



## **Statement of Business and Assets**

**【For the Term Ended March 31, 2018】**

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**

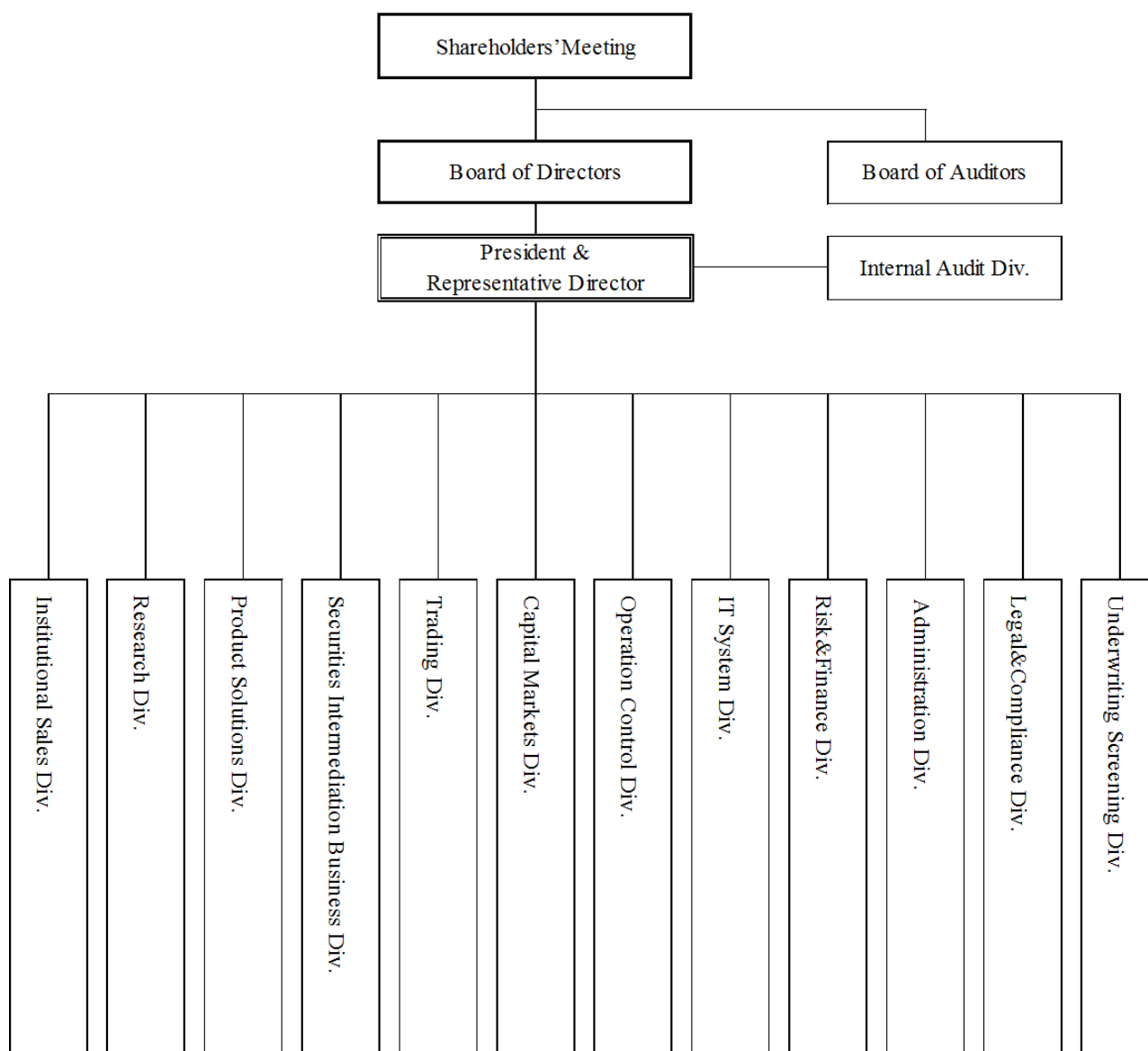
#### **(1) Company History**

Month / Year	History
December 2000	The company was established Increased capital 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 as an investment advisory business operator
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, 2018



