the year ended March 31, 2019 was decreased ¥2.9 billion compared with in the previoues fiscal year.
The principal reason is to be increased the specific reserves for Corporate exposure in the previous fiscal year.

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, 2017, 2018 and 2019 for the Bank Group's non-default exposures at the start of the twelve-month period, with expected losses. The exposures for the Shinsei Bank Lake business are calculated through the F-IRB approach starting from March 31, 2017.

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

4. CREDIT RISK MITIGATION (CRM)

(1) COVERED AMOUNT OF CRM BY COLLATERAL

FIRB

	Millions of yen			
	2019		2018	
As of March 31	**Eligible financial collateral**	**Other eligible FIRB collateral**	Eligible financial collateral	Other eligible FIRB collateral
Corporate	**¥ 4,212**	**¥ 217,686**	¥ 5,254	¥ 189,431
Sovereign	**–**	**–**	–	–
Bank	**52,900**	**1,007**	–	1,263
Total	**¥ 57,112**	**¥ 218,694**	¥ 5,254	¥ 190,694

(2) COVERED AMOUNT OF CRM BY GUARANTEE OR CREDIT DERIVATIVES

IRB

	Millions of yen	
As of March 31	**2019**	2018
Corporate	**¥ 290**	¥ 457
Sovereign	**9,354**	13,650
Bank	**–**	–
Residential mortgages	**–**	–
Qualified revolving retail	**–**	–
Other retail	**–**	–
Total	**¥ 9,644**	¥ 14,108

5. COUNTERPARTY CREDIT RISK OF DERIVATIVES

	Millions of yen	
As of March 31	**2019**	2018
Total amount of gross positive fair value	**¥ 224,748**	¥ 291,311
Amount of gross add-on	**127,303**	93,591
EAD before CRM	**352,051**	384,903
FX-related	**141,279**	154,470
Interest-related	**198,015**	209,190
Equity-related	**6,327**	10,541
Commodity-related	**–**	–
Credit derivatives	**6,063**	10,605
Others	**364**	94
Amount of net	**215,013**	245,939
EAD after net	**137,038**	138,964
Amount covered collateral	**–**	–
EAD after CRM	**137,038**	138,964

Note: Current Exposure Method

- Notional amount of credit derivatives which have counterparty risk

	Millions of yen			
As of March 31	**2019**		2018	
Notional amount	**Protection-buy**	**Protection-sell**	Protection-buy	Protection-sell
Single name	**¥ 33,000**	**¥ 20,000**	¥ 55,500	¥ 44,050
Multi name	**19,000**	**19,000**	31,500	32,500

Not applicable for the following items;

- Amount covered collateral
- Notional amount of credit derivatives which cover exposures by CRM

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

6. SECURITIZATION

The amout of securitization exposure and required capital as of March 31, 2019 is calculated based on 「Accord」 amended on March 31, 2019.

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 2019	Millions of yen 2018
Type of original assets	**Amount of original assets**	Amount of original assets
Residential mortgages	¥ –	¥ 5,270
Consumer loans	–	–
Commercial real estate loans	–	–
Corporate loans	–	–
Others	–	–
Total	¥ –	¥ 5,270

Note: Includes originally securitized assets originated by the Bank Group during the period, even though the Bank Group had no exposure to these particular assets.

(2) Amount of original assets in default or past due 3 months or more

Securitization by transfer of assets

As of March 31	Millions of yen 2019	Millions of yen 2018
Type of original assets	**Amount of Default**	Amount of Default
Residential mortgages	¥ –	¥ 176
Consumer loans	–	–
Commercial real estate loans	–	–
Corporate loans	–	–
Others	–	–
Total	¥ –	¥ 176

Note: Includes originally securitized assets originated by the Bank Group during the period, even though the Bank Group had no exposure to these particular assets.

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(3) Amount of increase of capital by securitization (to be deducted from capital)

	Millions of yen	
As of March 31	**2019**	2018
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ –**	¥ 5,370
Consumer loans	**–**	–
Commercial real estate loans	**–**	–
Corporate loans	**–**	–
Others	**–**	–
Total	**¥ –**	¥ 5,370

(4) Amount of securitization exposure applied risk weight 1,250%

	Millions of yen	
As of March 31	**2019**	2018
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ –**	¥ 40
Consumer loans	**–**	–
Commercial real estate loans	**–**	–
Corporate loans	**–**	–
Others	**–**	–
Total	**¥ –**	¥ 40

Not applicable for the following items;

- Amount of securitization exposure the Bank Group has by type of original assets
- Amount of securitization exposure and required capital the Bank Group has by risk weight ratio
- Amount of assets held for securitization trade
- Summary of current year's securitization activities
- Amount of recognized gain/loss by original asset type during the period.
- Securitization exposure subject to early amortization
- Credit risk mitigation for resecuritization exposure

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

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 2019	2018
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 32,772**	¥ 21,372
Consumer loans	**–**	–
Commercial real estate loans	**94,717**	65,568
Corporate loans	**62,097**	34,981
Others	**33,609**	20,372
Total	**¥ 223,196**	¥ 142,294

※There is no resecutization exposure.

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

Excluding resecuritization exposure

As of March 31	Millions of yen 2019		2018	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 20%	**¥ 61,657**	**¥ 935**	¥ 79,025	¥ 656
Over 20% to 50%	**7,533**	**236**	–	–
Over 50% to 100%	**58,460**	**3,215**	8,314	644
Over 100% to 400%	**78,465**	**17,238**	33,177	5,646
Over 400% to 625%	**14,400**	**6,998**	21,776	9,750
Over 625% to 1,250%	**2,678**	**2,108**	–	–
Total	**¥ 223,196**	**¥ 30,733**	¥ 142,294	¥ 16,697

※There is no resecutization exposure.

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(3) Amount of securitization exposure applied risk weight 1,250%

As of March 31	Millions of yen 2019	2018
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ –**	¥ 227
Consumer loans	**–**	–
Commercial real estate loans	**–**	–
Corporate loans	**–**	–
Others	**–**	–
Total	**¥ –**	¥ 227

Not applicable for the following items;

- **Credit risk mitigation for resecuritization exposure**

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

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

As of March 31	Millions of yen 2019	2018
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 2,029**	¥ 4,086
Consumer loans	**–**	–
Commercial real estate loans	**–**	–
Corporate loans	**–**	–
Others	**–**	–
Total	**¥ 2,029**	¥ 4,086

※There is no resecutization exposure.

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

As of March 31	Millions of yen 2019		2018	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 1.6%	**¥ 2,029**	**¥ 32**	¥ 4,086	¥ 65
Over 1.6% to 4%	**–**	**–**	–	–
Over 4% to 8%	**–**	**–**	–	–
Over 8% to 32%%	**–**	**–**	–	–
Over 32% to 50%	**–**	**–**	–	–
Over 50% under 100%	**–**	**–**	–	–
Total	**¥ 2,029**	**¥ 32**	¥ 4,086	¥ 65

※There is no resecutization exposure.

