



## **Statement of Business and Assets**

**【For the Term Ended March 31, 2017】**

This statement was prepared based on Article 46 - 4 of the Financial Instruments and Exchange Law in order to be placed in all business offices and provided for public inspection.

**SHINSEI SECURITIES CO., LTD.**

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## I . Company Overview and Organization

### 1. Trade Name

Shinsei Securities Co., Ltd.

### 2. Registration Date (Registration Number)

September 30, 2007 (Director-General of Kanto Financial Bureau (FIEL) No. 95)

### 3. History and Management Organization

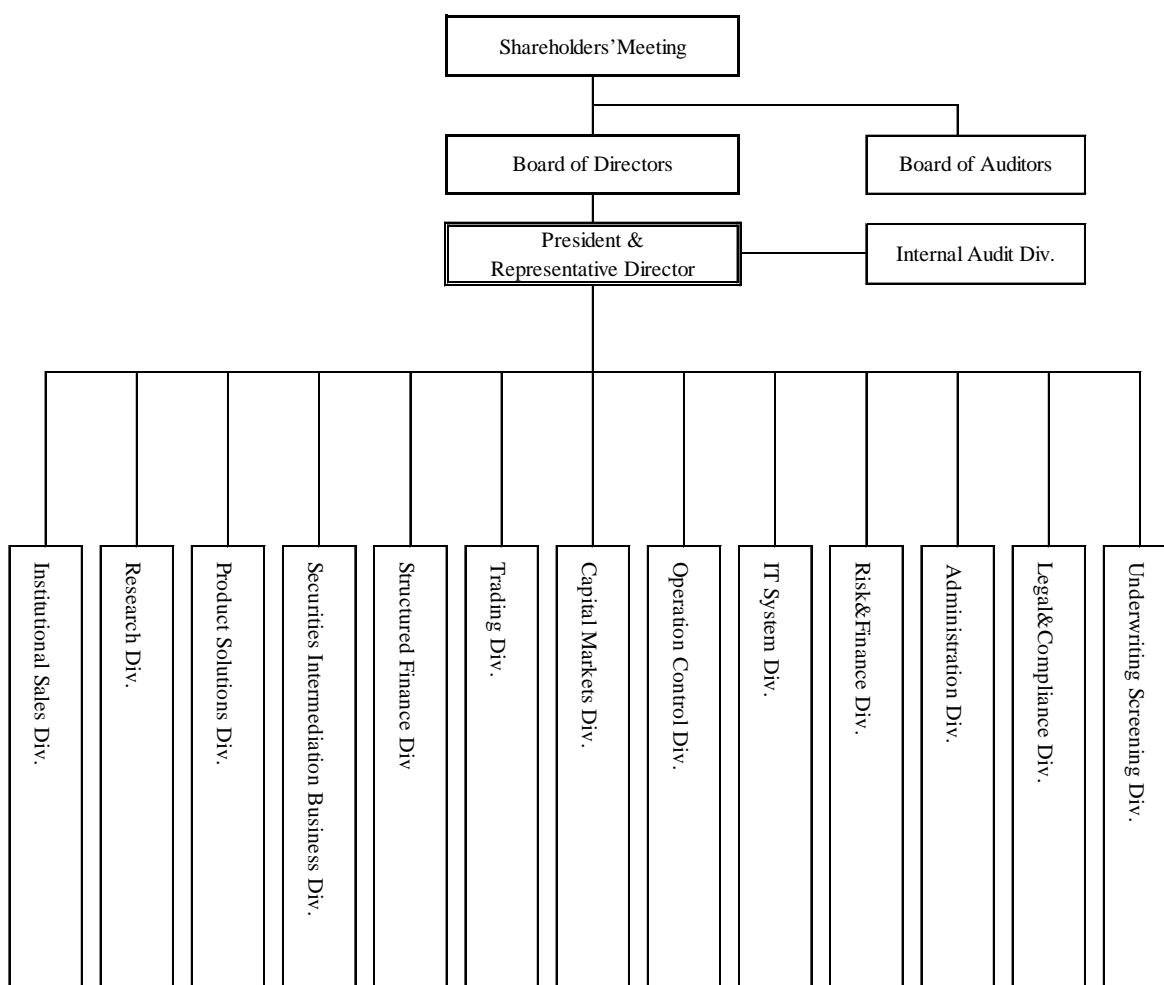
#### (1) Company History

Month / Year	History
December 2000	The company was established Capital increase carried out through shareholder allocation
March 2001	Registered as a securities dealer under the Securities and Exchange Act
May 2001	Started operations Licensed to conduct principal underwriting operations and deal in OTC securities derivatives
May 2002	Relocated the head office to 1-8, Uchisaiwaicho 2-chome, Chiyoda-ku, Tokyo
September 2002	Registered to operate investment advisory services
June 2003	Registered as a money lender
September 2007	Registered as a Category I Financial Instrument Dealer, a Category II Financial Instrument Dealer, an Investment Advisory and Agency Business, in accordance with enforcement of the Financial Instruments and Exchange Act.
December 2010	Relocated the head office to 4-3, Nihonbashi-muromachi 2-chome, Chuo-ku, Tokyo

**(2) Management Organization**

**Organization Chart**

as of March 31, 2017



**4. Names or trade names of the 1st to the 10th largest shareholders and the numbers of shares held by such shareholders and the ratio of voting rights with respect to the said shares over total voting rights**

Name / Title	# of Shares Held	Ratio
1 . Shinsei Bank, Limited	203 shares	100.00 %
Total: 1 Shareholder		100.00