**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	Number of Shares Held	Ratio
1. Shinsei Bank, Limited	203	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
Director & Vice President	Toshiaki Yukiue	Not granted	Full-time
Director	Takaki Toda	Not granted	Full-time
Director	Koushi Tsukagoshi	Not granted	Full-time
Director	Hiroshi Oyama	Not granted	Part-time
Director	Yasuhiro Iwamoto	Not granted	Part-time
Statutory Auditor	Norio Unno	Not granted	Full-time
Statutory Auditor	Daisaku Shimomura	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	General Manager of Legal & Compliance Division

- (2) The name of the person responsible for the overall control of the Division engaged in giving advice or offering investment 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 Taiko Uryuu (maiden name: Yamamoto)	General Manager of Research Division General Manager of Product Solutions 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. 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)

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 Concluding 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 Concluding “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 Concluding loan participation 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, customers' investment appetite for financial instruments generally remained solid despite the softening of the stock market in the second half of the reported fiscal year. As a result, sales of our financial products steadily increased, recording a 14.2% year-over-year growth on the full-year basis.

In the sales business of market products to corporate customers, earnings slid 33.1% from the previous term despite our continued efforts in areas such as loan arrangements for trust accounts and other companies and the sales brokering of securitization products of home mortgages and private REITs.

In the bond underwriting business, we maintained our position as a co-lead manager for mortgage-backed securities issued by the Japan Housing Finance Agency as in the previous fiscal year and underwrote two issues for a total value of 85 billion yen. In addition, as a member of underwriting syndicates, we underwrote six issues for a total value of 21 billion yen.

As a result of the above, our operating revenue grew 18.9% from the previous term to 4,717 million yen. Despite our ongoing disciplined approach, selling and general administrative expenses increased 7.3% on a year-on-year basis to 4,606 million yen partly due to the rising costs caused by revenue growth. Consequently, we posted an ordinary profit of 125 million yen.

In the financial instruments brokering business, we continued to promote smaller sales units to expand the customer base and providing products with various risk levels to cater to the diverse investment needs of our customers in the reported business year. Going forward, we will enhance our collaboration with Shinsei Bank's individual business section to create a structure that allows us to sell structured bonds using non-face-to-face channels and to expand the secondary fixed income trading function. At the same time, we will further increase sales agents for our financial products other than Shinsei Bank and reinforce our distribution business of financial products to local securities companies and securities companies affiliated with regional banks.

For our institutional customers, we introduced a "double-hatting" system for the sales staff of Shinsei Bank and Shinsei Securities in the previous fiscal year and have been organizing a structure to flexibly recommend a range of financial products to cater to the broad investment and asset management needs of our customers. In addition, we are working on expanding financial

products we offer leveraging the enhanced collaboration with Shinsei Bank and other Japanese and overseas financial institutions. Through these initiatives, we will establish a basis for repeated and continuous transactions with institutional investors and other corporate customers.

We will also continue to pay 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: million yen)

	Term ended March 31, 2016	Term ended March 31, 2017	Term ended March 31, 2018
Capital stock	8,750	8,750	8,750
Total number of outstanding shares issued	203shares	203shares	203shares
Operating revenue	5,229	3,965	4,717
(Fees receive)	453	501	474
((Fees for business Entrustment))	0	—	70
((Fees for underwriting, offer for sale, solicitation for sale for specified investors, etc.))	209	282	292
((Fees for offering for subscription, offer for sale, solicitation for sale for specified investors, etc.))	2	20	19
((Other fees received))	240	198	91
(Trading profit / losses)	4,626	3,495	4,222
((Stocks, etc.))	1	(0)	(68)
((Bonds, etc.))	4,468	3,169	4,162
((Other))	156	326	59
Net income from operations	5,005	3,877	4,703
Ordinary income / losses	(46)	(60)	125
Net income / losses	(185)	(278)	158

