

Quarterly Consolidated Financial Statements and Notes

For the Three-Month Period Ended June 30, 2018

*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, 2018 and June 30, 2018

(Millions of yen)

	March 31, 2018	June 30, 2018
ASSETS		
Cash and due from banks	¥ 1,465,663	¥ 1,505,772
Receivables under securities borrowing transactions	2,629	2,694
Other monetary claims purchased	36,332	32,445
Trading assets	205,295	202,825
Monetary assets held in trust	234,924	255,213
Securities	1,123,522	1,121,611
Loans and bills discounted	1 4,895,963	1 4,846,735
Foreign exchanges	32,511	22,595
Lease receivables and leased investment assets	171,429	164,658
Other assets	1,2 856,213	1,2 849,810
Premises and equipment	50,261	47,394
Intangible assets	3,4 59,484	3,4 68,294
Assets for retirement benefits	13,261	14,010
Deferred tax assets	14,705	15,046
Customers' liabilities for acceptances and guarantees	395,301	408,257
Reserve for credit losses	(100,840)	(103,550)
[Total assets]	¥ 9,456,660	¥ 9,453,813
LIABILITIES AND EQUITY		
Liabilities:		
Deposits	¥ 5,628,169	¥ 5,617,469
Negotiable certificates of deposit	438,927	442,294
Debentures	423	—
Payables under repurchase agreements	55,919	51,812
Payables under securities lending transactions	433,462	463,139
Trading liabilities	184,582	179,904
Borrowed money	739,578	712,994
Foreign exchanges	102	68
Short-term corporate bonds	175,700	193,400
Corporate bonds	85,000	75,500
Other liabilities	367,734	361,116
Accrued employees' bonuses	8,489	2,592
Accrued directors' bonuses	51	16
Liabilities for retirement benefits	8,366	8,378
Reserve for reimbursement of debentures	4,130	4,079
Reserve for losses on interest repayments	74,687	70,975
Acceptances and guarantees	395,301	408,257
[Total liabilities]	8,600,625	8,592,000
Equity:		
Shareholders' equity:		
Common stock	512,204	512,204
Capital surplus	78,506	78,506
Retained earnings	361,368	303,583
Treasury stock, at cost	(89,540)	(27,441)
[Total shareholders' equity]	862,538	866,852
Accumulated other comprehensive income:		
Unrealized gain (loss) on available-for-sale securities	5,187	6,992
Deferred gain (loss) on derivatives under hedge accounting	(14,457)	(14,421)
Foreign currency translation adjustments	(1,573)	(1,945)
Defined retirement benefit plans	2,089	2,196
[Total accumulated other comprehensive income]	(8,754)	(7,177)
Stock acquisition rights	318	101
Noncontrolling interests	1,930	2,037
[Total equity]	856,034	861,813
[Total liabilities and equity]	¥ 9,456,660	¥ 9,453,813

Quarterly Consolidated Statements of Income

Shinsei Bank, Limited, and Consolidated Subsidiaries

For the three-month periods ended June 30, 2017 and 2018

(Millions of yen)

	June 30, 2017 (3 months)	June 30, 2018 (3 months)
ORDINARY INCOME	¥ 92,427	¥ 91,791
Interest income	36,646	38,577
Interest on loans and bills discounted	32,925	34,624
Interest and dividends on securities	3,256	3,411
Fees and commissions income	12,029	12,743
Trading income	1,946	991
Other business income	1 36,239	1 34,991
Other ordinary income	2 5,564	2 4,488
ORDINARY EXPENSES	80,392	81,191
Interest expenses	4,711	5,116
Interest on deposits	2,056	2,108
Interest on borrowings	855	896
Interest on corporate bonds	272	172
Fees and commissions expenses	6,301	6,163
Trading losses	—	292
Other business expenses	3 20,896	3 20,366
General and administrative expenses	4 37,219	4 35,802
Other ordinary expenses	5 11,263	5 13,449
ORDINARY PROFIT	12,035	10,600
Extraordinary gains	6 293	6 216
Extraordinary losses	7 61	7 227
Income before income taxes	12,267	10,588
Income taxes (benefit)	1,257	1,560
Profit	11,010	9,028
Profit (loss) attributable to noncontrolling interests	63	(63)
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 10,946	¥ 9,091