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

Not applicable for the following items;

- Amount of securitization exposure targeted for comprehensive risk
- Amount of securitization exposure applied Risk weight 1,250% under the Accord Article 302-2.2

7. MARKET RISK (UNDER INTERNAL MODEL APPROACH)

(1) VAR AT THE END OF MARCH 2019 AND MARCH 2018 AND THE HIGH, MEAN AND LOW VAR

	Millions of yen	
As of March 31	**2019**	2018
VaR at term end	**¥ 1,098**	¥ 783
VaR through this term		
High	**1,577**	1,391
Mean	**903**	956
Low	**631**	572

(2) STRESSED VAR AT THE END OF MARCH 2019 AND MARCH 2018 AND THE HIGH, MEAN AND LOW VAR

	Millions of yen	
As of March 31	**2019**	2018
VaR at term end	**¥ 3,879**	¥ 3,915
VaR through this term		
High	**4,625**	4,161
Mean	**3,338**	2,869
Low	**2,605**	1,832

The trading portfolio experienced no losses that exceeded the specified VaR threshold.
Back-Testing is described in "Overview of the Group's Risk Management Sytems"

Not applicable for the following items;

- The amount of required capital related to additional risk and comprehensive risk as of the period-end, as well as the maximum, minimum and average values for the amount of required capital for additional risk and comprehensive risk during the disclosure period

8. EQUITY EXPOSURE IN BOOK

(1) BOOK VALUE AND FAIR VALUE

	Millions of yen	
As of March 31	**2019**	2018
Market-based approach		
Listed equity exposure	**¥ 6,092**	¥ 5,131
Unlisted equity exposure	**8,016**	8,909
PD/LGD method		
Listed equity exposure	**8,970**	9,879
Unlisted equity exposure	**2,746**	1,832

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

(2) GAIN OR LOSS ON SALE OR DEPRECIATION OF EQUITY EXPOSURE

	Millions of yen	
	FY2018	FY2017
Gain (loss) on sale	**¥ 1,010**	¥ 8,337
Loss of depreciation	**1,622**	656

(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	**2019**	2018
Unrealized gain (loss)	**¥ 9,593**	¥ 11,306

(4) AMOUNT FOR EACH PORTFOLIO CLASSIFICATION OF EQUITY EXPOSURE

	Millions of yen	
As of March 31	**2019**	2018
Market-based approach	**¥ 14,109**	¥ 14,041
PD/LGD Method	**11,717**	11,712
RW100% Applied	**51**	51
RW250% Applied	**61,823**	59,236

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.BEFORE RIVISION EXPOSURE RELATING TO INVESTMENT FUNDS

	Millions of yen
As of March 31	2018
Regarded exposure (fund)	¥ 52,720

10. EXPOSURE RELATING TO INVESTMENT FUNDS

The accord article 167 was amended on march 31, 2019.
Describe the present disclosure based on the "notice" and "notice of disclosure" after amended.

	Millions of yen
As of March 31	**2019**
Look-through approach	**¥ 4,209**
Mandate-based approach	**–**
Probability-based approach (250%)	**–**
Probability-based approach (400%)	**43,954**
Fall-back approach	**0**
Total	**48,163**

Note: 1. "Look-through approach" requires a bank to risk weight the underlying exposures of a fund as if the exposures were held directly by the bank.
2. "Mandate-based approach" is a method of conservatively estimating the asset structure based on the fund management method.
3. "Probability-based approach (250%)" can be selected when each asset of fund will be highly probable that the risk weight is less than 250%.
4. "Probability-based approach (400%)" can be selected when each asset of fund will be highly probable that the risk weight is more than 250% and less than 400%.
5. "Fall-back approach" is requires to apply if above approaches are not feasible.

QUANTITATIVE DISCLOSURE (CONSOLIDATED) (continued)

11. INTEREST RATE RISK (IRRBB) THE INCREASE/DECREASE IN ECONOMIC VALUE FOR UPWARD/DOWNWARD RATE SHOCKS ACCORDING TO MANAGEMENT'S METHOD FOR IRRBB

Change in economic values from a 2% interest-rate shock:

	Billions of yen
As of March 31	2018
JPY	¥ (89.8)
USD	(4.0)
Others	(12.6)
Total	¥ (106.5)

12. INTEREST RATE RISK

This item has been described using the form No.11-2 of revised Accord for Disclosure from March 31, 2019, instead of the above-mentioned item "INTEREST RATE RISK (IRRBB) THE INCREASE/DECREASE IN ECONOMIC VALUE FOR UPWARD/DOWNWARD RATE SHOCKS ACCORDING TO MANAGEMENT'S METHOD FOR IRRBB".

Decrease in economic values from interest-rate shock

Millions of yen

IRRBB1 : Interest rate risk					
No		A	B	C	D
		⊿EVE		⊿NII	
		2019	2018	2019	2018
1	Parallel shock up	63,397			
2	Parallel shock down	11,644			
3	Steepener shock	29,041			
4	Flattener shock	–			
5	Short rate up shock	–			
6	Short rate down shock	–			
7	Max	63,397			
		E		F	
		2019		2018	
8	Core capital	795,301			

Note:The “IRRBB1: Interest rate risk” column B, column C, column D and column F above are not described due to the transitonal arrangements of revised Accord for Disclosure .

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED)

1. CAPITAL ADEQUACY

(1) AMOUNT OF REQUIRED CAPITAL FOR CREDIT RISK

Portfolios under the Standardized Approach (SA)

	Millions of yen	
	2019	2018
As of March 31	**Required capital amount**	Required capital amount
Shinsei Bank	**¥ 370**	¥ 411

Portfolios under the Internal Ratings-Based Approach (IRB)

	Millions of yen	
	2019	2018
As of March 31	**Required capital amount**	Required capital amount
Corporate (Excluding Specialized Lending) [1]	**¥ 130,909**	¥ 131,640
Specialized Lending[2]	**90,316**	76,851
Sovereign	**5,638**	5,544
Bank	**13,275**	8,890
Residential mortgages	**9,723**	11,170
Qualified revolving retails	**46,820**	59,430
Other retails	**1**	3
Equity	**117,286**	122,091
Fund	**12,173**	10,673
Securitization	**34,523**	23,534
Purchase receivables	**16,881**	9,981
Other assets	**1,259**	1,677
CVA risk	**10,451**	8,795
CCP risk	**92**	85
Total	**¥ 489,352**	¥ 470,372

Note: 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	
	2019	2018
As of March 31	**Required capital amount**	Required capital amount
Market-Based Approach Simplified Method	**¥ 4,982**	¥ 5,016
PD/LGD Method	**111,191**	115,995
RW100% Applied	**4**	4
RW250% Applied	**1,108**	1,075
Total	**¥ 117,286**	¥ 122,091