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

① Trends in the Volume of Stock Trading

(Unit: million yen)

	Term ended March 31, 2016	Term ended March 31, 2017	Term ended March 31, 2018
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: thousand shares, 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, 2016	Stock certificates	-	-	-	-	-	-	-
	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	-	-	-	0	-	-	-
	Government bonds	-	/	-	-	/	-	-
	Municipal bonds	-	/	-	-	/	-	-
	Specific bonds	92,000	-	-	92,000	-	-	-
	Corporate bonds	8,300	31,906	-	8,200	-	-	-
	Beneficiary certificates	/	/	/	-	-	-	-
	Others	-	-	-	-	-	-	-
	Total	72,700	31,906	-	100,200	-	-	-
Term ended March 31, 2018	Stock certificates	-	-	-	-	-	-	-
	Government bonds	-	/	-	-	/	-	-
	Municipal bonds	-	/	-	-	/	-	-
	Specific bonds	106,500	-	-	105,800	-	-	-
	Corporate bonds	-	42,254	-	-	-	-	-
	Beneficiary certificates	/	/	/	-	-	-	-
	Others	-	-	-	-	-	-	-
	Total	100,300	42,254	-	105,800	-	-	-

**(3) Other Business Conditions**

(Unit: million yen)

Details	Transaction Volume		
	Term ended March 31, 2016	Term ended March 31, 2017	Term ended March 31, 2018
1. Money lending	27,693	93,000	8,550
Total	27,693	93,000	8,550

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

(Unit: %, million yen)

	Term ended March 31, 2016	Term ended March 31, 2017	Term ended March 31, 2018
Capital Adequacy Ratio (A/B×100)	308.9%	603.1%	747.0%
Non-fixed Stockholders' Equity (A)	13,483	13,413	13,572
Risk Equivalent Amount (B)	4,363	2,223	1,816
Market Risk Equivalent Amount	2,406	1,013	284
Counterparty Risk Equivalent Amount	319	240	312
Basic Risk Equivalent Amount	1,646	969	1,219

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

(Unit: # of persons)

	Term ended March 31, 2016	Term ended March 31, 2017	Term ended March 31, 2018
Employees	81	75	75
(Of which Sales Representatives)	( 45)	( 37)	( 36)



### III. Assets Status

#### 1. Financials

##### (1) Balance Sheet

(Unit: million yen)