Quarterly Consolidated Statements of Comprehensive Income

Shinsei Bank, Limited, and Consolidated Subsidiaries

For the three-month periods ended June 30, 2017 and 2018

(Millions of yen)

	June 30, 2017 (3 months)	June 30, 2018 (3 months)
PROFIT	¥ 11,010	¥ 9,028
OTHER COMPREHENSIVE INCOME	(588)	(2,321)
Unrealized gain (loss) on available-for-sale securities	(325)	(2,585)
Deferred gain (loss) on derivatives under hedge accounting	(843)	36
Foreign currency translation adjustments	(435)	(503)
Defined retirement benefit plans	205	107
Share of other comprehensive income in affiliates	810	623
COMPREHENSIVE INCOME	¥ 10,422	¥ 6,707

(Breakdown)

Attributable to:

Owners of the parent	¥ 10,360	¥ 6,719
Noncontrolling interests	61	(12)

(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, 2018 and the reasonably estimated effective tax rate for the fiscal year ending March 31, 2019.

(Supplementary information)

(Acquisition of treasury shares)

On May 11, 2018, 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. 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) 13 million shares (5.14% of total outstanding common shares (excluding treasury shares))
- (iii) Total repurchase amount
(Up to) ¥13 billion
- (iv) Acquisition period
From May 14, 2018 to November 14, 2018
- (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
3,754,600 shares
- (iii) Accumulated total acquisition amount
6,439,919,526 yen
- (iv) Acquisition period
From May 14, 2018 to July 31, 2018
- (v) Acquisition method
Open market purchase through the Tokyo Stock Exchange

(Application of IFRS 9 "Financial Instruments" in some foreign affiliated companies)

From the three-month period ended June 30, 2018, some foreign affiliated companies of the Bank, implemented the requirements of IFRS 9 "Financial Instruments."

IFRS 9 introduces new requirements with regards to classification, measurement and impairment of financial assets and hedge accounting. According to the relevant transitional measures of IFRS9, the Group recognized the cumulative effects of the adoption in the form of adjustments to "Retained earnings," and "Unrealized gain (loss) on available-for-sale securities," at the beginning of the three-month period ended June 30, 2018.

As a result, the Group recorded a ¥48 million decrease in "Retained Earnings," and a ¥4,307 million increase in "Unrealized gain (loss) on available-for-sale securities," respectively, at the beginning of the period.

(Quarterly consolidated balance sheets as of March 31, 2018 and June 30, 2018)

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

(Millions of yen)

	March 31, 2018	June 30, 2018
Loans to bankrupt obligors	¥ 5,622	¥ 6,361
Nonaccrual delinquent loans	31,178	29,164
Loans past due for three months or more	1,842	1,626
Restructured loans	36,257	37,956
Total	¥ 74,900	¥ 75,109

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

(Millions of yen)

	March 31, 2018	June 30, 2018
Credits to bankrupt obligors	¥ 48	¥ 112
Nonaccrual delinquent credits	7,244	6,491
Credits past due for three months or more	382	331
Restructured credits	98	76
Total	¥ 7,774	¥ 7,012

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, 2018	June 30, 2018
Installment receivables	¥ 558,843	¥ 556,256

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, 2018	June 30, 2018
Goodwill	¥ 15,355	¥ 14,654
Negative goodwill	3,445	3,354
Net	¥ 11,910	¥ 11,299

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, 2018	June 30, 2018
Intangible assets acquired in business combinations	¥ 1,290	¥ 1,051

(Quarterly consolidated statements of income for the three-month periods ended June 30, 2017 and 2018)

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

(Millions of yen)