**5. Names or trade names of the Directors (including the representative in Japan in the case of foreign corporations)**

Position	Name	Representation Right	Full/Part-time
Representative Director & President	Masahiro Tara	Granted	Full-time
Senior Managing Director	Toshiaki Yukiue	Not granted	Full-time
Managing Director	Toshitaka Nagatsu	Not granted	Full-time
Director	Masanori Ezaki	Not granted	Full-time
Director	Takaki Toda	Not granted	Full-time
Statutory Auditor	Norio Unno	Not granted	Full-time
Statutory Auditor	Naoyuki Kouzai	Not granted	Part-time
Statutory Auditor	Shino Sato	Not granted	Part-time

**6. Names of employees designated by the Cabinet Order**

- (1) The name of the person responsible for the overall control (including the person authorized to act on behalf of the responsible person, regardless of the title such as General Manager, Deputy General Manager, Team Leader, etc.) of operations concerning guidance for compliance with Acts, ordinances, etc. (i.e. Acts, ordinances, decisions by government agencies under Acts or ordinances, articles of incorporation, and other regulations) with respect to the business of dealing in financial instruments.

Name	Position
Masanori Ezaki	Head of Legal & Compliance Division

- (2) The name of the person responsible for the overall control of the Division engaged in giving advice or offering management service (including instruction thereof) with respect to the business of investment advisory service (the business of investment advisory service stipulated in Paragraph 6, Article 28 of the Financial Instruments and Exchange Act (hereinafter referred to in this item as the “Act”)) or the investment management business (the investment management business stipulated in Paragraph 4 of the same Article) (including the person performing investment judgment based on the analysis of the value, etc. of financial instruments (i.e. the value, etc. of financial instruments stipulated in b., Item 11, Paragraph 8, Article 2 of the Act)).

Name	Position
Yukio Egawa	Head of Research Division
Tsuyoshi Yoshimura	Head of Structured Finance Division

**7. Types of Business**

- (1) **The First Financial Instruments Business (Businesses related to the acts set forth in Article 28, paragraph 1, items 1, 2, and 3-(a), (b), and (c) of the Financial Instruments and Exchange Act and Securities, etc. Management Business)**

- ① Securities trading (excluding the rights which are deemed to be securities under Article 2 of

the Financial Instruments and Exchange Act; this shall apply up to ⑤ below), trades in market derivatives or foreign market derivatives (Article 28, paragraph 1, item 1 and Article 2, paragraph 8, item 1 of the Financial Instruments and Exchange Act)

- ② Acting as an intermediary, broker or agent for security trading, domestic market derivative trading or overseas market derivative trading (Article 28, paragraph 1, item 1 and Article 2, paragraph 8, item 2 of the Financial Instruments and Exchange Act)
- ③ Acting as an intermediary, broker, or agent for consigning securities trading or the trading of market derivatives in financial instruments exchange markets, and acting as an intermediary, broker, or agent for consigning securities trading or the trading of foreign market derivatives in foreign financial instruments markets (Article 28, paragraph 1, item 1 and Article 2, paragraph 8, item 3 of the Financial Instruments and Exchange Act)
- ④ Making a secondary distribution of securities (Article 28, paragraph 1, item 1 and Article 2, paragraph 8, item 8 of the Financial Instruments and Exchange Act)
- ⑤ Handling offerings or the secondary distribution of securities or handling the private placement of securities (Article 28, paragraph 1, item 1 and Article 2, paragraph 8, item 9 of the Financial Instruments and Exchange Act)
- ⑥ Trading in over-the-counter derivatives or acting as an intermediary, broker or agent thereof (Article 28, paragraph 1, item 2 and Article 2, paragraph 8, item 4 of the Financial Instruments and Exchange Act)
- ⑦ Underwriting securities and acting as a primary underwriter (Article 28, paragraph 1, item 3 and Article 2, paragraph 8, item 6 of the Financial Instruments and Exchange Act)
- ⑧ Acceptance of deposits of money or securities or certificates from customers in relation to acts set forth in the preceding items (Article 28, paragraph 1, item 5 and Article 2, paragraph 8, item 16 of the Financial Instruments and Exchange Act)
- ⑨ Transfer of bonds, etc. conducted in response to opening of an account for transfer of bonds, etc. defined in Article 2 (1) of the Act on Transfer of Bonds, Stocks, etc. (Article 28, paragraph 1, item 5 and Article 2, paragraph 8, item 17 of the Financial Instruments and Exchange Act)

**(2) The Second Financial Instruments Business (Article 28, Paragraph 2 of the Financial Instruments and Exchange Act)**

Acts set forth in the following Items in relation to the rights which are deemed to be securities under Article 2, paragraph 2 of the Financial Instruments and Exchange Act:

- ① Buying or selling, or acting as an intermediary, broker, or agent thereof (Article 28, paragraph 2, items 2 & 3 and Article 2, paragraph 8, item 1 to 3 of the Financial Instruments and Exchange Act)
- ② “Public sales” (*uridashi*) (Article 28, paragraph 2, item 2 and Article 2, paragraph 8, item 8 of the Financial Instruments and Exchange Act)
- ③ Handling of public offering, “public sales” (*uridashi*) or private placement (Article 28, paragraph 2, item 2 and Article 2, paragraph 8, item 9 of the Financial Instruments and Exchange Act)



**(3) Investment Advisory and Agency Business (Article 28, Paragraphs 3 of the Financial Instruments and Exchange Act)**

Making promises to give advice orally, in written form, or in another form for investment decisions based on analyzing the values of financial instruments, etc. or the values of financial instruments, etc., and giving advice pursuant to an investment advisor agreement made to agree on the payment of fees for the said advices (Article 28, paragraph 3, item 1 and Article 2, paragraph 8, item 11 of the Financial Instruments and Exchange Act)

