

# Quarterly Consolidated Financial Statements and Notes

For the Nine-Month Period Ended December 31, 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 December 31, 2016

(Millions of yen)

	March 31, 2016	December 31, 2016
<b>ASSETS</b>		
Cash and due from banks	¥ 1,129,213	¥ 1,405,317
Call loans and bills bought	—	1,168
Receivables under securities borrowing transactions	4,243	4,684
Other monetary claims purchased	81,763	43,956
Trading assets	336,345	249,328
Monetary assets held in trust	255,526	224,988
Securities	1,227,859	1,090,419
Loans and bills discounted	1 4,562,923	1 4,789,911
Foreign exchanges	17,024	21,907
Lease receivables and leased investment assets	211,453	193,041
Other assets	1,2 799,420	1,2 859,385
Premises and equipment	48,781	49,013
Intangible assets	3,4 48,897	3,4 48,388
Assets for retirement benefits	2,394	4,543
Deferred issuance expenses for debentures	3	1
Deferred tax assets	14,050	16,648
Customers' liabilities for acceptances and guarantees	280,620	306,861
Reserve for credit losses	(91,732)	(98,774)
[Total assets]	¥ 8,928,789	¥ 9,210,791
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities:</b>		
Deposits	¥ 5,499,992	¥ 5,520,026
Negotiable certificates of deposit	301,001	361,006
Debentures	16,740	8,179
Call money and bills sold	40,000	53,500
Payables under repurchase agreements	23,779	21,541
Payables under securities lending transactions	118,139	337,924
Trading liabilities	294,326	229,013
Borrowed money	801,742	753,617
Foreign exchanges	75	198
Short-term corporate bonds	129,400	165,900
Corporate bonds	95,121	118,600
Other liabilities	380,458	398,694
Accrued employees' bonuses	8,419	6,038
Accrued directors' bonuses	77	53
Liabilities for retirement benefits	8,791	8,946
Reserve for reimbursement of debentures	2,903	3,560
Reserve for losses on interest repayments	133,695	103,793
Deferred tax liabilities	378	4
Acceptances and guarantees	280,620	306,861
[Total liabilities]	8,135,665	8,397,462
<b>Equity:</b>		
<b>Shareholders' equity:</b>		
Common stock	512,204	512,204
Capital surplus	79,461	78,474
Retained earnings	267,716	305,176
Treasury stock, at cost	(72,559)	(77,443)
[Total shareholders' equity]	786,823	818,411
<b>Accumulated other comprehensive income:</b>		
Unrealized gain (loss) on available-for-sale securities	11,911	8,602
Deferred gain (loss) on derivatives under hedge accounting	(14,770)	(13,366)
Foreign currency translation adjustments	362	348
Defined retirement benefit plans	(2,970)	(2,689)
[Total accumulated other comprehensive income]	(5,466)	(7,105)
Stock acquisition rights	512	578
Noncontrolling interests	11,254	1,445
[Total equity]	793,124	813,329
[Total liabilities and equity]	¥ 8,928,789	¥ 9,210,791

## Quarterly Consolidated Statements of Income

Shinsei Bank, Limited, and Consolidated Subsidiaries

For the nine-month periods ended December 31, 2015 and 2016

(Millions of yen)

	December 31, 2015 ( 9 months )		December 31, 2016 ( 9 months )	
<b>ORDINARY INCOME</b>	¥ 278,958		¥ 285,210	
Interest income	104,436		104,022	
Interest on loans and bills discounted	93,675		95,323	
Interest and dividends on securities	8,918		7,138	
Fees and commissions income	35,612		36,760	
Trading income	6,634		4,435	
Other business income	1	109,951	1	118,364
Other ordinary income	2	22,324	2	21,627
<b>ORDINARY EXPENSES</b>	228,354		244,601	
Interest expenses	13,949		11,880	
Interest on deposits	6,127		5,641	
Interest on borrowings	3,618		2,606	
Interest on corporate bonds	2,570		854	
Fees and commissions expenses	15,886		17,653	
Trading losses	153		—	
Other business expenses	3	74,807	3	71,409
General and administrative expenses	4	110,985	4	113,409
Other ordinary expenses	5	12,572	5	30,248
<b>ORDINARY PROFIT</b>	50,603		40,609	
Extraordinary gains	6	1,161	6	5,402
Extraordinary losses	7	769	7	749
Income before income taxes	50,996		45,263	
Income taxes (benefit)	2,502		1,995	
Profit	48,494		43,267	
Profit (loss) attributable to noncontrolling interests	368		(129)	
<b>PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	¥ 48,125		¥ 43,397	