	June 30, 2017 (3 months)	June 30, 2018 (3 months)
Leasing revenue	¥ 19,066	¥ 17,574
Income from installment sales	¥ 8,434	¥ 8,470

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

(Millions of yen)

	June 30, 2017 (3 months)	June 30, 2018 (3 months)
Equity in net income of affiliates	¥ 1,432	¥ 1,593
Recoveries of written-off claims	¥ 1,590	¥ 1,477

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

(Millions of yen)

	June 30, 2017 (3 months)	June 30, 2018 (3 months)
Leasing cost	¥ 17,495	¥ 16,090

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

(Millions of yen)

	June 30, 2017 (3 months)	June 30, 2018 (3 months)
Amortization of goodwill	¥ 774	¥ 610
Amortization of intangible assets acquired in business combinations ^(Note)	357	239

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, 2017 (3 months)	June 30, 2018 (3 months)
Provision of reserve for credit losses	¥ 10,437	¥ 12,244

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

(Millions of yen)

	June 30, 2017 (3 months)	June 30, 2018 (3 months)
Gains on unexercised and forfeited stock acquisition rights	¥ 293	¥ 215

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

(Millions of yen)

	June 30, 2017 (3 months)	June 30, 2018 (3 months)
Impairment losses	¥ 37	¥ 212

(Quarterly consolidated statements of cash flows for the three-month periods ended June 30, 2017 and 2018)

Quarterly consolidated statements of cash flows for the three-month periods ended June 30, 2017 and 2018 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, 2017 (3 months)	June 30, 2018 (3 months)
Depreciation (other than leased assets as lessor)	¥ 2,616	¥ 2,572
Amortization of goodwill	774	610
Amortization of intangible assets acquired in business combinations	357	239

(Shareholders equity)

Three-month period ended June 30, 2017

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 10, 2017	Common stock	¥ 2,588 million	¥ 1.00	March 31, 2017	June 2, 2017	Retained earnings

(Note) The Bank executed a 1-for-10 reverse stock split on October 1, 2017. The above "Per share amount" is the amount before the reverse stock split.

2. There was no dividend of which the record date belongs to the three-month period ended June 30, 2017, and of which the effective date was after June 30, 2017.

Three-month period ended June 30, 2018

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, 2018	Common stock	¥ 2,528 million	¥ 10.00	March 31, 2018	May 31, 2018	Retained earnings

2. There was no dividend of which the record date belongs to the three-month period ended June 30, 2018, and of which the effective date was after June 30, 2018.

3. Significant changes in shareholders' equity

On May 18, 2018, the Bank completed the cancellation of 16 million of treasury shares, in accordance with the resolution of the Board of Directors meeting on May 11, 2018. During the three-month period ended June 30, 2018, "Retained Earnings" and "Treasury Stock, at cost" decreased by ¥64,632 million due to the cancellation. As a result, the balances of "Retained Earnings" and "Treasury Stock, at cost" as of the three-month period ended June 30, 2018 were ¥303,583 million and ¥27,441 million, respectively.

(Segment information)**Three-month period ended June 30, 2017**

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:	¥ 4,043	¥ 3,990	¥ 5,174	¥ 3,200	¥ 2,304	¥ 750
Net interest income (loss)	2,620	2,279	1,592	(44)	504	130
Noninterest income (loss)	1,423	1,711	3,582	3,244	1,799	620
Expenses	2,996	1,707	1,133	1,976	977	816
Net credit costs (recoveries)	(441)	329	(278)	236	(11)	(1)
Segment profit (loss)	¥ 1,488	¥ 1,953	¥ 4,319	¥ 986	¥ 1,338	¥ (64)

(Millions of yen)

