

Quarterly Consolidated Financial Statements and Notes

For the Three-Month Period Ended June 30, 2016

*This is an English translation of quarterly consolidated financial statements and notes of Shinsei Bank, Limited (the "Bank") and its consolidated subsidiaries (collectively, the "Group") prepared in Japanese under JGAAP. Please note that this translation is provided for your reference and convenience only, pursuant to Rule 12g3-2(b) under the U.S. Securities Exchange Act of 1934. In the event of any discrepancy between the translation and the Japanese original, the Japanese original shall take precedence over this translation.

Shinsei Bank, Limited
(Code 8303, TSE First Section)

Quarterly Consolidated Balance Sheets

Shinsei Bank, Limited, and Consolidated Subsidiaries

As of March 31, 2016 and June 30, 2016

(Millions of yen)

	March 31, 2016	June 30, 2016
ASSETS		
Cash and due from banks	¥ 1,129,213	¥ 1,384,369
Call loans and bills bought	—	23,455
Receivables under securities borrowing transactions	4,243	19,457
Other monetary claims purchased	81,763	74,586
Trading assets	336,345	381,581
Monetary assets held in trust	255,526	259,357
Securities	1,227,859	1,190,937
Loans and bills discounted	1 4,562,923	1 4,547,434
Foreign exchanges	17,024	24,027
Lease receivables and leased investment assets	211,453	194,742
Other assets	1.2 799,420	1.2 863,853
Premises and equipment	48,781	52,094
Intangible assets	3.4 48,897	3.4 47,516
Assets for retirement benefits	2,394	3,087
Deferred issuance expenses for debentures	3	2
Deferred tax assets	14,050	12,984
Customers' liabilities for acceptances and guarantees	280,620	285,489
Reserve for credit losses	(91,732)	(94,549)
[Total assets]	¥ 8,928,789	¥ 9,270,429
LIABILITIES AND EQUITY		
Liabilities:		
Deposits	¥ 5,499,992	¥ 5,470,720
Negotiable certificates of deposit	301,001	333,788
Debentures	16,740	14,705
Call money and bills sold	40,000	10,000
Payables under repurchase agreements	23,779	17,153
Payables under securities lending transactions	118,139	416,577
Trading liabilities	294,326	340,882
Borrowed money	801,742	755,408
Foreign exchanges	75	73
Short-term corporate bonds	129,400	155,300
Corporate bonds	95,121	104,542
Other liabilities	380,458	441,310
Accrued employees' bonuses	8,419	2,482
Accrued directors' bonuses	77	17
Liabilities for retirement benefits	8,791	8,941
Reserve for reimbursement of debentures	2,903	2,929
Reserve for losses on interest repayments	133,695	122,689
Deferred tax liabilities	378	245
Acceptances and guarantees	280,620	285,489
[Total liabilities]	8,135,665	8,483,260
Equity:		
Shareholders' equity:		
Common stock	512,204	512,204
Capital surplus	79,461	78,786
Retained earnings	267,716	273,227
Treasury stock, at cost	(72,559)	(77,559)
[Total shareholders' equity]	786,823	786,659
Accumulated other comprehensive income:		
Unrealized gain (loss) on available-for-sale securities	11,911	13,368
Deferred gain (loss) on derivatives under hedge accounting	(14,770)	(17,980)
Foreign currency translation adjustments	362	(2,224)
Defined retirement benefit plans	(2,970)	(2,986)
[Total accumulated other comprehensive income]	(5,466)	(9,822)
Stock acquisition rights	512	560
Noncontrolling interests	11,254	9,771
[Total equity]	793,124	787,168
[Total liabilities and equity]	¥ 8,928,789	¥ 9,270,429

Quarterly Consolidated Statements of Income

Shinsei Bank, Limited, and Consolidated Subsidiaries

For the three-month periods ended June 30, 2015 and 2016

(Millions of yen)

	June 30, 2015 (3 months)	June 30, 2016 (3 months)
ORDINARY INCOME	¥ 94,474	¥ 90,658
Interest income	35,598	34,356
Interest on loans and bills discounted	30,996	31,311
Interest and dividends on securities	4,005	2,462
Fees and commissions income	11,610	11,721
Trading income	3,322	2,975
Other business income	1 36,450	1 37,327
Other ordinary income	2 7,492	2 4,276
ORDINARY EXPENSES	71,560	79,699
Interest expenses	4,458	3,957
Interest on deposits	1,665	1,812
Interest on borrowings	1,200	982
Interest on corporate bonds	1,140	288
Fees and commissions expenses	5,322	5,800
Trading losses	43	9
Other business expenses	3 23,969	3 22,788
General and administrative expenses	4 37,118	4 37,018
Other ordinary expenses	646	5 10,126
ORDINARY PROFIT	22,914	10,958
Extraordinary gains	6 710	6 309
Extraordinary losses	81	7 542
Income before income taxes	23,543	10,726
Income taxes (benefit)	822	2,494
Profit	22,721	8,231
Profit attributable to noncontrolling interests	198	41
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 22,522	¥ 8,190