(3) EXPOSURE RELATING TO INVESTMENT FUNDS

	Millions of yen	
	2019	2018
As of March 31	**Required capital amount**	Required capital amount
Before revision Look Through		¥ 1,753
Before revision Revised Naivete Majority		7,984
Before revision Simplified [400%]		935
Before revision Simplified [1,250%]		–
Look-through approach	**¥ 1,265**	
Mandated-based approach	**–**	
Probability-based approach [250%]	**–**	
Probability-based approach [400%]	**10,908**	
Fall-back approach [1,250%]	**–**	
Total	**¥ 12,173**	¥ 10,673

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

(4) AMOUNT OF REQUIRED CAPITAL FOR MARKET RISK

	Millions of yen	
	2019	2018
As of March 31	**Required capital amount**	Required capital amount
The Standardized Approach	**¥ 419**	¥ 193
Interest rate risk	**3**	35
Equity position risk	**3**	5
FX risk	**411**	151
Securitization risk	**–**	–
The Internal Models Approach (IMA) (General Market Risk)	**11,069**	11,937

(5) AMOUNT OF REQUIRED CAPITAL FOR OPERATIONAL RISK

	Millions of yen	
	2019	2018
As of March 31	**Required capital amount**	Required capital amount
The Standardized Approach	**¥ 15,025**	¥ 15,083

(6) TOTAL REQUIRED CAPITAL (DOMESTIC STANDARD)

	Millions of yen	
As of March 31	**2019**	2018
Total Required Capital (Risk-weighted Assets x 4%)	**¥ 235,449**	¥ 224,010

2.CREDIT RISK EXPOSURE (EXCLUDING SECURITIZATION AND EXPOSURES RELATING TO INVESTMENT FUNDS)

(1) AMOUNT OF CREDIT RISK EXPOSURE

Geographic, Industries or Maturity

	Millions of yen							
	2019				2018			
	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	**¥ 257,509**	**¥ 240,433**	**¥ 1,000**	**¥ 16,075**	¥ 258,849	¥ 243,833	¥ 50	¥ 14,966
Agriculture	**–**	**–**	**–**	**–**	–	–	–	–
Mining	**490**	**488**	**–**	**1**	528	526	–	2
Construction	**25,799**	**25,599**	**200**	**–**	23,326	23,326	–	–
Electric power, gas, water supply	**409,633**	**389,879**	**–**	**19,753**	326,933	313,528	–	13,404
Information and communication	**43,832**	**43,831**	**–**	**1**	58,464	58,460	–	3
Transportation	**175,268**	**174,997**	**–**	**270**	190,116	185,700	3,699	715
Wholesale and retail	**125,970**	**112,890**	**100**	**12,980**	128,159	113,852	100	14,207
Finance and insurance	**2,201,211**	**2,041,279**	**138,782**	**21,149**	2,158,416	2,063,428	70,892	24,095
Real estate	**705,785**	**576,767**	**126,404**	**2,613**	700,404	568,890	128,750	2,763
Services	**396,521**	**395,333**	**801**	**386**	410,026	408,958	921	146
Government	**550,967**	**52,292**	**498,674**	**–**	563,609	58,804	504,804	–
Individuals	**1,489,536**	**1,489,245**	**–**	**290**	1,573,267	1,573,068	–	199
Others	**580**	**580**	**–**	**–**	656	656	–	–
Domestic Total	**6,383,107**	**5,543,621**	**765,962**	**73,522**	6,392,758	5,613,035	709,218	70,504
Foreign	**946,456**	**670,174**	**214,243**	**62,039**	933,020	612,795	254,185	66,038
Total	**¥ 7,329,563**	**¥ 6,213,795**	**¥ 980,205**	**¥ 135,562**	¥ 7,325,778	¥ 6,225,831	¥ 963,404	¥ 136,542
To 1 year	**1,573,664**	**1,418,884**	**138,853**	**15,926**	1,437,473	1,256,116	162,403	18,953
1 to 3 years	**1,373,821**	**1,007,281**	**346,485**	**20,054**	1,353,779	1,028,546	299,623	25,610
3 to 5 years	**811,234**	**638,314**	**149,328**	**23,591**	892,522	627,889	247,028	17,604
Over 5 years	**2,307,704**	**1,887,678**	**344,036**	**75,989**	2,192,684	1,864,961	253,348	74,375
Undated	**1,263,138**	**1,261,636**	**1,501**	**–**	1,449,319	1,448,317	1,001	–
Total	**¥ 7,329,563**	**¥ 6,213,795**	**¥ 980,205**	**¥ 135,562**	¥ 7,325,778	¥ 6,225,831	¥ 963,404	¥ 136,542

Note: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	
	2019	2018
As of March 31	**Default Exposure**	Default Exposure
Manufacturing	**¥ 3,090**	¥ 3,150
Agriculture	**–**	–
Mining	**–**	–
Construction	**–**	19
Electric power, gas, water supply	**–**	–
Information and communication	**576**	264
Transportation	**44**	50
Wholesale and retail	**225**	1,524
Finance and insurance	**267**	257
Real estate	**5,151**	0
Services	**1,516**	1,882
Government	**–**	–
Individuals	**3,265**	4,134
Others	**–**	–
Domestic Total	**14,138**	11,283
Foreign	**4,378**	2,899
Total	**¥ 18,517**	¥ 14,183

(3) AMOUNT OF LOAN LOSS RESERVES (GENERAL, SPECIFIC AND COUNTRY RISK) BEFORE PARTIAL WRITE-OFF

	Millions of yen					
	2019			2018		
As of March 31	**Start Amount**	**Change Amount**	**End Amount**	Start Amount	Change Amount	End Amount
General	**¥ 24,391**	**¥ (3,098)**	**¥ 21,292**	¥ 22,896	¥ 1,494	¥ 24,391
Specific	**6,531**	**667**	**7,198**	34,709	(28,177)	6,531
Country	**–**	**–**	**–**	0	(0)	–
Total	**¥ 30,922**	**¥ (2,431)**	**¥ 28,490**	¥ 57,605	¥ (26,683)	¥ 30,922

Geographic

	Millions of yen							
	2019				2018			
As of March 31	**Total**	**General**	**Specific**	**Country**	Total	General	Specific	Country
Domestic	**¥ 22,684**	**¥ 17,317**	**¥ 5,367**	**¥ –**	¥ 20,060	¥ 14,304	¥ 5,756	¥ –
Foreign	**5,805**	**3,975**	**1,830**	**–**	10,861	10,086	774	–
Total	**¥ 28,490**	**¥ 21,292**	**¥ 7,198**	**¥ –**	¥ 30,922	¥ 24,391	¥ 6,531	¥ –