	Individual Business				Corporate/Other		Total
	Retail Banking	Consumer Finance			Treasury	Other	
		Shinsei Financial	APLUS FINANCIAL	Other			
Revenue:	¥ 5,781	¥ 16,719	¥ 13,844	¥ 671	¥ 1,233	¥ 156	¥ 57,871
Net interest income (loss)	5,694	16,842	2,719	161	(562)	(3)	31,935
Noninterest income (loss)	86	(122)	11,124	510	1,795	159	25,935
Expenses	7,475	8,395	9,281	363	448	359	35,931
Net credit costs (recoveries)	63	6,604	2,654	4	—	(4)	9,155
Segment profit (loss)	¥ (1,757)	¥ 1,720	¥ 1,908	¥ 303	¥ 784	¥ (198)	¥ 12,784

(Notes)

1. "Revenue," which represents gross operating profit under our management reporting, is presented as a substitute for sales in other industries. "Revenue" is defined as the total of net interest income, net fees and commissions, net trading income, 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 intangible assets acquired in business combinations, amortization of actuarial gains or losses of retirement benefit cost and lump-sum payments.

3. "Net credit costs (recoveries)" consists of provision/reversal of reserve for credit losses, losses on write-off/sales of loans and recoveries of written-off claims.

4. "Shinsei Financial" includes profit/loss on "Shinsei Bank Card Loan - Lake," the unsecured personal card loan business, as well as profit/loss of Shinsei Personal Loan Co., Ltd.

5. "Other" under the Corporate/Other includes company-wide accounts which are not included in our 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, 2017

(Millions of yen)

Profit	Amount
Total segment profit	¥ 12,784
Amortization of goodwill acquired in business combinations	(774)
Amortization of intangible assets acquired in business combinations	(357)
Lump-sum payments	(155)
Provision for reimbursement of debentures	(175)
Gains on debentures derecognized from liabilities	461
Other	252
Ordinary profit on the quarterly consolidated statement of income	¥ 12,035

Three-month period ended June 30, 2018

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:	¥ 3,620	¥ 3,557	¥ 3,555	¥ 3,827	¥ 1,318	¥ 689
Net interest income (loss)	2,572	2,473	1,165	(43)	386	117
Noninterest income (loss)	1,048	1,083	2,390	3,871	931	572
Expenses	3,012	1,932	953	2,352	954	820
Net credit costs (recoveries)	(33)	1,911	130	(740)	(3)	(15)
Segment profit (loss)	¥ 640	¥ (287)	¥ 2,472	¥ 2,215	¥ 367	¥ (115)

(Millions of yen)

	Individual Business				Corporate/Other		Total
	Retail Banking	Consumer Finance			Treasury	Other	
		Shinsei Financial	APLUS FINANCIAL	Other			
Revenue:	¥ 6,395	¥ 17,536	¥ 14,239	¥ 528	¥ 1,471	¥ 164	¥ 56,904
Net interest income (loss)	5,898	17,511	2,820	174	383	(0)	33,460
Noninterest income (loss)	496	24	11,418	353	1,087	164	23,443
Expenses	6,962	8,249	8,972	425	427	(253)	34,810
Net credit costs (recoveries)	(1)	4,665	4,804	68	—	0	10,787
Segment profit (loss)	¥ (565)	¥ 4,620	¥ 462	¥ 34	¥ 1,044	¥ 417	¥ 11,306

(Notes)

1. "Revenue," which represents gross operating profit under our management reporting, is presented as a substitute for sales in other industries. "Revenue" is defined as the total of net interest income, net fees and commissions, net trading income, 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 intangible assets acquired in business combinations, amortization of actuarial gains or losses of retirement benefit cost and lump-sum payments.

3. "Net credit costs (recoveries)" consists of provision/reversal of reserve for credit losses, losses on write-off/sales of loans and recoveries of written-off claims.

4. "Shinsei Financial" includes profit/loss on "Shinsei Bank Card Loan - Lake," the unsecured personal card loan business, as well as profit/loss of Shinsei Personal Loan Co., Ltd.