Quarterly Consolidated Statements of Comprehensive Income

Shinsei Bank, Limited, and Consolidated Subsidiaries

For the three-month periods ended June 30, 2015 and 2016

(Millions of yen)

	June 30, 2015 (3 months)	June 30, 2016 (3 months)
PROFIT	¥ 22,721	¥ 8,231
OTHER COMPREHENSIVE INCOME	2,927	(5,141)
Unrealized gain (loss) on available-for-sale securities	(133)	1,365
Deferred gain (loss) on derivatives under hedge accounting	1,690	(3,209)
Foreign currency translation adjustments	531	(1,298)
Defined retirement benefit plans	186	(15)
Share of other comprehensive income in affiliates	652	(1,983)
COMPREHENSIVE INCOME	¥ 25,649	¥ 3,089

(Breakdown)

Attributable to:

Owners of the parent	¥ 25,263	¥ 3,826
Noncontrolling interests	385	(736)

(Change in accounting policy)

(Application of the “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016”)

Due to the revision of the Corporation Tax Law, certain consolidated subsidiaries have applied the “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (ASBJ Practical Issues Task Force (PITF) No. 32, June 17, 2016) from the first quarter of the fiscal year ending March 31, 2017, and changed the depreciation method of facilities attached to buildings and structures which acquired on or after April 1, 2016, from the declining-balance method to the straight-line method.

The effect of this change on profit and loss for the three-month period ended June 30, 2016 was immaterial.

(Accounting method specific to quarterly consolidated financial statements)

(1) Income taxes

Income taxes (benefit) are calculated based on income before income taxes for the three-month period ended June 30, 2016 and the reasonably estimated effective tax rate for the fiscal year ending March 31, 2017.

(Supplementary information)

(Application of the “Implementation Guidance on Recoverability of Deferred Tax Assets”)

As of the first quarter of the fiscal year ending March 31, 2017, the Group has applied the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No.26, March 28, 2016).

(Acquisition of treasury shares)

On May 11, 2016, the Bank approved a resolution for the acquisition of treasury shares in a meeting of its Board of Directors in accordance with the provision of its Articles of Incorporation, pursuant to Article 459, paragraph 1 of the Companies Act of Japan.

(1) Reason for acquisition of treasury shares

The Bank established the identification of the path to the repayment of public funds as one of its goals in its 3rd Medium-Term Management Plan, announced in January 2016. As a part of the Bank’s efforts to achieve this, a resolution for the acquisition of treasury shares was approved in light of factors such as the Bank’s capital position, earnings capability and per share values.

(2) Details of acquisition

(i) Type of shares to be repurchased

Common stock

- (ii) Number of shares to be repurchased
(Up to) 100,000 thousand shares (3.76% of total outstanding common shares (excluding treasury shares))
- (iii) Total repurchase amount
(Up to) ¥10,000 million
- (iv) Acquisition period
From May 12, 2016 to May 11, 2017
- (v) Acquisition method
Open market purchase

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) Accumulated number of shares acquired
58,088,000 shares
- (iii) Accumulated total acquisition amount
8,889,046,000 yen
- (iv) Acquisition period
From June 1, 2016 to July 31, 2016
- (v) Acquisition method
Open market purchase through the Tokyo Stock Exchange

(Quarterly consolidated balance sheets as of March 31, 2016 and June 30, 2016)

1. Risk-monitored loans included in “Loans and bills discounted” were as follows.

(Millions of yen)

	March 31, 2016	June 30, 2016
Loans to bankrupt obligors	¥ 4,310	¥ 4,383
Nonaccrual delinquent loans	62,352	61,916
Loans past due for three months or more	1,699	1,662
Restructured loans	26,978	29,262
Total	¥ 95,340	¥ 97,224

Risk-monitored credits included in installment receivables in “Other assets” were as follows.

(Millions of yen)

	March 31, 2016	June 30, 2016
Credits to bankrupt obligors	¥ 117	¥ 127
Nonaccrual delinquent credits	9,937	9,501
Credits past due for three months or more	554	503
Restructured credits	319	281
Total	¥ 10,929	¥ 10,414

The above amounts represent the outstanding balance before the reduction of the reserve for credit losses.

2. Installment receivables included in “Other assets” were as follows.

(Millions of yen)

	March 31, 2016	June 30, 2016
Installment receivables	¥ 516,336	¥ 512,125

3. Goodwill and negative goodwill are offset and the net amounts are included in “Intangible assets.” The gross amounts were as follows.

(Millions of yen)

	March 31, 2016	June 30, 2016
Goodwill	¥ 22,286	¥ 21,257
Negative goodwill	4,171	4,080
Net	¥ 18,114	¥ 17,176

4. “Intangible assets” include intangible assets that have been recognized by applying the purchase method to the acquisition of certain consolidated subsidiaries.