Account Title	Term ended March 31, 2017	Term ended March 31, 2018	Account Title	Term ended March 31, 2017	Term ended March 31, 2018
<b>(Assets)</b>			<b>(Liabilities)</b>		
<b>Current assets</b>	<b>48,908</b>	<b>36,962</b>	<b>Current liabilities</b>	<b>16,980</b>	<b>15,339</b>
Cash and deposits	6,741	17,537	Trading products	5,307	6,562
Cash on deposits	8,800	4,900	Trading securities and others	1,621	2,625
Customer segregated monies in trust	8,800	4,900	Derivative transactions	3,686	3,937
Money trust	569	1	Deposits received	8,311	4,984
Trading products	19,383	8,742	Suspense receipts	1,488	2,218
Trading securities and others	15,479	4,589	Security deposits received from futures transactions	1,488	2,218
Derivative transactions	3,903	4,152	Other guaranty money received	0	0
Receivable-unsettled trades	261	349	Difference received	0	0
Loans secured by securities	1,625	2,629	Short-term loans	1,168	100
Cash collateral on securities borrowed	1,625	2,629	Long-term loans to be repaid by the end of the year	—	1,000
Short-term guarantee deposits	3,249	2,487	Accounts payable	21	50
Margins on futures transactions	2,148	1,386	Expenses payable	438	224
Other guaranty money deposits	1,100	1,100	Provision for taxes	44	48
Prepaid expenses	45	25	Reserve for bonuses	150	150
Accrued receivables	178	219	<b>Long-term liabilities</b>	<b>12,572</b>	<b>10,068</b>
Accrued income	31	0	Long-term loans	12,500	10,000
Deferred tax assets	21	69	Deferred tax liabilities	5	—
<b>Fixed assets</b>	<b>2,157</b>	<b>2,163</b>	Asset retirement obligation	66	68
Tangible fixed assets	0	2	<b>Reserves</b>	<b>0</b>	<b>0</b>
Buildings	0	0	Reserves for securities transaction liabilities	0	0
Furniture and fixtures	0	2	<b>Total liabilities</b>	<b>29,503</b>	<b>25,407</b>
Intangible fixed assets	—	8	<b>(Net worth)</b>		
Software	—	8	<b>Stockholders' equity</b>	<b>13,549</b>	<b>13,707</b>
Investments, etc.	2,157	2,151	<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	2,055	2,044	Capital reserve	7,750	7,750
Long-term guarantee deposits	101	101	<b>Legal reserves of retained earnings</b>	<b>(2,950)</b>	<b>(2,792)</b>
Deferred tax assets	—	5	Other legal reserves of retained earnings	(2,950)	(2,792)
			Carried-over legal reserves of retained earnings	(2,950)	(2,950)
			<b>Accumulated other comprehensive income(loss)</b>	<b>12</b>	<b>9</b>
			Net unrealized gains on investment securities, net of tax	12	9
			<b>Total net worth</b>	<b>13,561</b>	<b>13,717</b>
<b>Total assets</b>	<b>43,065</b>	<b>39,125</b>	<b>Total liabilities &amp; net worth</b>	<b>43,065</b>	<b>39,125</b>

## (2) Income Statement

(Unit: million yen)

Account Title	Term ended March 31, 2017	Term ended March 31, 2018
<b>Operating revenue</b>	<b>3,965</b>	<b>4,717</b>
Fees received	501	474
Entrustment fees	—	70
Underwriting fees / fees for solicitation for sale to specified investors	282	292
Fees for handling offerings / secondary distributions / solicitation for sale to specified investors	20	19
Other fees received	198	91
Trading profit / losses	3,495	4,222
Trading profit / losses on stocks, etc.	(0)	(68)
Trading profit / losses on bonds, etc.	3,169	4,162
Other trading profit / losses	326	59
Net interest income	204	28
Other operating revenue	(235)	(7)
<b>Interest expenses</b>	<b>88</b>	<b>14</b>
<b>Net operating revenue</b>	<b>3,877</b>	<b>4,703</b>
Sales and general administrative expenses	4,292	4,606
Sales expenses	2,620	3,118
Personnel expenses	1,041	917
Real estate-related expenses	133	131
Administrative expenses	229	245
Depreciation expenses	52	2
Tax and public charges	91	96
Provisions for doubtful accounts	—	—
Others	123	93
<b>Operating income</b>	<b>(414)</b>	<b>96</b>
<b>Non-operating revenue</b>	<b>354</b>	<b>28</b>
<b>Non-operating expenses</b>	<b>0</b>	<b>0</b>
<b>Ordinary income</b>	<b>(60)</b>	<b>125</b>
<b>Extraordinary losses</b>	<b>179</b>	<b>—</b>
Impairment loss	179	—
The provision for liability reserve for trading in financial instruments	—	—
<b>Net income before tax</b>	<b>(240)</b>	<b>125</b>
<b>Corporate tax, resident tax, and business tax</b>	<b>3</b>	<b>23</b>
<b>Adjustments to corporate tax, etc.</b>	<b>35</b>	<b>(57)</b>
<b>Net income</b>	<b>(278)</b>	<b>158</b>

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

Term ended March 31, 2017

(Unit: 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	(2,672)	(2,672)	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	—	—	—	(278)	(278)	(278)
Balance as of March 31, 2017	8,750	7,750	7,750	(2,950)	(2,950)	13,549