Industries

	Millions of yen	
	2019	2018
As of March 31	**Reserve Amount**	Reserve Amount
Manufacturing	**¥ 2,483**	¥ 2,759
Agriculture	**–**	–
Mining	**4**	4
Construction	**75**	74
Electric power, gas, water supply	**2,824**	778
Information and communication	**875**	370
Transportation	**631**	2,081
Wholesale and retail	**975**	1,985
Finance and insurance	**3,322**	2,399
Real estate	**5,293**	3,658
Services	**3,408**	3,017
Government	**–**	–
Individuals	**2,789**	2,929
Others	**0**	0
Foreign	**5,805**	10,861
Non-classified	**–**	–
Total	**¥ 28,490**	¥ 30,922

Note:Although the specific allowance for credit losses does not include the allowance relating to any securitization exposures and exposures relating to funds, the allowance relating to these exposures is not excluded from both the general allowance for credit losses and the allowance for loans to specific foreign borrowers, because we do not manage provisioning with respect to each asset class based on Basel III.

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

(4) AMOUNT OF WRITE-OFFS

Industries

	Millions of yen	
	FY2018	FY2017
	Amount of write-off	Amount of write-off
Manufacturing	**¥ –**	¥ 306
Agriculture	**–**	–
Mining	**–**	–
Construction	**–**	5
Electric power, gas, water supply	**–**	–
Information and communication	**–**	–
Transportation	**–**	–
Wholesale and retail	**33**	144
Finance and insurance	**–**	–
Real estate	**–**	–
Services	**11**	392
Government	**–**	–
Individuals	**74**	644
Others	**–**	–
Foreign	**215**	1,864
Non-classified	**–**	–
Total	**¥ 334**	¥ 3,357

(5) AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)

	Millions of yen			
	2019		2018	
As of March 31	**Rated**	**Unrated**	Rated	Unrated
0%	**¥ –**	**¥ –**	¥ –	¥ –
10%	**–**	**–**	–	–
20%	**–**	**–**	–	–
35%	**–**	**3,039**	–	3,211
50%	**–**	**–**	–	–
75%	**–**	**4,764**	–	5,261
100%	**–**	**–**	–	79
150%	**–**	**–**	–	–
350%	**–**	**–**	–	–
1,250%	**–**	**–**	–	–
Total	**¥ –**	**¥ 7,803**	¥ –	¥ 8,552

(6) SPECIALIZED LENDING EXPOSURE UNDER SLOTTING CRITERIA AND EQUITY EXPOSURE UNDER MARKET-BASED SIMPLIFIED METHOD

Specialized lending excluding high-volatility commercial real estate

	Millions of yen	
As of March 31	**2019**	2018
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
50%	**¥ 224,936**	¥ 138,862
70%	**441,397**	431,582
90%	**121,918**	124,124
115%	**77,574**	55,764
250%	**23,883**	12,441
0% (Default)	**1,894**	–
Total	**¥ 891,605**	¥ 762,776

Specialized lending for high-volatility commercial real estate

	Millions of yen	
As of March 31	**2019**	2018
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
70%	**¥ 13,151**	¥ 11,108
95%	**26,461**	32,208
120%	**3,211**	6,077
140%	**30,518**	45,532
250%	**52,290**	40,306
0% (Default)	**3,432**	–
Total	**¥ 129,066**	¥ 135,233

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

Equity exposure under Market-Based Simplified Method

As of March 31	Millions of yen 2019	2018
Risk weight ratio	**Amount of Exposure**	Amount of Exposure
300%	**¥ 5,770**	¥ 4,939
400%	**10,360**	11,083
Total	**¥ 16,131**	¥ 16,023

(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	2019					2018				
Credit Rating	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
0–4	**0.14%**	**44.84%**	**37.58%**	**¥1,653,966**	**¥ 177,704**	0.15%	44.87%	39.65%	¥1,575,535	¥ 180,553
5–6	**1.46%**	**43.87%**	**94.68%**	**595,787**	**91,437**	1.55%	43.87%	96.52%	586,414	86,656
9A	**9.39%**	**44.63%**	**185.33%**	**29,230**	**5,162**	9.72%	44.45%	186.32%	29,650	2,308
Default	**100.00%**	**54.68%**	**–**	**9,003**	**–**	100.00%	53.87%	–	9,217	535

Note: LGD is shown after credit risk mitigation

Sovereign

Millions of yen (except percentages)

As of March 31	2019					2018				
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%**	**3.27%**	**¥2,008,237**	**¥ 2,600**	0.00%	45.00%	2.85%	¥2,200,922	¥ 5,727
5–6	**0.81%**	**45.00%**	**66.61%**	**0**	**–**	0.56%	45.00%	55.42%	3,012	–
9A	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Default	**100.00%**	**45.00%**	**–**	**10**	**–**	100.00%	45.00%	–	10	–

Note: LGD is shown after credit risk mitigation

Bank

Millions of yen (except percentages)

As of March 31	2019					2018				
Credit Rating	**PD**	**LGD**	**Risk Weight**	**EAD (On-balance)**	**EAD (Off-balance)**	PD	LGD	Risk Weight	EAD (On-balance)	EAD (Off-balance)
0–4	**0.07%**	**44.97%**	**39.34%**	**¥ 115,399**	**¥ 84,766**	0.08%	44.97%	36.55%	¥ 119,936	¥ 92,653
5–6	**0.95%**	**45.00%**	**108.26%**	**20,140**	**2,391**	0.73%	45.00%	83.60%	21,976	4,745
9A	**9.39%**	**13.46%**	**51.32%**	**53,662**	**21,825**	9.72%	45.00%	182.11%	1,201	–
Default	**100.00%**	**45.00%**	**–**	**267**	**–**	–	–	–	–	–

Note: LGD is shown after credit risk mitigation

• Estimated average PD, risk weight ratio and amount of exposure for equity exposure under PD/LGD method

Millions of yen (except percentages)

As of March 31	2019				2018			
Credit Rating	**PD**	**LGD**	**Risk Weight**	**Amount**	PD	LGD	Risk Weight	Amount
0–4	**0.19%**	**90.00%**	**300.60%**	**¥ 369,581**	0.22%	90.00%	301.10%	¥ 370,102
5–6	**1.06%**	**90.00%**	**325.73%**	**8,514**	0.70%	90.00%	305.77%	25,766
9A	**9.39%**	**90.00%**	**870.26%**	**19,819**	9.72%	90.00%	881.32%	19,819
Default	**100.00%**	**90.00%**	**1,125.00%**	**0**	100.00%	90.00%	1,125.00%	0

• Estimated average PD, LGD, risk weight ratio, Exposure at Default (EAD) (on- and off-balance), amount of undrawn commitments and estimated average Credit Conversion Factors (CCF) of undrawn commitments for residential mortgage exposure, qualified revolving retail exposure and other retail exposure