**(4) Incidental Business (Article 35, Paragraph 1 of the Financial Instruments and Exchange Act)**

- ① Borrowing and lending securities, or acting as an intermediary or agent thereof (Article 35, paragraph 1, item 1 of the Financial Instruments and Exchange Act)
- ② Lending money on the securities from the customer which are in safe keeping (Article 35, paragraph 1, item 3 of the Financial Instruments and Exchange Act)
- ③ Acting as an agent of a customer for operations concerning securities (Article 35, paragraph 1, item 4 of the Financial Instruments and Exchange Act)
- ④ Acting as an agent for the payment of earnings, redemption money or cancellation money, or acting as an agent for the delivery of securities or other assets belonging to trust properties (Article 35, Paragraph 1, Item 5 of the Financial Instruments and Exchange Act)  
Acting as an agent for the distribution of monies, distribution of refunds or residual properties, or payment of redemption money concerning investment securities or investment corporation bonds (Article 35, Paragraph 1, Item 6 of the Financial Instruments and Exchange Act)
- ⑤ Acting as an agent for the distribution of money concerning investment securities or bonds issued by investment corporations, for the distribution of refund money or residual property, or for the payment of interest or redemption money (Article 35, paragraph 1, item 6 of the Financial Instruments and Exchange Act)
- ⑥ Executing contracts for accumulated investments (Article 35, paragraph 1, item 7 of the Financial Instruments and Exchange Act)
- ⑦ Providing information and giving advice concerning securities (Article 35, paragraph 1, item 8 of the Financial Instruments and Exchange Act)
- ⑧ Providing management consultation services for other business operators (Article 35, paragraph 1, item 12 of the Financial Instruments and Exchange Act)
- ⑨ Trading or acting as an intermediary, broker or agent for assets relating to currency or other derivative trading (excluding securities derivative trading) which are stipulated in cabinet orders (Article 35, paragraph 1, item 13 of the Financial Instruments and Exchange Act)
- ⑩ Buying or selling negotiable deposits and any other monetary claims (excluding those which fall within the definition of securities), or acting as an intermediary, broker, or agent thereof (Article 35, paragraph 1, item 14 of the Financial Instruments and Exchange Act)
- ⑪ Any other businesses that are incidental to the business of financial instruments transactions

**8. The names and addresses of the Head Office and Branches or Offices (in the case of foreign corporations, the Head Office, the main Branch or Office in Japan and other branches and offices in Japan)**

Name	Address
Head Office	4-3, Nihonbashi-muromachi 2-chome, Chuo-ku, Tokyo 103-0022

**9. Types of Other Businesses**

**(1) Businesses Which Require Registrations (Article 35, Paragraph 2 of the Financial Instruments and Exchange Act)**

- ① Business related to transactions which use fluctuations on the price of merchandise or any other index or differences between the markets (Article 35, paragraph 2, item 2 of the Financial Instruments and Exchange Act)
- ② Money lending and any other business concerning money lending or acting as an intermediary for loans of money (Article 35, paragraph 2, item 3 of the Financial Instruments and Exchange Act)
- ③ Executing partnership agreements, or acting as an intermediary, broker, or agent thereof (Article 35, paragraph 2, item 7 of the Financial Instruments and Exchange Act, Article 68, paragraph 1, item 2 of the Cabinet Office Ordinance for the Financial Instruments and Exchange Act)
- ④ Executing “undisclosed association” (*tokumei-kumiai*) contracts, or acting as an intermediary, broker, or agent thereof (Article 35, paragraph 2, item 7 of the Financial Instruments and Exchange Act, Article 68, paragraph 1, item 3 of the Cabinet Office Ordinance for the Financial Instruments and Exchange Act)
- ⑤ Executing participation in loan agreements, or acting as an intermediary, broker, or agent thereof (Article 35, paragraph 2, item 7 of the Financial Instruments and Exchange Act, Article 68, paragraph 1, item 4 of the Cabinet Office Ordinance for the Financial Instruments and Exchange Act)
- ⑥ Rental operations (Article 35, paragraph 2, item 7 of the Financial Instruments and Exchange Act, Article 68, paragraph 1, item 7 of the Cabinet Office Ordinance for the Financial Instruments and Exchange Act)
- ⑦ Creating or selling programs for electronic computers related to the business of other business operators or conducting commissioned calculating operations (Article 35, paragraph 2, item 7 of the Financial Instruments and Exchange Act, Article 68, paragraph 1, item 8 of the Cabinet Office Ordinance for the Financial Instruments and Exchange Act)
- ⑧ Acting as an intermediary for concluding debt guarantee agreements (Article 35, paragraph 2, item 7 of the Financial Instruments and Exchange Act, Article 68, paragraph 1, item 20 of the Cabinet Office Ordinance for the Financial Instruments and Exchange Act)
- ⑨ Mediating or introducing another business operator to customers of its business (Article 35, Paragraph 2, Item 7 of the Financial Instruments and Exchange Act and Article 68, Item 21 of the Cabinet Office Ordinance for the Financial Instruments and Exchange Act)
- ⑩ Any other businesses that are incidental to the business of ① to ⑨ listed above (Article 35, paragraph 2, item 7 of the Financial Instruments and Exchange Act, Article 68, paragraph 1,

item 24 of the Cabinet Office Ordinance for the Financial Instruments and Exchange Act)