## Quarterly Consolidated Statements of Comprehensive Income

Shinsei Bank, Limited, and Consolidated Subsidiaries

For the nine-month periods ended December 31, 2015 and 2016

(Millions of yen)

	December 31, 2015 ( 9 months )	December 31, 2016 ( 9 months )
<b>PROFIT</b>	¥ 48,494	¥ 43,267
<b>OTHER COMPREHENSIVE INCOME</b>	(1,808)	(2,198)
Unrealized gain (loss) on available-for-sale securities	(886)	(2,027)
Deferred gain (loss) on derivatives under hedge accounting	(32)	1,404
Foreign currency translation adjustments	(184)	(2,109)
Defined retirement benefit plans	309	286
Share of other comprehensive income in affiliates	(1,014)	246
<b>COMPREHENSIVE INCOME</b>	¥ 46,685	¥ 41,068

(Breakdown)

Attributable to:

Owners of the parent	¥ 46,304	¥ 41,725
Noncontrolling interests	381	(657)

**(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 beginning of the nine-month period ended December 31, 2016, and have changed the depreciation method of facilities attached to buildings and structures which were 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 nine-month period ended December 31, 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 nine-month period ended December 31, 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”)

From the beginning of the nine-month period ended December 31, 2016, the Group has applied the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No.26, March 28, 2016).

**(Quarterly consolidated balance sheets as of March 31, 2016 and December 31, 2016)**

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

(Millions of yen)

	March 31, 2016	December 31, 2016
Loans to bankrupt obligors	¥ 4,310	¥ 4,783
Nonaccrual delinquent loans	62,352	56,483
Loans past due for three months or more	1,699	1,809
Restructured loans	26,978	30,972
Total	¥ 95,340	¥ 94,050

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

(Millions of yen)

	March 31, 2016	December 31, 2016
Credits to bankrupt obligors	¥ 117	¥ 119
Nonaccrual delinquent credits	9,937	9,614
Credits past due for three months or more	554	498
Restructured credits	319	217
Total	¥ 10,929	¥ 10,449

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	December 31, 2016
Installment receivables	¥ 516,336	¥ 534,522

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	December 31, 2016
Goodwill	¥ 22,286	¥ 19,354
Negative goodwill	4,171	3,899
Net	¥ 18,114	¥ 15,454

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	December 31, 2016
Intangible assets acquired in business combinations	¥ 4,188	¥ 2,866

**(Quarterly consolidated statements of income for the nine-month periods ended December 31, 2015 and 2016)**

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

(Millions of yen)

	December 31, 2015 (9 months)	December 31, 2016 (9 months)
Leasing revenue	¥ 67,721	¥ 61,550

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

(Millions of yen)

	December 31, 2015 (9 months)	December 31, 2016 (9 months)
Gain on sale of equity securities and others	¥ 5,496	¥ 5,183
Recoveries of written-off claims	6,865	4,043
Gain on monetary assets held in trust	6,021	3,359

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

(Millions of yen)

	December 31, 2015 (9 months)	December 31, 2016 (9 months)
Leasing cost	¥ 60,899	¥ 55,551

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

(Millions of yen)

	December 31, 2015 (9 months)	December 31, 2016 (9 months)
Amortization of goodwill	¥ 4,080	¥ 2,788
Amortization of intangible assets acquired in business combinations <sup>(Note)</sup>	1,679	1,322

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)

	December 31, 2015 (9 months)	December 31, 2016 (9 months)
Provision of reserve for credit losses	¥ 9,791	¥ 26,161

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

(Millions of yen)

	December 31, 2015 (9 months)	December 31, 2016 (9 months)
Gain on purchase of loans	¥ —	¥ 4,236
Gain on reversal of stock acquisition rights	698	—

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

(Millions of yen)

	December 31, 2015 (9 months)	December 31, 2016 (9 months)
Loss on liquidation of affiliates	¥ -	¥ 528
Impairment losses	409	46

**(Quarterly consolidated statements of cash flows for the nine-month periods ended December 31, 2015 and 2016)**

Quarterly consolidated statements of cash flows for the nine-month periods ended December 31, 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)

	December 31, 2015 (9 months)	December 31, 2016 (9 months)
Depreciation (other than leased assets as lessor)	¥ 7,744	¥ 9,797
Amortization of goodwill	4,080	2,788
Amortization of intangible assets acquired in business combinations	1,679	1,322

**(Shareholders equity)**

**Nine-month period ended December 31, 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 nine-month period ended December 31, 2015, and of which the effective date was after December 31, 2015.