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

Residential mortgage exposure

Millions of yen (except percentages)

As of March 31	2019							2018						
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	0.22%	16.07%	7.41%	¥ 1,184,604	¥ –	¥ –	–	0.25%	16.28%	8.10%	¥ 1,262,621	¥ –	¥ –	–
Need caution	64.08%	19.49%	76.40%	2,084	–	–	–	65.16%	19.28%	73.68%	1,960	–	–	–
Default	100.00%	40.07%	49.88%	3,117	–	–	–	100.00%	38.87%	49.14%	3,533	–	–	–

Note: LGD is shown after credit risk mitigation

Qualified revolving retail exposure

Millions of yen (except percentages)

As of March 31	2019							2018						
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	7.63%	83.10%	115.58%	¥ 264,597	¥ 18,777	¥ 459,903	4.08%	8.82%	86.30%	129.63%	¥ 287,364	¥ 24,424	¥ 487,184	5.01%
Need caution	85.85%	83.10%	103.22%	1,149	37	1,213	3.08%	86.53%	86.30%	102.83%	1,477	48	1,560	3.12%
Default	100.00%	83.10%	–	125	–	–	–	100.00%	86.30%	–	147	–	–	–

Note: LGD is shown after credit risk mitigation

Other retail exposure

Millions of yen (except percentages)

As of March 31	2019							2018						
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	0.27%	15.11%	7.51%	¥ 224	¥ –	¥ –	–	0.45%	17.13%	11.56%	¥ 338	¥ –	¥ –	–
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

Millions of yen

	FY2018	FY2017	FY2016
Results of actual losses (a)	¥ 1,454	¥ 1,080	¥ 2,812
Expected losses (b)	6,822	6,893	6,797
Differences ((b) - (a))	5,368	5,813	3,985

Sovereign

Millions of yen

	FY2018	FY2017	FY2016
Results of actual losses (a)	¥ –	¥ –	¥ –
Expected losses (b)	28	34	26
Differences ((b) - (a))	28	34	26

Bank

Millions of yen

	FY2018	FY2017	FY2016
Results of actual losses (a)	¥ 70	¥ –	¥ –
Expected losses (b)	117	219	86
Differences ((b) - (a))	47	219	86

Residential mortgage exposure

Millions of yen

	FY2018	FY2017	FY2016
Results of actual losses (a)	¥ 154	¥ 299	¥ 230
Expected losses (b)	847	1,089	976
Differences ((b) - (a))	693	790	746

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

Qualified revolving retail exposure

	Millions of yen		
	FY2018	FY2017	FY2016
Results of actual losses (a)	**¥ 14,564**	¥ 14,152	¥ 11,622
Expected losses (b)	**23,043**	21,386	18,169
Differences ((b) - (a))	**8,478**	7,234	6,546

[Analysis]
The result of actual losses for the year ended March 31, 2019 was increased ¥0.7 billion than in the previoues fiscal year and has been stable between above fiscal years.

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, 2017, 2018 and 2019 for the Bank's non-default exposures at the start of the twelve-month period, with expected losses. The exposures for Shinsei Bank Card Loan - Lake are calculated through the F-IRB approach starting from March 31, 2017.

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

3. CREDIT RISK MITIGATION (CRM)

(1) COVERED AMOUNT OF CRM BY COLLATERAL

FIRB

	Millions of yen			
	2019		2018	
As of March 31	**Eligible financial collateral**	**Other eligible FIRB collateral**	Eligible financial collateral	Other eligible FIRB collateral
Corporate	**¥ 4,212**	**¥ 219,996**	¥ 5,254	¥ 192,207
Sovereign	**–**	**–**	–	–
Bank	**52,900**	**1,007**	–	1,263
Total	**¥ 57,112**	**¥ 221,004**	¥ 5,254	¥ 193,471

(2) COVERED AMOUNT OF CRM BY GUARANTEE OR CREDIT DERIVATIVES

IRB

	Millions of yen	
As of March 31	**2019**	2018
Corporate	**¥ 290**	¥ 457
Sovereign	**9,354**	13,650
Bank	**–**	–
Residential mortgages	**–**	–
Qualified revolving retail	**–**	–
Other retail	**–**	–
Total	**¥ 9,644**	¥ 14,108

4. COUNTERPARTY CREDIT RISK OF DERIVATIVES

	Millions of yen	
As of March 31	**2019**	2018
Total amount of gross positive fair value	**¥ 224,058**	¥ 291,664
Amount of gross add-on	**126,577**	92,497
EAD before CRM	**350,636**	384,161
FX-related	**141,564**	155,528
Interest-related	**197,059**	207,841
Equity-related	**6,466**	10,444
Commodity-related	**–**	–
Credit derivatives	**5,182**	10,251
Others	**364**	94
Amount of net	**215,074**	247,618
EAD after net	**135,562**	136,542
Amount covered collateral	**–**	–
EAD after CRM	**135,562**	136,542

Note: Current Exposure Method

• Notional amount of credit derivatives which have counterparty risk

	Millions of yen			
As of March 31	**2019**		2018	
Notional amount	**Protection-buy**	**Protection-sell**	Protection-buy	Protection-sell
Single name	**¥ 20,000**	**¥ 20,000**	¥ 44,500	¥ 44,050
Multi name	**19,000**	**19,000**	31,500	32,500

Not applicable for the following items;

• Amount covered collateral
• Notional amount of credit derivatives which cover exposures by CRM

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

5. SECURITIZATION

The amout of securitization exposure and required capital as of March 31, 2019 is calculated based on 「Accord」 amended on March 31, 2019.

SECURITIZATION EXPOSURE ORIGINATED BY THE BANK (CREDIT RISK)

(1) Amount of original assets

Securitization by transfer of assets

As of March 31	Millions of yen 2019	Millions of yen 2018
Type of original assets	**Amount of original assets**	Amount of original assets
Residential mortgages	**¥ –**	¥ 5,270
Consumer loans	**–**	–
Commercial real estate loans	**–**	–
Corporate loans	**–**	–
Others	**–**	116,327
Total	**¥ –**	¥ 121,597

Note: Includes originally securitized assets originated by the Bank during the period, 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

As of March 31	Millions of yen 2019	Millions of yen 2018
Type of original assets	**Amount of Default**	Amount of Default
Residential mortgages	**¥ –**	¥ 176
Consumer loans	**–**	–
Commercial real estate loans	**–**	–
Corporate loans	**–**	–
Others	**–**	–
Total	**¥ –**	¥ 176

Note: Includes originally securitized assets originated by the Bank during the period, even though the Bank had no exposure to these particular assets.