5. "Other" under the Corporate/Other includes company-wide accounts which are not included in our 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, 2018

(Millions of yen)

Profit	Amount
Total segment profit	¥ 11,306
Amortization of goodwill acquired in business combinations	(610)
Amortization of intangible assets acquired in business combinations	(239)
Lump-sum payments	(142)
Provision for reimbursement of debentures	(122)
Gains on debentures derecognized from liabilities	321
Other	87
Ordinary profit on the quarterly consolidated statement of income	¥ 10,600

3. Changes in reportable segments

(1) Changes in classification of reportable segments

The Bank reviewed its strategy for the unsecured personal card loan business in the Group, and ceased to accept applications from and to make contracts with new customers of “Shinsei Bank Card Loan – Lake” from April 2018. Furthermore, in order to meet the needs of customers who prefer to use money lending products, Shinsei Financial Co., Ltd., a member company of the Group, launched a new unsecured card loan product “Lake ALSA” from April 2018. This change has no impact on the segment information.

On October 1, 2017, the Bank combined Alpha Servicer Co., Ltd. (hereinafter, “Alfa Servicer”) whose principal business is servicing small loans to individual borrowers with Shinsei Servicing & Consulting Limited (hereinafter, “SSC”) whose principal business is servicing non-performing loans and commercial secured loans. Additionally, the Bank combined Shinsei Investment & Finance Limited with Shinsei Property Finance Co., (hereinafter, “SPF”) whose real estate secured loan business are highly compatible, and Shinsei Principal Investments Limited (hereinafter, “SPI”), which is responsible for management operations in the Shinsei Principal Investments Group. After the mergers, SPI has been renamed as Shinsei Investment & Finance Limited. The Bank also integrated investment businesses of the Institutional Business. As a result, the reportable segments have been revised as follows:

The “Principal Transactions” segment in the Institutional Business includes a business related to SPF, which was formerly included in “Other” within the Consumer Finance segment. The “Principal Transactions” segment in the Institutional Business includes a New Business Promotion & Support business, which was formerly included in the “Corporate Business”. The “Other” segment in the Individual Business includes a business related to SSC, which was formerly included in the “Principal Transactions” segment in the Institutional Business and a business related to Alpha Servicer, which was formerly included in the “APLUS FINANCIAL” segment in the Individual Business.

As a result of these organizational changes, the classifications of reportable segments have changed and “Revenue and profit (loss) by reportable segments” for the three-month period ended June 30, 2017, has been presented based on the new classification of reportable segments.

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

In the six-month period ended September 30, 2017, the Bank has changed the allocation method of expenses in order to evaluate performance in each segment properly; expenses of the funding business related to Retail Banking, which were formerly included in the “Retail Banking” segment, have been allocated to each segment in proportion to operating assets, in order to cover costs related to the Bank’s funding operation.

The amount of profit and loss of reportable segments for the three-month period ended June 30, 2017 has been presented based on the allocation method for the three-month period ended June 30, 2018.

(Financial instruments)

Fair values of financial instruments as of March 31, 2018

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
(1) Other monetary claims purchased ¹	¥ 36,028	¥ 36,783	¥ 755
(2) Trading assets			
Securities held for trading purposes	4,589	4,589	–
(3) Monetary assets held in trust ¹	234,249	238,341	4,092
(4) Securities ²	1,068,016	1,058,508	(9,507)
(5) Loans and bills discounted ³	4,895,963		
Reserve for credit losses	(67,160)		
Net	4,828,803	4,998,499	169,696
(6) Lease receivables and leased investment assets	171,429		
Estimated residual value ⁴	(4,971)		
Reserve for credit losses	(2,019)		
Net	164,439	168,801	4,362
(7) Other assets			
Installment receivables	558,843		
Deferred gains on installment receivables	(11,883)		
Reserve for credit losses	(9,802)		
Net	537,158	581,827	44,669
(8) Deposits	5,628,169	5,625,853	2,315
(9) Negotiable certificates of deposit	438,927	438,924	3
(10) Debentures	423	423	(0)
(11) Trading liabilities			
Trading securities sold for short sales	2,625	2,625	–
(12) Borrowed money	739,578	741,332	(1,753)
(13) Short-term corporate bonds	175,700	175,700	–
(14) Corporate bonds	85,000	85,228	(228)
(15) Derivative instruments ⁵ :			
Hedge accounting is not applied	19,528	19,528	–
Hedge accounting is applied	(1,712)	(1,712)	–
Derivative instruments total	17,815	17,815	–