(Millions of yen)

	March 31, 2016	June 30, 2016
Intangible assets acquired in business combinations	¥ 4,188	¥ 3,714

(Quarterly consolidated statements of income for the three-month periods ended June 30, 2015 and 2016)

1. In "Other business income," the following was included.

(Millions of yen)

	June 30, 2015 (3 months)	June 30, 2016 (3 months)
Leasing revenue	¥ 22,931	¥ 20,611

2. In "Other ordinary income," the following were included.

(Millions of yen)

	June 30, 2015 (3 months)	June 30, 2016 (3 months)
Gain on monetary assets held in trust	¥ 3,788	¥ 1,328
Recoveries of written-off claims	1,424	1,267
Reversal of reserve for credit losses	854	—

3. In "Other business expenses," the following was included.

(Millions of yen)

	June 30, 2015 (3 months)	June 30, 2016 (3 months)
Leasing cost	¥ 20,738	¥ 18,520

4. In "General and administrative expenses," the following were included.

(Millions of yen)

	June 30, 2015 (3 months)	June 30, 2016 (3 months)
Amortization of goodwill	¥ 1,353	¥ 1,067
Amortization of intangible assets acquired in business combinations ^(Note)	592	474

Note: Represents amortization of intangible assets that have been recognized by applying the purchase method to the acquisitions of Showa Leasing Co., Ltd., Shinsei Financial Co., Ltd. and their consolidated subsidiaries.

5. In "Other ordinary expenses," the following was included.

(Millions of yen)

	June 30, 2015 (3 months)	June 30, 2016 (3 months)
Provision of reserve for credit losses	¥ —	¥ 8,906

6. In "Extraordinary gains," the following were included.

(Millions of yen)

	June 30, 2015 (3 months)	June 30, 2016 (3 months)
Gain on sale of subsidiary's stock	¥ —	¥ 257
Gain on reversal of stock acquisition rights	696	—

7. In "Extraordinary losses," the following was included.

(Millions of yen)

	June 30, 2015 (3 months)	June 30, 2016 (3 months)
Loss on liquidation of affiliates	¥ —	¥ 528

(Quarterly consolidated statements of cash flows for the three-month periods ended June 30, 2015 and 2016)

Quarterly consolidated statements of cash flows for the three-month periods ended June 30, 2015 and 2016 have not been prepared. Depreciation, including amortization of intangible assets other than those acquired in business combinations, and amortization of goodwill and intangible assets acquired in business combinations were as follows.

(Millions of yen)

	June 30, 2015 (3 months)	June 30, 2016 (3 months)
Depreciation (other than leased assets as lessor)	¥ 2,548	¥ 2,659
Amortization of goodwill	1,353	1,067
Amortization of intangible assets acquired in business combinations	592	474

(Shareholders equity)

Three-month period ended June 30, 2015

1. Dividends paid

(Resolution)	Type of shares	Total amount	Per share amount	Record date	Effective date	Source of dividend
The Board of Directors meeting on May 12, 2015	Common stock	¥ 2,653 million	¥ 1.00	March 31, 2015	May 28, 2015	Retained earnings

2. There was no dividend of which the record date belongs to the three-month period ended June 30, 2015, and of which the effective date was after June 30, 2015.

Three-month period ended June 30, 2016

1. Dividends paid

(Resolution)	Type of shares	Total amount	Per share amount	Record date	Effective date	Source of dividend
The Board of Directors meeting on May 11, 2016	Common stock	¥ 2,653 million	¥ 1.00	March 31, 2016	June 2, 2016	Retained earnings

2. There was no dividend of which the record date belongs to the three-month period ended June 30, 2016, and of which the effective date was after June 30, 2016.

(Segment information)

Three-month period ended June 30, 2015

1. Revenue and profit (loss) by reportable segments

(Millions of yen)

	Institutional Business				Global Markets Business	
	Corporate Business	Structured Finance	Principal Transactions	Showa Leasing	Markets	Other Global Markets
Revenue:	¥ 3,818	¥ 4,819	¥ 4,748	¥ 3,059	¥ 2,418	¥ 1,020
Net interest income (loss)	2,714	3,151	1,691	(490)	350	36
Noninterest income (loss)	1,104	1,668	3,057	3,549	2,067	983
Expenses	2,924	1,200	1,166	2,018	886	996
Net credit costs (recoveries)	694	(7,039)	(112)	(928)	(29)	19
Segment profit (loss)	¥ 199	¥ 10,658	¥ 3,694	¥ 1,970	¥ 1,561	¥ 4

(Millions of yen)

	Individual Business				Corporate/Other		Total
	Retail Banking	Consumer Finance			Treasury	Other	
		Shinsei Financial	APLUS FINANCIAL	Other			
Revenue:	¥ 7,497	¥ 14,321	¥ 12,654	¥ 369	¥ 3,000	¥ 232	¥ 57,961
Net interest income (loss)	5,420	14,979	1,611	317	1,364	(5)	31,139
Noninterest income (loss)	2,077	(657)	11,043	52	1,636	238	26,821
Expenses	8,273	8,050	9,102	177	426	(298)	34,924
Net credit costs (recoveries)	124	3,463	1,913	(131)	—	0	(2,026)
Segment profit (loss)	¥ (901)	¥ 2,807	¥ 1,638	¥ 323	¥ 2,574	¥ 531	¥ 25,064

(Notes)

1. "Revenue," which represents gross operating profit under 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, net other business income, net gain or loss on monetary assets held in trust and equity related transactions on the management reporting basis. "Revenue" represents income and related cost attributable to core businesses.