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

Securitization by transfer of assets

Excluding resecuritization

As of March 31	Millions of yen 2019	Millions of yen 2018
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ –**	¥ –
Consumer loans	**–**	–
Commercial real estate loans	**–**	–
Corporate loans	**–**	–
Others	**–**	100,000
Total	**¥ –**	¥ 100,000

※There is no resecuritization exposure.

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

(4) Amount of securitization exposure and required capital the Bank has by risk weight ratio
Securitization by transfer of assets
Excluding resecuritization exposure

As of March 31	Millions of yen 2019		2018	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 20%	¥ –	¥ –	¥ 100,000	¥ 593
Over 20% to 50%	–	–	–	–
Over 50% to 100%	–	–	–	–
Over 100% to 400%	–	–	–	–
Over 400% to 625%	–	–	–	–
Over 625% under 1,250%	–	–	–	–
Total	¥ –	¥ –	¥ 100,000	¥ 593

※There is no resecuritization exposure.

(5) Amount of increase of capital by securitization (to be deducted from capital)

As of March 31	Millions of yen 2019	2018
Type of original assets	**Amount**	Amount
Residential mortgages	¥ –	¥ 5,370
Consumer loans	–	–
Commercial real estate loans	–	–
Corporate loans	–	–
Others	–	–
Total	¥ –	¥ 5,370

(6) Amount of securitization exposure applied risk weight 1,250%

As of March 31	Millions of yen 2019	2018
Type of original assets	**Amount**	Amount
Residential mortgages	¥ –	¥ 40
Consumer loans	–	–
Commercial real estate loans	–	–
Corporate loans	–	–
Others	–	–
Total	¥ –	¥ 40

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 the period.
- Securitization exposure subject to early amortization
- Credit risk mitigation for resecuritization exposure

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

SECURITIZATION EXPOSURE IN WHICH THE BANK INVESTS

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

Excluding resecuritization exposure

As of March 31	Millions of yen	
	2019	2018
Type of original assets	**Amount of Exposure**	Amount of Exposure
Residential mortgages	**¥ 32,772**	¥ 21,372
Consumer loans	**–**	–
Commercial real estate loans	**94,717**	65,568
Corporate loans	**62,097**	34,981
Others	**272,569**	98,130
Total	**¥ 462,156**	¥ 220,052

※There is no resecuritization exposure.

(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			
	2019		2018	
Band of risk weight ratio	**Amount**	**Required capital amount**	Amount	Required capital amount
To 20%	**¥ 273,617**	**¥ 3,645**	¥ 156,783	¥ 1,245
Over 20% to 50%	**34,533**	**1,316**	–	–
Over 50% to 100%	**58,460**	**3,215**	8,314	644
Over 100% to 400%	**78,465**	**17,238**	33,177	5,646
Over 400% to 625%	**14,400**	**6,998**	21,776	9,750
Over 625% under 1,250%	**2,678**	**2,108**	–	–
Total	**¥ 462,156**	**¥ 34,523**	¥ 220,052	¥ 17,286

※There is no resecuritization exposure.

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

(3) Amount of securitization exposure applied risk weight 1,250%

As of March 31	Millions of yen 2019	2018
Type of original assets	**Amount**	Amount
Residential mortgages	**¥ –**	¥ 227
Consumer loans	**–**	–
Commercial real estate loans	**–**	–
Corporate loans	**–**	–
Others	**–**	–
Total	**¥ –**	¥ 227

Not applicable for the following items;

- Credit risk mitigation for resecuritization exposure

6. MARKET RISK (UNDER INTERNAL MODEL APPROACH)

(1) VAR AT THE END OF MARCH 2019 AND MARCH 2018 AND THE HIGH, MEAN AND LOW VAR

As of March 31	Millions of yen 2019	2018
VaR at term end	**¥ 1,040**	¥ 740
VaR through this term		
High	**1,527**	1,353
Mean	**854**	917
Low	**570**	540

(2) STRESSED VAR AT THE END OF MARCH 2019 AND MARCH 2018 AND THE HIGH, MEAN AND LOW VAR

As of March 31	Millions of yen 2019	2018
VaR at term end	**¥ 3,692**	¥ 3,690
VaR through this term		
High	**4,497**	4,017
Mean	**3,163**	2,728
Low	**2,350**	1,755

The trading portfolio experienced no losses that exceeded the specified VaR threshold
Back-Testing is described in "Overview of the Group's Risk Management Sytems".

Not applicable for the following items;

- The amount of required capital related to additional risk and comprehensive risk as of the period-end, as well as the maximum, minimum and average values for the amount of required capital for additional risk and comprehensive risk during the disclosure period

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

7. EQUITY EXPOSURE IN BOOK

(1) BOOK VALUE AND FAIR VALUE

As of March 31	Millions of yen 2019	2018
Market-based approach		
Listed equity exposure	**¥ 5,770**	¥ 4,939
Unlisted equity exposure	**10,360**	11,083
PD/LGD method		
Listed equity exposure	**7,745**	8,529
Unlisted equity exposure	**390,171**	407,160

(2) GAIN OR LOSS ON SALE OR DEPRECIATION OF EQUITY EXPOSURE

	Millions of yen FY2018	FY2017
Gain (loss) on sale	**¥ 998**	¥ 4,535
Loss of depreciation	**386**	164

(3) UNREALIZED GAIN OR LOSS WHICH IS RECOGNIZED ON BALANCE SHEET AND NOT RECOGNIZED ON PROFIT AND LOSS STATEMENT

As of March 31	Millions of yen 2019	2018
Unrealized gain (loss)	**¥ 6,451**	¥ 9,464

(4) AMOUNT FOR EACH PORTFOLIO CLASSIFICATION OF EQUITY EXPOSURE

As of March 31	Millions of yen 2019	2018
Market-based approach	**¥ 16,131**	¥ 16,023
PD/LGD Method	**397,916**	415,690
RW100% Applied	**51**	51
RW250% Applied	**5,228**	5,074

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. BEFORE RIVISION EXPOSURE RELATING TO INVESTMENT FUNDS

As of March 31	Millions of yen 2018
Regarded exposure (fund)	¥ 34,500

QUANTITATIVE DISCLOSURE (NONCONSOLIDATED) (continued)

9. EXPOSURE RELATING TO INVESTMENT FUNDS

The accord article 167 was amended on march 31, 2019.
Describe the present disclosure based on the "notice" and "notice of disclosure" after amended.

As of March 31	Millions of yen 2019
Look-through approach	**¥ 3,743**
Mandate-based approach	**–**
Probability-based approach (250%)	**–**
Probability-based approach (400%)	**32,159**
Fall-back approach	**–**
Total	**¥ 35,902**

Note: 1. "Look-through approach" requires a bank to risk weight the underlying exposures of a fund as if the exposures were held directly by the bank.
2. "Mandate-based approach" is a method of conservatively estimating the asset structure based on the fund management method.
3. "Probability-based approach (250%)" can be selected when each asset of fund will be highly probable that the risk weight is less than 250%.
4. "Probability-based approach (400%)" can be selected when each asset of fund will be highly probable that the risk weight is more than 250% and less than 400%.
5. "Fall-back approach" is requires to apply if above approaches are not feasible.