**Nine-month period ended December 31, 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 nine-month period ended December 31, 2016, and of which the effective date was after December 31, 2016.

## (Segment information)

### Nine-month period ended December 31, 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:	¥ 11,949	¥ 12,581	¥ 4,882	¥ 13,234	¥ 6,674	¥ 2,205
Net interest income (loss)	7,790	8,510	3,376	(1,513)	1,368	71
Noninterest income (loss)	4,158	4,071	1,505	14,747	5,305	2,133
Expenses	8,865	3,585	3,532	6,215	2,607	2,955
Net credit costs (recoveries)	868	(13,396)	(9)	(1,045)	(88)	(271)
Segment profit (loss)	¥ 2,215	¥ 22,392	¥ 1,359	¥ 8,064	¥ 4,155	¥ (478)

(Millions of yen)

	Individual Business				Corporate/Other		Total
	Retail Banking	Consumer Finance			Treasury	Other	
		Shinsei Financial	APLUS FINANCIAL	Other			
Revenue:	¥ 20,648	¥ 44,141	¥ 39,039	¥ 1,043	¥ 7,256	¥ 727	¥ 164,382
Net interest income (loss)	16,012	45,812	4,998	853	3,212	(7)	90,486
Noninterest income (loss)	4,635	(1,670)	34,040	189	4,043	735	73,896
Expenses	24,792	23,148	27,257	584	1,272	(124)	104,691
Net credit costs (recoveries)	262	11,143	6,194	(136)	—	(2)	3,517
Segment profit (loss)	¥ (4,406)	¥ 9,850	¥ 5,588	¥ 595	¥ 5,983	¥ 854	¥ 56,173

#### (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 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. (formerly 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 nine-month period ended December 31, 2015

(Millions of yen)

Profit	Amount
Total segment profit	¥ 56,173
Amortization of goodwill acquired in business combinations	(3,974)
Amortization of intangible assets acquired in business combinations	(1,679)
Lump-sum payments	(643)
Provision for reimbursement of debentures	—
Other	727
Ordinary profit on the quarterly consolidated statement of income	¥ 50,603

**Nine-month period ended December 31, 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:	¥ 12,635	¥ 12,771	¥ 9,400	¥ 10,175	¥ 6,771	¥ 1,709
Net interest income (loss)	8,656	7,038	2,206	(935)	1,567	226
Noninterest income (loss)	3,979	5,733	7,194	11,110	5,204	1,483
Expenses	8,042	3,741	3,222	6,357	2,489	2,755
Net credit costs (recoveries)	592	3,263	(318)	(1,288)	(64)	30
Segment profit (loss)	¥ 3,999	¥ 5,766	¥ 6,497	¥ 5,106	¥ 4,346	¥ (1,076)

(Millions of yen)

	Individual Business				Corporate/Other		Total
	Retail Banking	Consumer Finance			Treasury	Other	
		Shinsei Financial	APLUS FINANCIAL	Other			
Revenue:	¥ 19,452	¥ 47,281	¥ 41,193	¥ 1,387	¥ 7,196	¥ 2,062	¥ 172,037
Net interest income (loss)	17,737	48,089	6,704	802	21	28	92,142
Noninterest income (loss)	1,715	(808)	34,488	584	7,175	2,033	79,894
Expenses	25,014	24,569	28,131	602	1,287	1,194	107,407
Net credit costs (recoveries)	(672)	14,298	6,595	313	—	201	22,952
Segment profit (loss)	¥ (4,889)	¥ 8,413	¥ 6,465	¥ 471	¥ 5,909	¥ 665	¥ 41,677

(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 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. (formerly 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 nine-month period ended December 31, 2016

(Millions of yen)

Profit	Amount
Total segment profit	¥ 41,677
Amortization of goodwill acquired in business combinations	(2,788)
Amortization of intangible assets acquired in business combinations	(1,322)
Lump-sum payments	(159)
Provision for reimbursement of debentures	(823)
Other	4,027
Ordinary profit on the quarterly consolidated statement of income	¥ 40,609

3. Changes in reportable segments

On April 1, 2016, in order to facilitate inter-Division collaboration within the Shinsei Bank Group, as well as to enhance the maneuverability of the Bank's organization, the Bank abolished the "Group" and "Sub-Group" structures and in their place has introduced a new organizational structure under which a "Division" is the basic business management unit. Also, the Bank aims to improve organizational efficiency by rebuilding the functions of each business and restructuring and retirement of Divisions. As a result, the reportable segments in the nine-month period ended December 31, 2016 have been revised as follows:

(1) Change 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.