**(2) Businesses Which Require Approvals (Article 35, Paragraph 4 of the Financial Instruments and Exchange Act)**

Introducing customers to the parent company or others

**10. Complaint Processing and Dispute Resolution Systems**

(1) Trade name or company name of the designated dispute resolving organization with whom a basic agreement on procedure implementation will be concluded:

Non-Profit Organization, Financial Instruments Mediation Assistance Center  
(Limited to the First Financial Instruments Business)

(2) Details of complaint processing and dispute resolving measures related to business

The First Financial Instruments Business

The measure of concluding a basic agreement on procedure implementation with the Non-Profit Organization, Financial Instruments Mediation Assistance Center

The Second Financial Instruments Business

The measure of using the Type II Financial Instruments Firms Association (entrusted to the Non-Profit Organization, Financial Instruments Mediation Assistance Center)

Investment Advisory and Agency Business

The measure of using the Japan Investment Advisers Association (entrusted to the Non-Profit Organization, Financial Instruments Mediation Assistance Center)

**11. Names of the Financial Instruments Firms Associations of which the Company is a member and the Certified Investor Protection Organization to which the Company will be subject**

(1) Financial Instruments Firms Associations of which the Company is a member:

Japan Securities Dealers Association  
Japan Investment Advisers Association  
Financial Futures Association of Japan  
Type II Financial Instruments Firms Association

(2) Certified Investor Protection Organization to which the Company will be subject:

None

**12. The name or trade name of financial instruments exchange of which the Company is a member or where the Company participates in trading.**

None

**13. Investor Protection Fund Membership**

Japan Investor Protection Fund

## **II . Items Related to Business Conditions**

### **1. Out of the items set forth in Article 7, paragraph 3, item 3-(a) and paragraphs 4 through 9 of Cabinet Office Ordinance on Financial Instruments Services, etc., those which are undertaken by the Company:**

Securities-Related Business

Trading of Beneficial Interest in Real Estate Trust, etc.

### **2. Business Overview for this Term**

In the financial instruments brokering business for individual customers that we engage in with Shinsei Bank and others as our sales agents, the sales amount, especially in the first-half term of the year, was weaker than expected due to the bearish investment attitude customers adopted under the low interest rate environment against the background of the negative interest rate policy introduced by the Bank of Japan in the previous fiscal year. The weakness was also attributable to concerns about the future outlook arising from issues such as the United Kingdom's withdrawal from the European Union (EU). In the third quarter, the presidential election took place in the United States (U.S.), which led to the global increase in share prices on the back of expectations for the new President Trump's policies. This revived customers' investment appetite, and combined with an increase in early redemption, our sales amount grew. Due to the significant impact of the weak performance in the first-half term, however, our full-year revenue decreased by 35.5% on a year-on-year basis.

In the securitization business which we have been working on as one of our two core businesses together with the financial instruments brokering business, originators' needs to arrange new transactions were weak as a surplus funds environment continued due to excess liquidity. In addition, we did not execute any origination transaction for the Shinsei Bank Group, which we had continuously executed in the past. In this environment, we continued making efforts to diversify our transactions. As part of these efforts, we arranged the securitization of large auto loan receivables and proposed finance schemes to business corporations as in the previous fiscal year. In addition, we engaged in new types of transactions such as purchasing secondary securitization products from other companies and selling them to investors, and referring investors for a wind-power generation fund.

In the market products development business, our earnings were considerably greater than in the previous term. As in the previous fiscal year, we continued transactions such as loan arrangements for trust accounts and interest rate swaps secured by foreign bonds for trust accounts.

In the bond underwriting business, we were again nominated as a co-lead manager for mortgage-backed securities issued by the Japan Housing Finance Agency following the previous fiscal year and underwrote two issues (for a total value of 9.2 billion yen).

As a result of the above, our operating revenue declined 24.2% from the previous term to 3,965 million yen. As for expenses, selling and general administrative expenses shrank by 23.5% on a year-on-year basis to 4,292 million yen thanks to the disciplined use of expenses other than

those necessary for systems improvement to comply with revisions to the Act on Prevention of Transfer of Criminal Proceeds and to the Common Reporting Standard (CRS) scheme. Nonetheless, the smaller expenses were not sufficient to make up for the contraction in revenue, and we posted an ordinary loss of 60 million yen.

In the financial instruments brokering business, we made particular efforts to expand the customer base by introducing smaller sales units and to provide products with various risk levels to capture investments from diverse customer segments in the reported business year. In addition, to cater to an increase in individual transactions, we are upgrading our sales management systems that link our company and Shinsei Bank for structured bond transactions to ensure stable processing capacity. Furthermore, we will create a structure that allows us to sell structured bonds using non-face-to-face channels in the future to enhance our collaboration with Shinsei Bank's individual business section. We will also continue finding sales agents other than Shinsei Bank and expand our sales channels through measures such as supplying products to local securities companies or securities companies affiliated with regional banks and selling secondary positions.

For our institutional customers, we will enhance our collaboration with Shinsei Bank and other financial institutions inside and outside Japan to keep expanding and improving our product supply routes to cater to a broad range of customer needs. In particular, to promote information sharing with Shinsei Bank and to more effectively operate the two entities in an integrated manner, we plan to adopt both the "opt-in method," which we have been using, and the "opt-out method" for the sharing of non-public information of our customers and business partners from this fiscal year, and introduce a "double-hatting" system for sales staff of the bank and securities. Through these initiatives, we will establish core products with which we can have repeated transactions.

We will also continue paying attention to enhancing our structures for compliance, information security, risk management, and other important management issues. We will aim to build a "securities company needed by customers" by providing appropriate services to customers and gaining their trust.