10. INTEREST RATE RISK (IRRBB) THE INCREASE/DECREASE IN ECONOMIC VALUE FOR UPWARD/DOWNWARD RATE SHOCKS ACCORDING TO MANAGEMENT'S METHOD FOR IRRBB

Change in economic values from a 2% interest-rate shock:

As of March 31	Billions of yen 2018
JPY	¥ (65.9)
USD	(4.0)
Others	(12.6)
Total	¥ (82.6)

11. INTEREST RATE RISK

This item has been described using the form No.11-2 of revised Accord for Disclosure from March 31, 2019, instead of the above-mentioned item "INTEREST RATE RISK (IRRBB) THE INCREASE/DECREASE IN ECONOMIC VALUE FOR UPWARD/DOWNWARD RATE SHOCKS ACCORDING TO MANAGEMENT'S METHOD FOR IRRBB".

Decrease in economic values from interest-rate shock

Millions of yen

IRRBB1 : Interest rate risk					
No		A	B	C	D
		⊿EVE		⊿NII	
		2019	2018	2019	2018
1	Parallel shock up	38,469			
2	Parallel shock down	34,802			
3	Steepener shock	21,570			
4	Flattener shock	–			
5	Short rate up shock	–			
6	Short rate down shock	–			
7	Max	38,469			
		E		F	
		2019		2018	
8	Core capital	808,647			

Note:The "IRRBB1: Interest rate risk" column B, column C, column D and column F above are not described due to the transitonal arrangements of revised Accord for Disclosure .

DISCLOSURE ITEMS CONCERNING REMUNERATION, ETC.

1. ORGANIZATIONAL STRUCTURE REGARDING REMUNERATION, ETC. FOR APPLICABLE OFFICERS AND EMPLOYEES OF SHINSEI BANK (GROUP)

(1) Scope of "Applicable Officers and Employees"
The scope of "Applicable Officers" and "Applicable Employees, etc." (collectively, "Applicable Officers and Employees") prescribed in the announcement on remuneration subject to disclosure is as shown below.

1) "Applicable Officers"
Applicable Officers refer to the Directors and Audit & Supervisory Board Members of Shinsei Bank, excluding outside Directors and outside Audit & Supervisory Board Members.

2) "Applicable Employees, etc."
At Shinsei Bank, "Applicable Employees, etc." who are subject to disclosure refer to the "persons who receive a high level of remuneration, etc." and who have a material impact on business operations or the situation of assets of Shinsei Bank and its major consolidated subsidiaries, etc. among the officers and employees of Shinsei Bank and officers and employees of its major consolidated subsidiaries, etc., excluding Applicable Officers. There are no officers or employees of Shinsei Bank or officers or employees of its major consolidated subsidiaries, etc., excluding Applicable Officers, who fall under the definition of "Applicable Employees, etc."

(a) Scope of "major consolidated subsidiaries, etc."
Major consolidated subsidiaries etc. refer to the subsidiaries that are independently mentioned in the business report and consolidated financial statements and which are important for the operations of the Shinsei Bank Group, taking into account the significance of their impact on the financial conditions and business results of the Shinsei Bank Group. More specifically, they refer to the following seven companies. While there are three consolidated subsidiaries, etc. with total assets accounting for 2% or more of consolidated total asset, all of those three companies are included in the following seven companies.

APLUS FINANCIAL Co., Ltd.
Showa Leasing Co., Ltd.
Shinsei Personal Loan Co., Ltd.
Shinsei Financial Co., Ltd.
Shinsei Trust & Banking Co., Ltd.
Shinsei Securities Co., Ltd.
Shinsei Investment & Finance Limited

(b) Scope of the "persons who receive a high level of remuneration, etc."
The "persons who receive a high level of remuneration, etc." refer to the persons who receive remuneration, etc. at the amount equal to or above the "average amount of remuneration paid to Applicable Officers (which was 45 million yen in the fiscal year reported)." In the fiscal year reported, there was no Applicable Employee who received remuneration at the amount equal to or above the "average amount of remuneration paid to Applicable Officers."
With respect to lump-sum retirement allowances, the amount calculated by deducting from the amount of remuneration etc. the entire amount of the lump-sum retirement allowance and then adding the "amount obtained by dividing the lump-sum retirement allowance by the number of years of service" shall be deemed as the amount of remuneration, etc. for the relevant person in judging whether the said person is within the scope of "persons who receive a high level of remuneration, etc."

(c) Scope of the "persons who have a material impact on business operation or the situation of assets of the Shinsei Bank Group"
The "persons who have a material impact on business operation or the situation of assets of the Shinsei Bank Group" refer to the persons who, in their normal duties, execute transactions and manage matters which have a significant degree of impact on the business operations of Shinsei Bank, Shinsei Bank Group, and its major consolidated subsidiaries, etc. or who have a material impact on the situation of assets through losses incurred in transactions, etc. More specifically, these include the Executive Officers and persons in similar positions at Shinsei Bank, and Directors, Executive Officers, etc. of its major consolidated subsidiaries.

(2) Names, compositions, and duties of the Committee and other major bodies, etc. supervising the determination of remuneration, etc. for Applicable Officers and Employees, the payment of remuneration, etc., and other business execution related to remuneration, etc.

DISCLOSURE ITEMS CONCERNING REMUNERATION, ETC. (CONTINUED)

1) Establishing and securing the Compensation Committee, etc.
In March 2019, Shinsei Bank has established the Nomination and Compensation Committee, an optional body, to discuss and respond to the Board concerning agenda items for the general meeting of shareholders related to the election/dismissal of Directors, matters related to the election/dismissal of the President and CEO, and matters related to remuneration of Directors, based on a request from the Board of Directors. The Nomination and Compensation Committee is composed of outside directors only. Even before the establishment of the Nomination and Compensation Committee, the majority of the Bank's Board of Directors is presently composed of outside directors (five of the seven directors are outside directors), ensuring objective and transparent discussions for appointment of candidates for directors and decisions on the directors' remuneration system and their specific remuneration levels. 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 within the total amount of remuneration approved at the General Meeting of Shareholders.

2) Total amount of remuneration, etc. paid to the members of the Compensation Committee, etc. and the number of the meetings of the Compensation Committee, etc. held

	Number of meetings held (April 2018 to March 2019)	Total amount of remuneration, etc.
Board of Directors	3	–
Audit & Supervisory Board	1	–

(Notes) 1. The number of meetings held represents the number of meetings which discussed remuneration-related items.
2. The total amount of remuneration, etc. is not indicated because the portion equivalent to consideration for business execution by the Compensation Committee, etc. cannot be calculated separately.