	Accumulated other comprehensive income		
	Net unrealized gains on investment securities, net of tax	Total Accumulated Other Comprehensive income	Total Net worth
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	(8)	(8)	(8)
Total changes during the business term	(8)	(8)	(286)
Balance as of March 31, 2017	12	12	13,561

Term ended March 31, 2018

(Unit: 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, 2017	8,750	7,750	7,750	(2,950)	(2,950)	13,549
Changes during the business Term						
Net loss	—	—	—	158	158	158
Net changes of items other than shareholders' equity						
Total changes during the business term	—	—	—	158	158	158
Balance as of March 31, 2018	8,750	7,750	7,750	(2,792)	(2,792)	13,707

	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, 2017	12	12	13,561
Changes during the business Term			
Net loss			158
Net changes of items other than shareholders' equity	(3)	(3)	(3)
Total changes during the business term	(3)	(3)	155
Balance as of March 31, 2018	9	9	13,717

## 【Notes】

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 transactions, 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 transactions, 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

The 3-year straight-line depreciation method is applied for assets acquired at 100,000 yen or above and less than 200,000 yen.
  - (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
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The 3-year straight-line depreciation method is applied for assets acquired at 100,000 yen or above and less than 200,000 yen.
  
- ④ Criteria for recording reserves
  - (1) Allowance for bonuses

Of the estimated payment amount, an amount to be paid in the business year 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 net-tax based.

(2) Consolidated corporation tax

The company adopts the consolidated tax payment system, with Shinsei Bank as its parent company.

## 2. Major Lenders and Amounts Borrowed

(Term ended March 31, 2017)

(Unit: million yen)

Name of the lender	Amount borrowed
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

(Term ended March 31, 2018)

(Unit: million yen)

Name of the lender	Amount borrowed
The Fukuho Bank, Ltd.	2,000
The Himeji Shinkin Bank	2,000
Kyoto Hokuto Shinkin Bank	1,000
Tsukuba Bank, Ltd.	1,000
The First Bank of Toyama, Ltd.	1,000
Shiga Chuou Shinkin Bank	1,000
Others	1,100
Asset Backed Loan (By Trust Agreement)	2,000

## 3. The acquisition price, market value, and valuation gains/losses on securities held (excluding securities handled as those held for trading purposes)

	as of the end of March 2017			as of the end of March 2018		
	Acquisition price	Market value	Valuation gain/loss	Acquisition price	Market value	Valuation gain/loss
Fixed assets						
Bonds	2,036	2,055	18	2,029	2,043	13
Others	—	—	—	0	0	—

**4. The acquisition price, market value, and valuation gains/losses from derivative transactions (excluding transactions treated as those belonging to the trading account)**

**(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 decides the Charter of Corporate Behavior, 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. Status of Separate Management, etc.

(1) Status of separate management based on Financial Instruments and Exchange Act Article 43 (2)

① Status of segregated customer funds in trust

(Unit: million yen)

Item	Amount as of the end of March 2017	Amount as of the end of March 2018
Necessary segregated customer funds on the latest replacement base date	8,712	4,884
Segregated customer funds in trust	8,800	4,900
Necessary segregated customer funds as of the term-end	7,892	4,562

② Status of Separated Control of Securities

A. Securities in Safe Custody

Type of securities		as of the end of March 2017		as of the end of March 2018	
		Japanese securities	Foreign securities	Japanese securities	Foreign securities
Stocks	No. of shares	—	—	—	—
Bonds	Notional amount	89,287 million Yen	236,508 million Yen	42,055 million Yen	270,508 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 2017	as of the end of March 2018
		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
MUFG Bank, Ltd. Japan	Central depository clearing	Bond Certificates	14,214	million Yen
Bank of Japan Japan	Central depository clearing	Bond Certificates	27,841	million Yen
Euroclear Belgium	Commingled custody	Bond Certificates	254,156	million Yen
			95,416	1,000 US\$
			39,669	1,000 AU\$
			1,800	1,000 €
			11,966	1,000 NZ\$
			69,580	1,000 TRY
			372	1,000 BRL
			300	1,000 GBP

**③ Status 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