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

2. "Expenses" are general and administrative expenses deducting amortization of goodwill and other intangible assets acquired in business combinations, amortization of net actuarial gains or losses of retirement benefit cost and lump-sum payments.
3. "Net credit costs (recoveries)" consist of provision/reversal of reserve for credit losses, losses on write-off or sales of loans, and recoveries of written-off claims.
4. "Shinsei Financial" includes profit/loss on "Shinsei Bank Card Loan - Lake," the unsecured personal card loan business transferred from Shinsei Financial Co., Ltd. to Shinsei Bank, Limited on October 1, 2011, as well as profit/loss of SHINKI Co., Ltd.
5. "Other" under the Corporate/Other includes company-wide accounts which are not included in reportable segments, allocation variance of indirect expenses and elimination amount of inter-segment transactions.

2. Reconciliation between total segment profit and ordinary profit on the quarterly consolidated statement of income for the three-month period ended June 30, 2015

(Millions of yen)

Profit	Amount
Total segment profit	¥ 25,064
Amortization of goodwill acquired in business combinations	(1,318)
Amortization of intangible assets acquired in business combinations	(592)
Lump-sum payments	(271)
Other	32
Ordinary profit on the quarterly consolidated statement of income	¥ 22,914

Three-month period ended June 30, 2016

1. Revenue and profit (loss) by reportable segments

(Millions of yen)

	Institutional Business				Global Markets Business	
	Corporate Business	Structured Finance	Principal Transactions	Showa Leasing	Markets	Other Global Markets
Revenue:	¥ 3,768	¥ 3,744	¥ 2,510	¥ 3,100	¥ 2,324	¥ 588
Net interest income (loss)	2,862	2,377	927	(277)	451	43
Noninterest income (loss)	905	1,366	1,583	3,378	1,873	545
Expenses	2,699	1,236	1,004	2,027	818	916
Net credit costs (recoveries)	127	732	129	(267)	(27)	(0)
Segment profit (loss)	¥ 941	¥ 1,774	¥ 1,376	¥ 1,340	¥ 1,533	¥ (327)

(Millions of yen)

	Individual Business				Corporate/Other		Total
	Retail Banking	Consumer Finance			Treasury	Other	
		Shinsei Financial	APLUS FINANCIAL	Other			
Revenue:	¥ 6,558	¥ 15,337	¥ 13,172	¥ 304	¥ 4,070	¥ 147	¥ 55,628
Net interest income (loss)	5,866	15,710	2,068	255	112	(0)	30,398
Noninterest income (loss)	692	(373)	11,103	48	3,957	148	25,229
Expenses	8,411	8,453	9,361	204	428	(134)	35,429
Net credit costs (recoveries)	92	5,102	2,199	(13)	—	9	8,086
Segment profit (loss)	¥ (1,945)	¥ 1,781	¥ 1,610	¥ 112	¥ 3,642	¥ 272	¥ 12,111

(Notes)

1. "Revenue," which represents gross operating profit under 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, net other business income, net gain or loss on monetary assets held in trust and equity related transactions on the management reporting basis. "Revenue" represents income and related cost attributable to core businesses.

Interest on inter-segment transactions is calculated using an inter-office rate. Indirect

expense is allocated, based on the predefined rule, to each reportable segment according to the budget which is set at the beginning of fiscal year.

2. "Expenses" are general and administrative expenses deducting amortization of goodwill and other intangible assets acquired in business combinations, amortization of net actuarial gains or losses of retirement benefit cost and lump-sum payments.
3. "Net credit costs (recoveries)" consist of provision/reversal of reserve for credit losses, losses on write-off or sales of loans, and recoveries of written-off claims.
4. "Shinsei Financial" includes profit/loss on "Shinsei Bank Card Loan - Lake," the unsecured personal card loan business transferred from Shinsei Financial Co., Ltd. to Shinsei Bank, Limited on October 1, 2011, as well as profit/loss of SHINKI Co., Ltd.
5. "Other" under the Corporate/Other includes company-wide accounts which are not included in reportable segments, allocation variance of indirect expenses and elimination amount of inter-segment transactions.

2. Reconciliation between total segment profit and ordinary profit on the quarterly consolidated statement of income for the three-month period ended June 30, 2016

(Millions of yen)

Profit	Amount
Total segment profit	¥ 12,111
Amortization of goodwill acquired in business combinations	(1,067)
Amortization of intangible assets acquired in business combinations	(474)
Lump-sum payments	(50)
Provision for reimbursement of debentures	(49)
Other	488
Ordinary profit on the quarterly consolidated statement of income	¥ 10,958

3. Changes in reportable segments

Effective April 1, 2016, in order to further invigorate the facilitation of inter-Division collaboration within the Shinsei Bank Group as well as to enhance the mobility of the Bank's organization, the Bank retired its "Group" and "Sub-Group" structures and has introduced a new organizational structure under which the "Division" is the fundamental business management unit. Additionally, the functions of the each Business have been reorganized, and through the restructuring and retirement of Divisions, the Bank seeks to achieve improvements in its organizational efficiency. As a result, reportable segments for the three-month period ended June 30, 2016 have changed as follows:

(1) Changes in segment names

The "Institutional Group," the "Global Markets Group," and the "Individual Group" have been renamed as the "Institutional Business," the "Global Markets Business," and the "Individual Business," respectively. The names of reportable segments have changed as follows.