2. EVALUATION OF THE APPROPRIATENESS OF THE DESIGN AND APPLICATION OF THE SYSTEM RELATED TO REMUNERATION, ETC. FOR APPLICABLE OFFICERS AND EMPLOYEES OF SHINSEI BANK (GROUP)

(1) Policy on remuneration, etc. for Applicable Officers and Applicable Employees, etc.

Policy on remuneration, etc. for "Applicable Officers"
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 and the amount the restricted stock remuneration is up to 20 million yen); 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). Remuneration for Applicable Officers of Shinsei Bank is determined at the Board of Directors attended by five outside Directors, Audit & Supervisory Board Members (Full-Time), and two outside Audit & Supervisory BoardMembers, based on an appropriate evaluation of the responsibilities, and contributions to the Bank's performance, of each officer in his/her duties and sufficient discussions taking into account the Bank's business results, market standards, etc.

In 2018, the Bank implemented a restricted stock compensation plan targeting the Bank's full-time Directors, for giving the Directors an incentive to achieve sustained improvement of the corporate value of the Bank and of sharing more of that value with our shareholders, in addition to equity remuneration type stock options introduced in 2016.

(2) Explanation on the categories of persons included in Applicable Officers and Employees and the number of persons by category
The definitions of "Applicable Officers" and "Applicable Employees, etc." are as indicated in 1. (1). There are four "Applicable Officers" and there are no persons who fall under the definition of "Applicable Employees, etc."

3. CONSISTENCY BETWEEN THE SYSTEM FOR REMUNERATION, ETC. OF APPLICABLE OFFICERS AND EMPLOYEES OF SHINSEI BANK (GROUP) AND RISK MANAGEMENT AND THE LINKAGE BETWEEN REMUNERATION, ETC. OF APPLICABLE OFFICERS AND EMPLOYEES OF SHINSEI BANK (GROUP) AND BUSINESS RESULTS

When determining remuneration, etc. of Applicable Officers, the total amounts of remuneration payable to Directors and Audit & Supervisory Board Members are each determined at the General Meeting of Shareholders, while the amount of remuneration, etc. payable to each Director and Audit & Supervisory Board Member is determined at the Board of Directors or through consultations among Audit & Supervisory Board Members, respectively.

Moreover, the performance-linked remuneration accounts for a very small percentage of the amount of remuneration, etc. for Applicable Officers, and we have not adopted a remuneration system which may have a negative impact on risk management. The compensation of full-time Directors is comprised of the following three elements: fixed compensation, Equity Remuneration Type Stock Options and restricted stock.

<Types of remuneration, etc. placing emphasis on creating corporate value from a longer perspective in accordance with the duties and operations of Applicable Officers and Employees, and remuneration, etc. payment method taking into account the period until risk is materialized>

The Shinsei Bank Group has adopted equity remuneration-type stock options in order to share the risk and advantage of share price fluctuations with shareholders and enhance motivation to contribute to medium- and long-term performance and share price increases. The exercise periods are as follows. The stock option contract stipulates that exercise shall be deferred to the resignation of the Bank's Director even during the exercise period.

	Exercise period
Shinsei Bank, Ltd. 1st Warrant	May 27, 2016 to May 26, 2046
Shinsei Bank, Ltd. 2nd Warrant	May 26, 2017 to May 25, 2047
Shinsei Bank, Ltd. 3rd Warrant	May 29, 2018 to May 28, 2048

DISCLOSURE ITEMS CONCERNING REMUNERATION, ETC. (CONTINUED)

4. TYPES, TOTAL AMOUNT PAYABLE, AND PAYMENT METHOD OF REMUNERATION, ETC. FOR APPLICABLE OFFICERS AND EMPLOYEES OF SHINSEI BANK (GROUP)

(Persons, Millions of Yen)

Remuneration, etc. allocated to the fiscal year			A	B
Item No.			Applicable Officers	Applicable Employees, etc.
1	Fixed remuneration	Number of Applicable Officers and Applicable Employees, etc.	4	–
2		Total amount of fixed remuneration (3+5+7)	131	–
3		Of which, amount of cash remuneration	89	–
4		Of Item 3, deferred amount	–	–
5		Of which, amount of equity remuneration or share-linked remuneration	42	–
6		Of Item 5, deferred amount	-35	–
7		Of which, amount of other remuneration	–	–
8		Of Item 7, deferred amount	–	–
9	Variable remuneration	Number of Applicable Officers and Applicable Employees, etc.	–	–
10		Total amount of variable remuneration (11+13+15)	-23	–
11		Of which, amount of cash remuneration	–	–
12		Of Item 11, deferred amount	–	–
13		Of which, amount of equity remuneration or share-linked remuneration	–	–
14		Of Item 13, deferred amount	–	–
15		Of which, amount of other remuneration	–	–
16		Of Item 15, deferred amount	–	–
17	Retirement allowance	Number of Applicable Officers and Applicable Employees, etc.	1	–
18		Total amount of retirement allowance	27	–
19		Of which, deferred amount	–	–
20	Other remuneration	Number of Applicable Officers and Applicable Employees, etc.	–	–
21		Total amount of other remuneration	–	–
22		Of which, deferred amount	–	–
23	Total amount of remuneration, etc. (2+10+18+21)		159	–

Note : Item 5 includes equity remuneration-type stock options of 22 million yen and restricted stock compensation of 19 million yen.

5. OTHER MATTERS THAT SHOULD BE REFERRED TO CONCERNING THE SYSTEM OF REMUNERATION, ETC. FOR APPLICABLE OFFICERS AND EMPLOYEES OF SHINSEI BANK (GROUP)

(Millions of Yen)

Deferred remuneration, etc.		A	B	C	D	E
		Balance of deferred remuneration, etc.	Of Item A, balance of deferred remuneration, etc. subject to adjustments or fluctuations	Amount of changes to allocated remunerations, etc. subject to adjustments for the fiscal year not linked to fluctuations in indicators, etc.	Amount of changes to allocated remunerations, etc. subject to adjustments for the fiscal year linked to fluctuations in indicators, etc.	Amount of deferred remuneration, etc. paid in the fiscal year
Applicable Officers	Amount of cash remuneration	–	–	–	–	–
	Amount of equity remuneration or share-linked remuneration	70	20	–	–	25
	Total amount of other remuneration	–	–	–	–	–
Applicable Employees, etc.	Amount of cash remuneration	–	–	–	–	–
	Amount of equity remuneration or share-linked remuneration	–	–	–	–	–
	Total amount of other remuneration	–	–	–	–	–
Total amount		70	20	–	–	25

For further information, please contact:
Group 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: https://www.shinseibank.com/english/ 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: https://www.shinseibank.com/english/