(Millions of yen)

	Contract amount	Fair value
Other: Guarantee contracts ⁶	¥ 395,301	¥ 2,318

- Carrying amounts of Other monetary claims purchased and Monetary assets held in trust are presented as the amount net of reserve for credit losses because they are immaterial.
- 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.
- For consumer loans held by consolidated subsidiaries included in Loans and bills discounted, reserve for losses on interest repayments of ¥74,687 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.
- Estimated residual value of leased investment assets arising from finance lease transactions, where the ownership of the property is not deemed to transfer to the lessee, is deducted from leased investment assets.
- 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.
- Contract amount for guarantee contracts presents the amount of “Acceptances and guarantees” on the quarterly consolidated balance sheets. Unearned guarantee fees of ¥22,620 million were recognized as “Other liabilities.”

Fair values of financial instruments as of June 30, 2018

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
(1) Other monetary claims purchased ¹	¥ 32,184	¥ 32,923	¥ 739
(2) Trading assets			
Securities held for trading purposes	7,017	7,017	–
(3) Monetary assets held in trust ¹	254,480	258,941	4,461
(4) Securities ²	1,072,280	1,059,742	(12,538)
(5) Loans and bills discounted ³	4,846,735		
Reserve for credit losses	(69,756)		
Net	4,776,979	4,949,920	172,941
(6) Lease receivables and leased investment assets	164,658		
Estimated residual value ⁴	(4,875)		
Reserve for credit losses	(1,773)		
Net	158,009	162,117	4,107
(7) Other assets			
Installment receivables	556,256		
Deferred gains on installment receivables	(11,715)		
Reserve for credit losses	(9,729)		
Net	534,810	581,979	47,169
(8) Deposits	5,617,469	5,614,353	3,116
(9) Negotiable certificates of deposit	442,294	442,323	(29)
(10) Debentures	–	–	–
(11) Trading liabilities			
Trading securities sold for short sales	2,690	2,690	–
(12) Borrowed money	712,994	714,438	(1,443)
(13) Short-term corporate bonds	193,400	193,400	–
(14) Corporate bonds	75,500	75,668	(168)
(15) Derivative instruments ⁵ :			
Hedge accounting is not applied	18,907	18,907	–
Hedge accounting is applied	(5,025)	(5,025)	–
Derivative instruments total	13,881	13,881	–

(Millions of yen)

	Contract amount	Fair value
Other: Guarantee contracts ⁶	¥ 408,257	¥ 4,099

- Carrying amounts of Other monetary claims purchased and Monetary assets held in trust are presented as the amount net of reserve for credit losses because they are immaterial.
- 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.
- For consumer loans held by consolidated subsidiaries included in Loans and bills discounted, reserve for losses on interest repayments of ¥70,975 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.
- Estimated residual value of leased investment assets arising from finance lease transactions, where the ownership of the property is not deemed to transfer to the lessee, is deducted from leased investment assets.
- 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.
- Contract amount for guarantee contracts presents the amount of “Acceptances and guarantees” on the quarterly consolidated balance sheets. Unearned guarantee fees of ¥22,557 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 a fixed interest rate are determined by discounting contractual cash flows, and the fair values of loans and bills discounted with a floating interest rate are determined by discounting expected cash flows based on the forward rates (for loans and bills discounted hedged by interest rate swaps which meet specific criteria, summing up the cash flows from the interest rate swaps), using the risk-free rate adjusted to account for credit risk (after consideration of collateral) with CDS 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 consist of the risk free rate and spread that would be applied for the new housing loans with the same terms at the consolidated balance sheet date. The fair values of consumer loans are determined by discounting expected cash flows that reflect expected loss at the rates that consist of the risk-free rate and certain costs, by a group of similar product types and customer segments.