### 3. Business Condition Indices

#### (1) Trends in Operating Results, etc

(Unit: In million yen)

	Term ended March 31, 2015	Term ended March 31, 2016	Term ended March 31, 2017
Capital stock	8,750	8,750	8,750
Total number of outstanding shares issued	203shares	203shares	203shares
Operating revenue	7,847	5,229	3,965
(Fees receive)	393	453	501
((Fees for business entrustment))	11	0	—
((Fees for underwriting, offer for sale, solicitation for sale for specified investors, etc.))	51	209	282
((Fees for offering for subscription, offer for sale, solicitation for sale for specified investors, etc.))	—	2	20
((Other fees received))	330	240	198
(Trading profit / losses)	7,268	4,626	3,495
((Stocks, etc.))	—	1	Δ0
((Bonds, etc.))	6,966	4,468	3,169
((Other))	302	156	326
Net income from operations	7,770	5,005	3,877
Ordinary income / losses	806	Δ46	Δ60
Net income / losses	568	Δ185	Δ278

#### (2) Status of Securities Underwriting / Trading, etc.

##### ① Trends in the Volume of Stock Trading

(Unit: In million yen)

	Term ended March 31, 2015	Term ended March 31, 2016	Term ended March 31, 2017
Principal Trading	—	—	—
Brokered Trading	—	39	—
Total	—	39	—

② Status of underwriting, offer for sale, solicitation for sale for specified investors, etc. of securities, and offering for subscription, offer for sale, solicitation for sale for specified investors, etc. of securities.

(Unit: In thousand shares, In million yen)

Classification		Underwriting	Secondary distribution	Total amount of solicitation for sale to specified investors, etc.	Offerings	Handling of secondary distribution	Private offerings	Total handling amount of solicitation for sale to specified investors, etc.
Term ended March 31, 2015	Stock certificates	-	-	-	-	-	-	-
	Government bonds	-	/	-	-	/	-	-
	Municipal bonds	-	/	-	-	/	-	-
	Specific bonds	7,500	-	-	6,500	-	-	-
	Corporate bonds	8,800	76,681	-	8,700	-	-	-
	Beneficiary certificates	/	/	/	-	-	-	-
	Others	-	-	-	-	-	-	-
	Total	16,300	76,681	-	15,200	-	-	-
Term ended March 31, 2016	Stock certificates	-	-	-	0	-	-	-
	Government bonds	-	/	-	-	/	-	-
	Municipal bonds	-	/	-	-	/	-	-
	Specific bonds	66,000	-	-	64,700	-	-	-
	Corporate bonds	6,700	39,682	-	6,500	-	-	-
	Beneficiary certificates	/	/	/	-	-	-	-
	Others	-	-	-	-	-	-	-
	Total	72,700	39,682	-	71,200	-	-	-
Term ended March 31, 2017	Stock certificates	-	-	-	-	-	-	-
	Government bonds	-	/	-	-	/	-	-
	Municipal bonds	-	/	-	-	/	-	-
	Specific bonds	92,000	-	-	92,000	-	-	-
	Corporate bonds	8,300	31,906	-	8,200	-	-	-
	Beneficiary certificates	/	/	/	-	-	-	-
	Others	-	-	-	-	-	-	-
	Total	100,300	31,906	-	100,200	-	-	-

(3) Other Business Conditions

(Unit: In million yen)

Details	Transaction Volume		
	Term ended March 31, 2015	Term ended March 31, 2016	Term ended March 31, 2017
1. Money lending	23,200	27,693	93,000
Total	23,200	27,693	93,000

**(4) Status of the Regulatory Capital Adequacy Ratio**

(Unit: In %, million yen)

	Term ended March 31, 2015	Term ended March 31, 2016	Term ended March 31, 2017
Regulatory Capital Adequacy Ratio (A/B×100)	352.1%	308.9%	603.1%
Non-fixed Stockholders' Equity (A)	13,613	13,483	13,413
Total of Risk Equivalent Amount (B)	3,865	4,363	2,223
Market Risk Equivalent Amount	1,954	2,406	1,013
Counterparty Risk Equivalent Amount	252	310	240
Basic Risk Equivalent Amount	1,659	1,646	969

**(5) Total Number of Employees and Sales Representative**

(Unit: # of persons)

	Term ended March 31, 2015	Term ended March 31, 2016	Term ended March 31, 2017
Employees	84	81	75
(Of which Sales Representatives)	( 45)	( 45)	( 37)



### III. Assets Status

#### 1. Financial Status

##### (1) Balance Sheet

(Unit: In million yen)