The "Institutional Business" segment of the Institutional Business has been renamed as the "Corporate Business" segment. The "Markets Sub-Group" and "Other Global Markets Group" segments of the Global Markets Business have been renamed as the

“Markets” and the “Other Global Markets” segments, respectively. Additionally, the “Treasury Sub-Group” segment of “Corporate/Other” has been renamed as the “Treasury” segment. These changes have no effect on the affected segments other than their naming.

(2) Changes in classification of reportable segments

The “Corporate Business” segment of the Institutional Business now includes the business of “Shinsei Trust & Banking,” previously included in the “Structured Finance” segment, and the business of the “New Business Promotion & Support Department,” previously included in the “Principal Transactions” segment.

The “Other” segment of Corporate/Other now includes the “Financial Research Operations” previously included in the “Other Global Markets Group” segment of the Global Markets Group. The Financial Research Operations were formerly included in the “Markets Sub-Group” segment of the Global Markets Group and had been changed to the “Other Global Markets Group” segment on July 1, 2015.

Additionally, as of October 1, 2015, the “Structured Finance” segment of the Institutional Group included the business of New Energy Promotion Department, previously included in the “Institutional Business” segment.

It should be noted that previously reported figures in “Revenue and profit (loss) by reportable segments” for the period ended June 30, 2015, have been recalculated and reported in conformity with the aforementioned reportable segments of the period ended June 30, 2016.

(3) Changes in methods of measurement for the amounts of segment profit (loss)

To evaluate the performances of reportable segments more appropriately, the expense allocation methods utilized in the Institutional Business have been revised and headquarter function associated expenses previously included within the “Corporate Business” segment have been allocated to the respective segments.

It should be noted that previously reported figures such as profits and losses by reportable segments for the period ended June 30, 2015, have been recalculated and reported in conformity with the aforementioned reportable segments of the period ended June 30, 2016.

(Financial instruments)

Fair values of financial instruments as of March 31, 2016

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
(1) Other monetary claims purchased ¹	¥ 80,298	¥ 82,147	¥ 1,849
(2) Trading assets			
Securities held for trading purposes	23,262	23,262	—
(3) Monetary assets held in trust ¹	255,255	263,084	7,828
(4) Securities ²	1,180,894	1,173,351	(7,542)
(5) Loans and bills discounted ³	4,562,923		
Reserve for credit losses	(53,999)		
Net	4,508,924	4,661,271	152,347
(6) Lease receivables and leased investment assets ¹	208,327	207,154	(1,172)
(7) Other assets			
Installment receivables	516,336		
Deferred gains on installment receivables	(15,338)		
Reserve for credit losses	(11,331)		
Net	489,666	511,333	21,667
(8) Deposits	5,499,992	5,503,833	(3,840)
(9) Negotiable certificates of deposit	301,001	301,005	(4)
(10) Debentures	16,740	16,748	(8)
(11) Trading liabilities			
Trading securities sold for short sales	2,511	2,511	—
(12) Borrowed money	801,742	803,766	(2,024)
(13) Short-term corporate bonds	129,400	129,400	—
(14) Corporate bonds	95,121	96,780	(1,658)
(15) Derivative instruments ⁴ :			
Hedge accounting is not applied	33,841	33,841	—
Hedge accounting is applied	(625)	(625)	—
Derivative instruments total	33,216	33,216	—

(Millions of yen)

	Contract amount	Fair value
Other: Guarantee contracts ⁵	¥ 280,620	¥ 4,722

1 Carrying amounts of Other monetary claims purchased, Monetary assets held in trust, and Lease receivables and leased investment assets are presented as the amount net of reserve for credit losses because they are immaterial.

2 Equity securities without readily available market price and some of investments in partnerships are out of the scope of fair value disclosure because their fair values cannot be reliably determined.

3 For consumer loans held by consolidated subsidiaries included in Loans and bills discounted, reserve for losses on interest repayments of ¥133,695 million was recognized for estimated losses on reimbursements of excess interest payments, which included the reserve for losses on interest repayments that have a possibility of being appropriated for loan principal in the future.

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 net basis.

5 Contract amount for guarantee contracts presents the amount of "Acceptances and guarantees" on the quarterly consolidated balance sheets. Unearned guarantee fees of ¥21,898 million were

recognized as "Other liabilities."