Likewise, the "Markets Sub-Group" and the "Other Global Markets Group" have been renamed as "Markets" and "Other Global Markets," respectively. In addition, the "Treasury Sub-Group" in Corporate/Other has been renamed as "Treasury". These name changes have no impact on the segments other than their naming.

(2) Change in classification of reportable segments

The “Corporate Business” segment in the Institutional Business includes trust business, which was formerly included in the “Structured Finance” segment and business related to “New Business Promotion & Support Department,” which was formerly included in the “Principal Transactions” segment.

The “Other” segment in Corporate/Other includes operations related to financial research, which was formerly included in the “Other Global Markets Group” segment of the Global Markets Group.

As a result of these organizational changes, the classifications of reportable segments have changed and “Revenue and profit (loss) by reportable segments” for the nine-month period ended December 31, 2015, has been presented in accordance with the new classification of reportable segments.

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

In the nine-month period ended December 31, 2016, the Bank has changed the allocation method of expenses in order to evaluate performances in each segment properly; expenses incurred from the headquarters functions of the Institutional Business, which were formerly included in the “Corporate Business” segment have been allocated to each segment in the Institutional Business. In addition, the amount of profit and loss of reportable segments for the nine-month period ended December 31, 2015 is presented based on the allocation method for the nine-month period ended December 31, 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 <sup>1</sup>	¥ 80,298	¥ 82,147	¥ 1,849
(2) Trading assets			
Securities held for trading purposes	23,262	23,262	—
(3) Monetary assets held in trust <sup>1</sup>	255,255	263,084	7,828
(4) Securities <sup>2</sup>	1,180,894	1,173,351	(7,542)
(5) Loans and bills discounted <sup>3</sup>	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 <sup>1</sup>	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	514,084	24,418
(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 <sup>4</sup> :			
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 <sup>5</sup>	¥ 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 December 31, 2016 (Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
(1) Other monetary claims purchased <sup>1</sup>	¥ 43,567	¥ 44,437	¥ 869
(2) Trading assets			
Securities held for trading purposes	3,552	3,552	—
(3) Monetary assets held in trust <sup>1</sup>	224,774	230,624	5,849
(4) Securities <sup>2</sup>	1,043,527	1,032,816	(10,710)
(5) Loans and bills discounted <sup>3</sup>	4,789,911		
Reserve for credit losses	(60,715)		
Net	4,729,196	4,892,944	163,748
(6) Lease receivables and leased investment assets <sup>1</sup>	191,054	187,661	(3,393)
(7) Other assets			
Installment receivables	534,522		
Deferred gains on installment receivables	(14,806)		
Reserve for credit losses	(10,734)		
Net	508,981	537,669	28,687
(8) Deposits	5,520,026	5,521,407	(1,380)
(9) Negotiable certificates of deposit	361,006	361,006	0
(10) Debentures	8,179	8,183	(4)
(11) Trading liabilities			
Trading securities sold for short sales	2,130	2,130	—
(12) Borrowed money	753,617	754,602	(985)
(13) Short-term corporate bonds	165,900	165,884	15
(14) Corporate bonds	118,600	119,389	(789)
(15) Derivative instruments <sup>4</sup> :			
Hedge accounting is not applied	23,368	23,368	—
Hedge accounting is applied	(3,564)	(3,564)	—
Derivative instruments total	19,803	19,803	—

(Millions of yen)

	Contract amount	Fair value
Other: Guarantee contracts <sup>5</sup>	¥ 306,861	¥ 322

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> For consumer loans held by consolidated subsidiaries included in Loans and bills discounted, reserve for losses on interest repayments of ¥103,793 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.

<sup>4</sup> 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.

<sup>5</sup> Contract amount for guarantee contracts presents the amount of "Acceptances and guarantees" on

the quarterly consolidated balance sheets. Unearned guarantee fees of ¥21,511 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.