Account Title	Term ended March 31, 2016	Term ended March 31, 2017	Account Title	Term ended March 31, 2016	Term ended March 31, 2017
<b>(Assets)</b>			<b>(Liabilities)</b>		
<b>Current assets</b>	<b>48,847</b>	<b>40,908</b>	<b>Current liabilities</b>	<b>24,138</b>	<b>16,930</b>
Cash and deposits	5,615	6,741	Trading products	6,546	5,307
Cash on deposits	2,100	8,800	Trading securities and others	2,511	1,621
Customer segregated monies in trust	2,100	8,800	Derivative transactions	4,034	3,686
Money trust	5,952	569	Securities-backed loans	1,729	—
Trading products	27,214	19,383	Accounts received from securities loan transactions	1,729	—
Trading securities and others	23,262	15,479	Deposits received	4,683	8,311
Derivative transactions	3,952	3,903	Suspense receipts	421	1,488
Receivable-unsettled trades	141	261	Security deposits received from futures transactions	421	1,488
Loans secured by securities	4,243	1,625	Other guaranty money received	—	0
Cash collateral on securities borrowed	4,243	1,625	Difference received	—	0
Short-term guarantee deposits	3,044	3,249	Short-term loans	10,431	1,168
Margins on futures transactions	1,916	2,148	Accounts payable	39	21
Other guaranty money deposits	1,127	1,100	Expenses payable	116	438
Difference paid	53	—	Provision for taxes	19	44
Prepaid expenses	46	45	Reserve for bonuses	150	150
Accrued receivables	288	178	<b>Long-term liabilities</b>	<b>13,251</b>	<b>12,572</b>
Accrued income	76	31	Long-term loans	13,163	12,500
Deferred tax assets	70	21	Deferred tax liabilities	22	5
<b>Fixed assets</b>	<b>2,391</b>	<b>2,157</b>	Asset retirement obligation	65	66
Tangible fixed assets	130	0	<b>Reserves</b>	<b>0</b>	<b>0</b>
Buildings	92	0	Reserves for securities transaction liabilities	0	0
Furniture and fixtures	37	0	<b>Total liabilities</b>	<b>37,390</b>	<b>29,503</b>
Intangible fixed assets	83	—	<b>(Net worth)</b>		
Software	83	—	<b>Stockholders' equity</b>	<b>13,827</b>	<b>13,549</b>
<b>Investments, etc.</b>	<b>2,178</b>	<b>2,157</b>	<b>Capital stock</b>	<b>8,750</b>	<b>8,750</b>
Money trust	0	0	<b>Capital surplus</b>	<b>7,750</b>	<b>7,750</b>
Investment securities	2,073	2,055	Capital reserve	7,750	7,750
Long-term guarantee deposits	104	101	<b>Legal reserves of retained earnings</b>	<b>Δ2,672</b>	<b>Δ2,950</b>
			Other legal reserves of retained earnings	Δ2,672	Δ2,950
			Carried-over legal reserves of retained earnings	Δ2,672	Δ2,950
			<b>Accumulated other comprehensive income(loss)</b>	<b>21</b>	<b>12</b>
			Net unrealized gains on investment securities, net of tax	21	12
			<b>Total net worth</b>	<b>13,848</b>	<b>13,561</b>
<b>Total assets</b>	<b>51,239</b>	<b>43,065</b>	<b>Total liabilities &amp; net worth</b>	<b>51,239</b>	<b>43,065</b>

**(2) Income Statement**

(Unit: In million yen)

Account Title	Term ended March 31, 2016	Term ended March 31, 2017
<b>Operating revenue</b>	<b>5,229</b>	<b>3,965</b>
Fees received	453	501
Entrustment fees	0	—
Underwriting fees / fees for solicitation for sale to specified investors	209	282
Fees for handling offerings / secondary distributions / solicitation for sale to specified investors	2	20
Other fees received	240	198
Trading profit / losses	4,626	3,495
Trading profit / losses on stocks, etc.	1	Δ0
Trading profit / losses on bonds, etc.	4,468	3,169
Other trading profit / losses	156	326
Net interest income	541	204
Other operating revenue	Δ391	Δ235
<b>Interest expenses</b>	<b>224</b>	<b>88</b>
<b>Net operating revenue</b>	<b>5,005</b>	<b>3,877</b>
Sales and general administrative expenses	5,618	4,292
Sales expenses	3,918	2,620
Personnel expenses	1,067	1,041
Real estate-related expenses	135	133
Administrative expenses	241	229
Depreciation expenses	55	52
Tax and public charges	71	91
Provisions for doubtful accounts	—	—
Others	127	123
<b>Operating income</b>	<b>Δ613</b>	<b>Δ414</b>
<b>Non-operating revenue</b>	<b>567</b>	<b>354</b>
<b>Non-operating expenses</b>	<b>0</b>	<b>0</b>
<b>Ordinary income</b>	<b>Δ46</b>	<b>Δ60</b>
<b>Extraordinary losses</b>	<b>0</b>	<b>179</b>
Impairment loss	—	179
The provision for liability reserve for trading in financial instruments	0	—
<b>Net income before tax</b>	<b>Δ46</b>	<b>Δ240</b>
<b>Corporate tax, resident tax, and business tax</b>	<b>19</b>	<b>3</b>
<b>Adjustments to corporate tax, etc.</b>	<b>119</b>	<b>35</b>
<b>Net income</b>	<b>Δ185</b>	<b>Δ278</b>

### (3) Statement of Changes in Stockholders' Equity

Term ended March 31, 2016

(Unit: In million yen)

	Stockholders' equity					
	Capital stock	Capital surplus		Retained earnings		Total Stockholders' equity
		Capital reserve	Total capital surplus	Other retained earnings	Total retained earnings	
				Carried-over retained earnings		
Balance as of April 1, 2015	8,750	7,750	7,750	△2,486	△2,486	14,013
Changes during the business Term						
Net loss	—	—	—	185	185	185
Net changes of items other than shareholders' equity						
Total changes during the business term	—	—	—	△185	△185	△185
Balance as of March 31, 2016	8,750	7,750	7,750	△2,672	△2,672	13,827

	Accumulated other comprehensive income		Total Net worth
	Net unrealized gains on investment securities, net of tax	Total Accumulated Other Comprehensive income	
Balance as of April 1, 2015	—	—	14,013
Changes during the business Term			
Net loss			185
Net changes of items other than shareholders' equity	21	21	21
Total changes during the business term	21	21	△164
Balance as of March 31, 2016	21	21	13,848