Fair values of financial instruments as of June 30, 2016

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
(1) Other monetary claims purchased ¹	¥ 73,150	¥ 74,962	¥ 1,811
(2) Trading assets			
Securities held for trading purposes	34,369	34,369	—
(3) Monetary assets held in trust ¹	258,767	267,576	8,809
(4) Securities ²	1,147,002	1,140,480	(6,542)
(5) Loans and bills discounted ³	4,547,434		
Reserve for credit losses	(59,061)		
Net	4,488,373	4,654,427	166,053
(6) Lease receivables and leased investment assets ¹	192,079	191,669	(409)
(7) Other assets			
Installment receivables	512,125		
Deferred gains on installment receivables	(15,312)		
Reserve for credit losses	(11,069)		
Net	485,744	512,890	27,145
(8) Deposits	5,470,720	5,475,122	(4,401)
(9) Negotiable certificates of deposit	333,788	333,830	(41)
(10) Debentures	14,705	14,713	(8)
(11) Trading liabilities			
Trading securities sold for short sales	18,983	18,983	—
(12) Borrowed money	755,408	758,085	(2,676)
(13) Short-term corporate bonds	155,300	155,300	—
(14) Corporate bonds	104,542	106,070	(1,527)
(15) Derivative instruments ⁴ :			
Hedge accounting is not applied	34,232	34,232	—
Hedge accounting is applied	11,938	11,938	—
Derivative instruments total	46,170	46,170	—

(Millions of yen)

	Contract amount	Fair value
Other: Guarantee contracts ⁵	¥ 285,489	¥ 4,084

¹ Carrying amounts of Other monetary claims purchased, Monetary assets held in trust, and Lease receivables and leased investment assets are presented as the amount net of reserve for credit losses because they are immaterial.

² Equity securities without readily available market price and some of investments in partnerships are out of the scope of fair value disclosure because their fair values cannot be reliably determined.

³ For consumer loans held by consolidated subsidiaries included in Loans and bills discounted, reserve for losses on interest repayments of ¥122,689 million was recognized for estimated losses on reimbursements of excess interest payments, which included the reserve for losses on interest repayments that have a possibility of being appropriated for loan principal in the future.

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 net basis.

⁵ Contract amount for guarantee contracts presents the amount of "Acceptances and guarantees" on

the quarterly consolidated balance sheets. Unearned guarantee fees of ¥21,772 million were recognized as “Other liabilities.”

(Note) Valuation methodologies for financial instruments

(1) Other monetary claims purchased

The fair values are measured at quoted prices from third parties or determined using the discounted cash flow method.

(2) Trading assets

The fair values are measured at market prices or quoted prices from third parties, or determined using the discounted cash flow method.

(3) Monetary assets held in trust

The fair values are determined using the discounted cash flow method based on the characteristics of the components of the entrusted assets.

Notes on monetary assets held in trust for other than trading purposes are included in notes for “Monetary assets held in trust.”

(4) Securities

The fair values of marketable equity securities are measured at closing prices on exchanges. The fair values of bonds and mutual funds are measured at market prices or quoted prices from third parties, or determined using the discounted cash flow method.

Notes on securities being held to maturity and available for sale are included in notes for “Securities.”

(5) Loans and bills discounted

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

For loans to obligors “legally bankrupt,” “virtually bankrupt” and “possibly bankrupt,” a reserve is provided based on the discounted cash flow method, or based on amounts expected to be collected through the disposal of collateral or execution of guarantees, so that the carrying amount net of the reserve is a reasonable estimate of the fair values of those loans.

(6) Lease receivables and leased investment assets

The fair values are primarily determined by discounting contractual cash flows at the rates that consist of the risk-free rate, credit risk and certain costs, by a group of major product categories.

(7) Installment receivables

The fair values are primarily determined by discounting expected cash flows that reflect the probability of prepayment at the rates that consist of the risk-free rate, credit risk and certain costs, by a group of major product categories.

(8) Deposits and (9) Negotiable certificates of deposit

The fair values of demand deposits, such as current deposits and ordinary deposits are recognized as the payment amount at the consolidated balance sheet date. The fair values of the deposits with maturity of six months or less approximate carrying amounts because of their short-term maturity.

The fair values of time deposits are determined by discounting the contractual cash flows at the rates that would be applied for the new contracts with the same terms at the consolidated balance sheet date.

(10) Debentures and (14) Corporate bonds

The fair values of marketable debentures and corporate bonds are measured at market prices.

The fair values of nonmarketable corporate debentures and corporate bonds under the Medium Term Note program are determined by discounting expected cash flows at the actual average funding rates of corporate time deposits etc. funded within the past three months of the consolidated balance sheet date. The fair values of retail debentures are determined by discounting contractual cash flows at the latest actual funding rate.

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

(11) Trading liabilities

The fair values are measured at market prices.

(12) Borrowed money

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

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

(13) Short-term corporate bonds

The fair values approximate carrying amounts because most of them are with short maturities of six months or less.

(15) Derivative instruments

The fair values are primarily measured at closing prices on exchanges or determined using the discounted cash flow method or option-pricing models.

Other:

Guarantee contracts

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

(Securities)

In addition to "Securities" on the quarterly consolidated balance sheets, the figures in the following tables include beneficiary interests included in "Other monetary claims purchased" that are accounted for in the same way as securities.