Regarding loans to obligors classified as "legally bankrupt," "virtually bankrupt" or "possibly bankrupt," fair values are measured at carrying amounts net of reserves for loan losses because the fair values of those loans are approximate to the carrying amounts net of reserves for loan losses, which are calculated based on the discounted cash flow method or based on amounts which are expected to be collected through the disposal of collateral or execution of guarantees.

(6) Lease receivables and leased investment assets

The fair values are primarily determined by discounting contractual cash flows at the rates that would be applied for the new contracts by a group of major product categories.

(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 major product category groups.

(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 are approximate to carrying amounts because of their short term maturity.

The fair values of time deposits and negotiable certificates of deposit are determined by discounting expected cash flows that consist of the risk free rate and spread that would be applied for the new contracts with the same terms at the consolidated balance sheet date.

(10) Debentures and (14) Corporate bonds

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

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

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

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

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

(13) Short-term corporate bonds

The fair values are approximate to carrying amounts because most of them are with short maturities of one year 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, 2018

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
Japanese national government bonds	¥ 481,303	¥ 484,676	¥ 3,372
Total	¥ 481,303	¥ 484,676	¥ 3,372

As of June 30, 2018

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
Japanese national government bonds	¥ 450,762	¥ 453,748	¥ 2,986
Total	¥ 450,762	¥ 453,748	¥ 2,986

2. Securities available for sale:

As of March 31, 2018

(Millions of yen)

	Amortized/ Acquisition cost	Carrying amount (Fair value)	Unrealized gain (loss)
Equity securities	¥ 10,533	¥ 21,152	¥ 10,619
Domestic bonds:	184,699	182,998	(1,701)
Japanese national government bonds	23,231	23,249	18
Japanese local government bonds	2,300	2,315	15
Japanese corporate bonds	159,168	157,433	(1,735)
Other:	332,333	330,612	(1,721)
Foreign securities	328,459	326,160	(2,299)
Other	3,874	4,452	577
Total	¥ 527,567	¥ 534,763	¥ 7,196

As of June 30, 2018

(Millions of yen)

	Amortized/ Acquisition cost	Carrying amount (Fair value)	Unrealized gain (loss)
Equity securities	¥ 10,384	¥ 20,633	¥ 10,248
Domestic bonds:	215,423	214,084	(1,338)
Japanese national government bonds	61,191	61,255	63
Japanese local government bonds	2,404	2,409	5
Japanese corporate bonds	151,827	150,419	(1,408)
Other:	331,979	329,660	(2,318)
Foreign securities	327,223	324,303	(2,920)
Other	4,755	5,357	601
Total	¥ 557,787	¥ 564,378	¥ 6,591

(Note)

In the event individual securities experience a decline in fair value which is significant as compared to the acquisition cost of such securities, the securities are written down as the decline in fair value is deemed to be other than temporary, and the difference is recorded as an impairment loss.

Impairment loss on available-for-sale securities carried at fair value for the fiscal year ended March 31, 2018, was ¥0 million, which was related to foreign securities.

There was no impairment loss on available-for-sale securities carried at fair value for the three-month period ended June 30, 2018.

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

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

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

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

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

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

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

(Monetary assets held in trust)

1. There were no monetary assets held in trust held to maturity as of March 31, 2018 and June 30, 2018.

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

As of March 31, 2018

(Millions of yen)

	Acquisition cost	Carrying amount	Unrealized gain (loss)
Other monetary assets held in trust	¥ 218,191	¥ 217,668	¥ (522)

As of June 30, 2018

(Millions of yen)

	Acquisition cost	Carrying amount	Unrealized gain (loss)
Other monetary assets held in trust	¥ 239,620	¥ 238,742	¥ (878)

(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, 2018 and June 30, 2018 are adjusted for credit risk by a reduction of ¥1,399 million and ¥1,197 million, respectively, and also adjusted for liquidity risk by a reduction of ¥1,676 million and ¥1,670 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, 2018