Term ended March 31, 2017

(Unit: In million yen)

	Stockholders' equity					
	Capital stock	Capital surplus		Retained earnings		Total Stockholders' equity
		Capital reserve	Total capital surplus	Other retained earnings	Total retained earnings	
Balance as of April 1, 2016	8,750	7,750	7,750	Δ2,672	Δ2,672	13,827
Changes during the business Term						
Net loss	—	—	—	278	278	278
Net changes of items other than shareholders' equity						
Total changes during the business term	—	—	—	Δ278	Δ278	Δ278
Balance as of March 31, 2017	8,750	7,750	7,750	Δ2,950	Δ2,950	13,549

	Accumulated other comprehensive income		Total Net worth
	Net unrealized gains on investment securities, net of tax	Total Accumulated Other Comprehensive income	
Balance as of April 1, 2016	21	21	13,848
Changes during the business Term			
Net loss			278
Net changes of items other than shareholders' equity	Δ8	Δ8	Δ8
Total changes during the business term	Δ8	Δ8	Δ286
Balance as of March 31, 2017	12	12	13,561

#### 【Matters to be Noted】

The balance sheet, income statement and statement of changes in stockholders' equity are prepared based on the "Corporate Calculation Regulations" (Ministry of Justice Ordinance No. 13 of February 7, 2006), "Cabinet Office Ordinance concerning Financial Instruments Traders" (Prime Minister's Office Ordinance No. 52), and "Uniform Accounting Standards for Securities Companies" (a resolution at the Board of Directors of the Japan Securities Dealers Association on November 14, 1974). The above figures do not include amounts less than 1 million yen.

#### 【Important accounting policies】

- ① Valuation criteria and valuation method for securities and derivatives trading, etc.
- (1) Valuation criteria and valuation method for securities (trading securities) and derivatives trading, etc. related to trading products:

The market value method (the sales costs of securities are calculated using the

moving-average method) is applied in evaluating securities and derivatives trading, etc. related to trading products.

(2) Valuation criteria and valuation method for available-for-sale securities

The market value method (whereby the costs of sale are calculated using the moving-average method) using the market value as of the account closing date is in principle applied in evaluating available-for-sale securities.

Unrealized gains and losses of available-for-sale securities are reported as a separate component of net assets.

② Valuation criteria and valuation method for money in trust

For money held in trust, an evaluation of the components of trust properties is carried out using the same method applied if we directly own the said components of trust properties.

③ Depreciation method for fixed assets

(1) Tangible fixed assets

For tangible fixed assets, the fixed-rate method is adopted. For buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998 and facilities attached to buildings acquired on or after April 1, 2016, however, the straight-line method is adopted. Estimated useful life is as follows.

Buildings ..... 8 – 38 years

Furniture and fixtures ..... 5 – 20 years

For assets acquired at 100,000 yen or above and less than 200,000 yen, the 3-year straight-line depreciation method is applied.

(2) Intangible fixed assets

The fixed-amount depreciation method is applied. Estimated useful life is as follows.

Software for the company's own use ..... 5 years

For assets acquired at 100,000 yen or above and less than 200,000 yen, the 3-year straight-line depreciation method is applied.

④ Criteria for accruing reserves

(1) Reserves for bonuses

An amount, out of that forecast to be paid, to be accrued in the business term is set aside in order to prepare for bonus payments to officers and employees.

(2) Provision for Liability Reserve for Trading in Financial Instruments

The amount calculated pursuant to the provisions of Article 175 of the Cabinet Order concerning the Business of Trading in Financial Instruments, etc., which is based on Article 46-5 of the Financial Instruments and Exchange Act, is posted on the Provision for Liability Reserve for Trading in Financial Instruments account, in preparation for unexpected losses which may be incurred from trading irregularities in financial instruments.

⑤ Other important items that are the basis for preparing financial statements

- (1) Accounting method for consumption taxes, etc.

The accounting method for consumption taxes, etc. is handled on a net-tax basis.

- (2) Consolidated corporation tax

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

[Change in Accounting Policy]

Application of “Practical Solution on a change in depreciation method due to Tax Reform 2016”

Following revisions to corporate tax laws, we have adopted “Practical Solution on a change in depreciation method due to Tax Reform 2016” (PITF No. 32; June 17, 2016) from the reported business year. Accordingly, we have changed the depreciation method of facilities attached to buildings acquired on or after April 1, 2016 from the fixed-rate method to the straight-line method.

This does not have any impact on our profits/losses.

[Additional Information]

We have adopted the “Implementation Guidance on Recoverability of Deferred Tax Assets” (Corporate Accounting Standard Implementation Guidance No. 26; March 28, 2016) from the reported business year.

## 2. Principal Creditors and Amounts Borrowed

(Term ended March 31, 2016)

(Unit: In million yen)

Accounting term	Creditors
Shinsei Bank, Ltd	7,431
Japan Securities Finance Co., Ltd.	3,000
Kyoto Hokuto Shinkin Bank	2,500
The Fukuho Bank, Ltd.	2,000
The Shimane Bank, Ltd.	1,300
Others	5,000
Asset Backed Loan (By Trust Agreement)	2,363

(Term ended March 31, 2017)

(Unit: In million yen)

Accounting term	Creditors
Kyoto Hokuto Shinkin Bank	2,500
The Fukuho Bank, Ltd.	2,000
The Himeji Shinkin Bank	2,000
Tsukuba Bank, Ltd.	1,000
The First Bank of Toyama, Ltd.	1,000
Shiga Chuou Shinkin Bank	1,000
Others	2,168
Asset Backed Loan (By Trust Agreement)	2,000

## 3. The acquisition price, the current market price and evaluation profit/loss of securities held (excluding securities handled as those held for trading purposes).

	as of the end of March 2016			as of the end of March 2017		
	Acquisition price	Current market price	evaluation profit/loss	Acquisition price	Current market price	evaluation profit/loss
Fixed assets						
Bonds	2,042	2,073	30	2,036	2,055	18

## 4. The acquisition price, the current market price and evaluation profit/loss of derivative transaction (excluding securities handled as those held for trading purposes)

### (1) Status of Futures and Options Trading

#### ① Stocks

There are no applicable transactions, because transactions treated as those belonging to the trading product account are excluded.