1. Securities being held to maturity:

As of March 31, 2016

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
Japanese national government bonds	¥ 535,841	¥ 544,229	¥ 8,387
Other	23,725	24,434	709
Total	¥ 559,567	¥ 568,664	¥ 9,097

As of June 30, 2016

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
Japanese national government bonds	¥ 515,268	¥ 525,118	¥ 9,849
Other	13,319	13,735	415
Total	¥ 528,588	¥ 538,853	¥ 10,265

2. Securities available for sale:

As of March 31, 2016

(Millions of yen)

	Amortized/ Acquisition cost	Carrying amount (Fair value)	Unrealized gain (loss)
Equity securities	¥ 13,328	¥ 22,077	¥ 8,749
Domestic bonds:	279,829	283,914	4,084
Japanese national government bonds	211,411	214,242	2,831
Japanese local government bonds	500	505	5
Japanese corporate bonds	67,918	69,166	1,248
Other	283,510	285,661	2,150
Total	¥ 576,669	¥ 591,653	¥ 14,984

As of June 30, 2016

(Millions of yen)

	Amortized/ Acquisition cost	Carrying amount (Fair value)	Unrealized gain (loss)
Equity securities	¥12,758	¥ 20,733	¥ 7,974
Domestic bonds:	252,648	257,725	5,077
Japanese national government bonds	184,451	188,666	4,215
Japanese local government bonds	500	503	3
Japanese corporate bonds	67,696	68,555	858
Other	307,169	310,730	3,561
Total	¥ 572,576	¥ 589,189	¥ 16,613

(Note)

Individual securities are written down when a decline in fair value is significant as compared to the cost of such securities since the decline in fair value is deemed to be other than temporary. The amount written down is accounted for as an impairment loss.

Impairment loss on available-for-sale securities carried at fair value for the fiscal year ended March 31, 2016 was ¥439 million, which consisted of ¥439 million for equity securities.

Impairment loss on available-for-sale securities carried at fair value for the three-month period ended June 30, 2016 was ¥24 million, which consisted of ¥24 million for equity securities.

To determine whether an other-than-temporary impairment has occurred, the Group applies the following rule, by the obligor classification of the security issuer based on the Group's self-assessment guidelines:

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

"Legally bankrupt" obligors are those who have already gone bankrupt from a legal and/or formal perspective.

"Virtually bankrupt" obligors are those who have not yet gone legally or formally bankrupt but who are substantially bankrupt because they are in serious financial difficulties and are not deemed to be capable of restructuring.

"Possibly bankrupt" obligors are those who are not yet bankrupt but are in financial difficulties and are very likely to go bankrupt in the future.

"Need caution" obligors are those who require close attention because there are problems with their borrowings.

"Normal" obligors are those whose business conditions are favorable and who are deemed not to have any particular problems in terms of their financial position.

(Monetary assets held in trust)

1. There were no monetary assets held in trust held to maturity as of March 31, 2016 and June 30, 2016.

2. Monetary assets held in trust other than for trading purposes and held to maturity:

As of March 31, 2016 (Millions of yen)

	Acquisition cost	Carrying amount	Unrealized gain (loss)
Other monetary assets held in trust	¥ 222,476	¥ 221,459	¥ (1,016)

As of June 30, 2016 (Millions of yen)

	Acquisition cost	Carrying amount	Unrealized gain (loss)
Other monetary assets held in trust	¥ 231,706	¥ 230,639	¥ (1,067)

(Derivative transactions)

Fair values of derivatives are adjusted for credit risk and liquidity risk by directly reducing reasonably estimated reserves from relevant trading assets. The fair values of derivatives on the consolidated balance sheets as of March 31, 2016 and June 30, 2016 are adjusted for credit risk by a reduction of ¥1,446 million and ¥1,696 million, respectively, and also adjusted for liquidity risk by a reduction of ¥1,074 million and ¥949 million, respectively. Regardless of this accounting treatment, the reduction of those risks is not reflected in the fair values shown in the following tables.

(1) Interest rate-related transactions:

As of March 31, 2016 (Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Future contracts	¥ 37,013	¥ (8)	¥ (8)
	Interest rate options	33,386	—	2
Over the counter	Forward contracts	—	—	—
	Interest rate swaps	11,803,230	30,377	30,377
	Interest rate swaptions	1,865,115	(10,761)	(6,173)
	Interest rate options	84,657	(53)	(12)
	Other	—	—	—
Total		—	¥ 19,554	¥ 24,185

(Note) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income. Derivatives for which hedge accounting is adopted in accordance with Industry Audit Committee Report No. 24, February 13, 2002 of the Japanese Institute of Certified Public Accountant (the "JICPA") are excluded from the table above.

As of June 30, 2016 (Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Future contracts	¥ 8,397	¥ (13)	¥ (13)
	Interest rate options	—	—	—
Over the counter	Forward contracts	—	—	—
	Interest rate swaps	11,578,696	35,489	35,489
	Interest rate swaptions	1,847,130	(14,549)	(8,348)
	Interest rate options	66,874	(39)	54
	Other	—	—	—
Total		—	¥ 20,887	¥ 27,182

(Note) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income. Derivatives for which hedge accounting is adopted in accordance with Industry Audit Committee Report No. 24, February 13, 2002 of the JICPA are excluded from the table above.