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Future contracts	¥ 1,939	¥ 2	¥ 2
	Interest rate options	—	—	—
Over the counter	Forward contracts	—	—	—
	Interest rate swaps	10,419,620	17,177	17,177
	Interest rate swaptions	1,703,755	(1,178)	(1,987)
	Interest rate options	31,061	(60)	149
	Other	—	—	—
Total		—	¥ 15,941	¥ 15,342

(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, 2018

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Future contracts	¥ 22,461	¥ (0)	¥ (0)
	Interest rate options	—	—	—
Over the counter	Forward contracts	—	—	—
	Interest rate swaps	10,282,964	17,352	17,352
	Interest rate swaptions	1,644,387	(1,873)	(2,599)
	Interest rate options	21,799	(60)	91
	Other	—	—	—
Total		—	¥ 15,419	¥ 14,843

(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, 2018

(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	¥ 423,375	¥ 438	¥ 438
	Forward foreign exchange contracts	1,638,674	1,928	1,928
	Currency options	1,836,438	(167)	11,842
	Other	—	—	—
Total		—	¥ 2,199	¥ 14,209

(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, 2018

(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	¥ 369,025	¥ 418	¥ 418
	Forward foreign exchange contracts	1,850,860	3,146	3,146
	Currency options	1,696,851	(2,051)	9,924
	Other	—	—	—
Total		—	¥ 1,513	¥ 13,489

(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, 2018

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Equity index futures	¥ 19,318	¥ (1,110)	¥ (1,110)
	Equity index options	146,435	1,304	986
	Equity options	—	—	—
Over the counter	Equity options	25,214	3,972	2,702
	Equity index swaps	—	—	—
	Other	100	(1)	(1)
Total		—	¥ 4,164	¥ 2,576

(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, 2018

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Equity index futures	¥ 28,893	¥ (383)	¥ (383)
	Equity index options	749,339	758	601
	Equity options	—	—	—
Over the counter	Equity options	25,214	4,139	2,869
	Equity index swaps	—	—	—
	Other	—	—	—
Total		—	¥ 4,514	¥ 3,086

(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, 2018

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Bond futures	¥ 45,760	¥ (22)	¥ (22)
	Bond futures options	13,545	9	(9)
Over the counter	Bond options	—	—	—
	Other	—	—	—
Total		—	¥ (12)	¥ (31)

(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, 2018

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Bond futures	¥ 59,871	¥ 20	¥ 20
	Bond futures options	—	—	—
Over the counter	Bond options	—	—	—
	Other	—	—	—
Total		—	¥ 20	¥ 20

(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, 2018 and June 30, 2018.

(6) Credit derivatives transactions:

As of March 31, 2018

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Over the counter	Credit default options	¥ 164,550	¥ 310	¥ 310
	Other	—	—	—
Total		—	¥ 310	¥ 310

(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, 2018

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Over the counter	Credit default options	¥ 136,250	¥ 308	¥ 308
	Other	—	—	—
Total		—	¥ 308	¥ 308

(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 earnings per share ("EPS") and their calculation basis were as follows.

		June 30, 2017 (3 months)	June 30, 2018 (3 months)
(1) Basic EPS	(Yen)	¥ 42.29	¥ 35.99
(Calculation basis)			
Profit attributable to owners of the parent	(Millions of yen)	¥ 10,946	¥ 9,091
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)	¥ 10,946	¥ 9,091
Weighted average number of common shares	(Thousands)	258,839	252,605
(2) Diluted EPS	(Yen)	¥ 42.28	¥ 35.98
(Calculation basis)			
Adjustment amount of profit attributable to owners of the parent	(Millions of yen)	—	—
Increase of the number of common shares	(Thousands)	20	34

(Note) The Bank executed a 1-for-10 reverse stock split on October 1, 2017. The above EPS data is calculated as if the reverse stock split had been implemented at the beginning of the fiscal year ended March 31, 2018.