#### ② Bonds

There are no applicable transactions, because transactions treated as those belonging to the trading product account are excluded.

**(2) Status of Over-The-Counter Securities Derivatives Transactions**

There are no applicable transactions, because transactions treated as those belonging to the trading product account are excluded.

**5. Audit of Financial Statements by an Independent Auditing Corporation**

Deloitte Touche Tohmatsu LLC, an independent auditor, has audited the financial statements of Shinsei Securities in accordance with the provisions of Article 436, paragraph 2 of the Companies Act and has expressed an unqualified opinion.



## **IV. Control Status**

### **1. Internal Control Overview**

Compliance is one of our most important managerial challenges. We have in place and are enhancing effective compliance frameworks based on the following systems.

- (1) The Board of Directors has decided the Code of Conduct, the Compliance Guideline, the Compliance Manual, the Compliance Program and other important policies. We are observing Acts, ordinances, regulations and social norms through observing compliance-related rules.
- (2) The Compliance Committee chaired by the President is establishing and maintaining our compliance framework through receiving reports on and deliberating the progress of the Compliance Program and other compliance-related matters.
- (3) The Chief Internal Control Officer, who is responsible for ensuring compliance and establishing internal control frameworks, is providing internal control-related guidance to/supervision over business officers and internal control officers in each business section. Business officers and internal control officers in each business section are regularly monitoring whether business activities by staff members in each business section are appropriately conducted in compliance with Acts and ordinances, etc.
- (4) We have established the Internal Audit Division, which directly reports to the President, in order to ensure the independence of audit functions. Through internal audits, the Division is strengthening its audit functions, such as verifying whether operations by each business section are appropriately executed in compliance with Acts, ordinances, regulations and internal rules, etc. and detecting/pointing out problems.
- (5) The Legal & Compliance Division is promoting the establishment of compliance frameworks and holding seminars, etc. based on the Compliance Program.
- (6) We have a framework which requires our officers and employees to immediately report to the Legal & Compliance Division if they detect a serious legal violation or material compliance-related fact.

## 2. Situation of Separate Management, etc.

### (1) Situation of separate management based on Financial Instruments and Exchange Act Article

#### 43 (2)

#### ① Status of segregated customer funds in trust

(Unit: in million yen)

Item	Amount as of the end of March 2016	Amount as of the end of March 2017
Necessary segregated customer funds on the latest replacement base date	2,050	8,712
Segregated customer funds in trust	2,100	8,800
Necessary segregated customer funds as of the term-end	4,469	7,892

#### ② Status of Separated Control of Securities

##### A. Securities in Safe Custody

Type of securities		as of the end of March 2016		as of the end of March 2017	
		Japanese securities	Foreign securities	Japanese securities	Foreign securities
Stocks	No. of shares	300 accounts	—	—	—
Bonds	Notional amount	122,329 million Yen	214,435 million Yen	89,287 million Yen	236,508 million Yen
Beneficiary certificates	No. of accounts	— a/c	— a/c	— a/c	— a/c
Others	Quantity	—	—	—	—

##### B. Securities received in place of deposits

Type of securities		as of the end of March 2016	as of the end of March 2017
		Quantity	Quantity
Stocks	No. of shares	—	—
Bonds	Notional amount	—	—
Beneficiary certificates	No. of accounts	—	—
Others	Quantity	—	—

### C. Custodial Status

Place of Custody and Country	Method of Custody	classification	Number / Notional amount	Unit
The Bank of Tokyo-Mitsubishi UFJ, Ltd. Japan	Central depository clearing	Bond Certificates	14,014	million Yen
Bank of Japan Japan	Central depository clearing	Bond Certificates	75,273	million Yen
Euroclear Belgium	Commingled custody	Bond Certificates	220,303 87,710 34,160 1,800 18,800 57,820 372	million Yen 1,000 US\$ 1,000 AU\$ 1,000 € 1,000 NZ\$ 1,000 TRY 1,000 BRL

**③ Situation of separate management regarding subject securities-related over-the-counter derivative transactions, etc.**

Not applicable.

**(2) Separate management based on Financial Instruments and Exchange Act Article 43 (2)**

① Situation of separate product customer control trust

Not applicable.

② Situation of separate management of securities, etc.

Not applicable.

**(3) Status of segregated custody under the provisions of Article 43-3 of the Financial Instruments and Exchange Act**

① Status of segregated custody under the provisions of Article 43-3, Paragraph 1 of the Financial Instruments and Exchange Act

Not applicable.

② Status of segregated custody under the provisions of Article 43-3, Paragraph 2 of the Financial Instruments and Exchange Act

Not applicable.

## **V. Status of Consolidated Subsidiaries and Others**

### **1. Corporate Group Structure**

Not applicable.

### **2. Trade Names, Addresses, Capital, Business Details, etc. of Subsidiaries and Affiliates**

Not applicable.

End