(2) Currency-related transactions:

As of March 31, 2016

(Millions of yen)

	Contract type	Contract/ Notional principal	Fair value	Unrealized gain (loss)
Listed	Future foreign exchange contracts	—	—	—
	Currency options	—	—	—
Over the counter	Currency swaps	¥ 588,346	¥ 75	¥ 75
	Forward foreign exchange contracts	1,992,152	14,016	14,016
	Currency options	1,743,393	328	2,804
	Other	—	—	—
Total		—	¥ 14,420	¥ 16,897

(Note) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income. Fund swap transactions and currency swap transactions for which hedge accounting is adopted in accordance with Industry Audit Committee Report No. 25, July 29, 2002 of the JICPA are excluded from the table above.

As of June 30, 2016

(Millions of yen)

	Contract type	Contract/ Notional principal	Fair value	Unrealized gain (loss)
Listed	Future foreign exchange contracts	—	—	—
	Currency options	—	—	—
Over the counter	Currency swaps	¥ 559,147	¥ 1,820	¥ 1,820
	Forward foreign exchange contracts	1,620,234	4,801	4,801
	Currency options	1,611,786	6,112	7,265
	Other	—	—	—
Total		—	¥ 12,734	¥ 13,887

(Note) Derivatives included in the table above were measured at fair value and the unrealized gains and losses were recognized in income. Fund swap transactions and currency swap transactions for which hedge accounting is adopted in accordance with Industry Audit Committee Report No. 25, July 29, 2002 of the JICPA are excluded from the table above.

(3) Equity-related transactions:

As of March 31, 2016

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Equity index futures	¥ 14,631	¥ (441)	¥ (441)
	Equity index options	380,172	(780)	(2,132)
	Equity options	—	—	—
Over the counter	Equity options	58,436	3,860	2,836
	Equity index swaps	—	—	—
	Other	4,377	(111)	(111)
Total		—	¥ 2,528	¥ 151

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

As of June 30, 2016

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Equity index futures	¥ 17,831	¥ (69)	¥ (69)
	Equity index options	395,782	31	(1,432)
	Equity options	—	—	—
Over the counter	Equity options	58,436	3,401	2,376
	Equity index swaps	—	—	—
	Other	4,377	(95)	(95)
Total		—	¥ 3,267	¥ 778

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

(4) Bond-related transactions:

As of March 31, 2016 (Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Bond futures	¥ 44,267	¥ (54)	¥ (54)
	Bond futures options	1,432	3	(4)
Over the counter	Bond options	—	—	—
	Other	—	—	—
Total		—	¥ (50)	¥ (58)

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

As of June 30, 2016 (Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Bond futures	¥ 32,468	¥ 8	¥ 8
	Bond futures options	20,639	28	(41)
Over the counter	Bond options	—	—	—
	Other	—	—	—
Total		—	¥ 37	¥ (32)

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

(5) There were no commodity derivatives transactions as of March 31, 2016 and June 30, 2016.

(6) Credit derivative transactions:

As of March 31, 2016 (Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Over the counter	Credit default options	¥ 392,935	¥ (90)	¥ (90)
	Other	—	—	—
Total		—	¥ (90)	¥ (90)

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

As of June 30, 2016 (Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Over the counter	Credit default options	¥ 348,727	¥ (48)	¥ (48)
	Other	—	—	—
Total		—	¥ (48)	¥ (48)

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

(Per share information)

Basic and diluted net income per share ("EPS") and their calculation basis were as follows.

		June 30, 2015 (3 months)	June 30, 2016 (3 months)
(1) Basic EPS	(Yen)	¥ 8.48	¥ 3.09
(Calculation basis)			
Profit attributable to owners of the parent	(Millions of yen)	¥ 22,522	¥ 8,190
The amount which is not attributable to common shareholders	(Millions of yen)	—	—
Profit attributable to owners of the parent available to common shareholders	(Millions of yen)	¥ 22,522	¥ 8,190
Weighted average number of common shares	(Thousands)	2,653,918	2,647,457
(2) Diluted EPS	(Yen)	¥ 8.48	¥ 3.09
(Calculation basis)			
Adjustment amount of profit attributable to owners of the parent	(Millions of yen)	—	—
Increase of the number of common shares	(Thousands)	5	52

(Subsequent event)

On May 25, 2016, the Bank elected to redeem the preferred securities issued by the Bank's wholly owned subsidiaries outside of Japan, which were subsequently redeemed on July 20, 2016 and July 25, 2016.

The outline of the redeemed preferred securities is as follows:

- (1) Issuer
 - (i) Shinsei Finance (Cayman) Limited
 - (ii) Shinsei Finance II (Cayman) Limited
- (2) Type of securities
 - (i) U.S. dollar denominated step-up noncumulative perpetual preferred securities
 - (ii) U.S. dollar denominated noncumulative perpetual preferred securities
- (3) Aggregate redemption amount
 - (i) U.S. \$38,000 thousand
 - (ii) U.S. \$24,187 thousand
- (4) Redemption date
 - (i) July 20, 2016

(ii) July 25, 2016

(5) Reason for redemption

Arrival of optional redemption date