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 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 consist of the risk-free rate, credit risk and certain costs, by major product category groups.

(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 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 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 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 are approximate to 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 December 31, 2016

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
Japanese national government bonds	¥ 494,130	¥ 499,799	¥ 5,669
Other	4,408	4,661	253
Total	¥ 498,538	¥ 504,461	¥ 5,922

### 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 December 31, 2016

(Millions of yen)

	Amortized/ Acquisition cost	Carrying amount (Fair value)	Unrealized gain (loss)
Equity securities	¥12,239	¥ 24,323	¥ 12,084
Domestic bonds:	191,012	191,466	453
Japanese national government bonds	80,073	79,658	(415)
Japanese local government bonds	—	—	—
Japanese corporate bonds	110,939	111,808	868
Other	287,701	286,703	(997)
Total	¥ 490,953	¥ 502,493	¥ 11,540

(Note)

In the event individual securities experience a decline in fair value which is significant in comparison 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 losses on available-for-sale securities carried at fair value for the fiscal year ended March 31, 2016, was ¥439 million, of which ¥439 million was related to equity securities.

Impairment losses on available-for-sale securities carried at fair value for the nine-month period ended December 31, 2016, was ¥27 million, of which ¥27 million was related to equity securities.

The Group's rules to determine 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 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, 2016 and December 31, 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 December 31, 2016 (Millions of yen)

	Acquisition cost	Carrying amount	Unrealized gain (loss)
Other monetary assets held in trust	¥ 201,475	¥ 200,749	¥ (725)

### (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 December 31, 2016 are adjusted for credit risk by a reduction of ¥1,446 million and ¥1,294 million, respectively, and also adjusted for liquidity risk by a reduction of ¥1,074 million and ¥1,439 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 December 31, 2016 (Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Future contracts	¥ 1,126	¥ (2)	¥ (2)
	Interest rate options	—	—	—
Over the counter	Forward contracts	—	—	—
	Interest rate swaps	10,860,206	22,778	22,778
	Interest rate swaptions	1,868,831	(5,029)	5,220
	Interest rate options	75,719	(29)	143
	Other	—	—	—
Total		—	¥ 17,716	¥ 28,139

(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 December 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	¥ 431,791	¥ (1,543)	¥ (1,543)
	Forward foreign exchange contracts	2,130,938	12,679	12,679
	Currency options	1,485,273	(6,978)	117
	Other	—	—	—
Total		—	¥ 4,157	¥ 11,253

(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 December 31, 2016

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Equity index futures	¥ 17,286	¥ (1,118)	¥ (1,118)
	Equity index options	264,202	71	(3)
	Equity options	—	—	—
Over the counter	Equity options	37,412	5,443	3,667
	Equity index swaps	—	—	—
	Other	4,106	(66)	(66)
Total		—	¥ 4,330	¥ 2,479

(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 December 31, 2016 (Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Bond futures	¥ 65,827	¥ (273)	¥ (273)
	Bond futures options	—	—	—
Over the counter	Bond options	—	—	—
	Other	—	—	—
Total		—	¥ (273)	¥ (273)

(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 December 31, 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 December 31, 2016 (Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Over the counter	Credit default options	¥ 267,994	¥ 171	¥ 171
	Other	—	—	—
Total		—	¥ 171	¥ 171

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

## **(Business combinations)**

Business combinations under common control

(Acquisition of full ownership of a subsidiary through a share exchange)

### (1) Overview of transaction

#### (i) Names and business descriptions of the acquired company

Name of the acquired company: Showa Leasing Co., Ltd. (hereinafter, "Showa Leasing")

Business descriptions: Leasing Business

#### (ii) Date on which the business combination was effected

December 1, 2016

#### (iii) Legal form of the business combination

A share exchange that makes the Bank a wholly-owning parent company and Showa Leasing a wholly-owned subsidiary

#### (iv) Name of the company after the business combination

No change in name

#### (v) Other matters with regard to the transaction

The business combination was executed as part of the Bank's initiatives in the Third Medium-Term Management Plan. By making Showa Leasing the Bank's wholly-owned subsidiary, the Bank seeks to accelerate the achievement of the Group integration set forth in its "medium-to-long term vision" and 3rd Medium-Term Management Plan by establishing a framework that would enable rapid, flexible decision-making by the Group's management. Through this, the Bank will maximize the corporate value of the Shinsei Bank Group in order to become a financial innovator.

### (2) Overview of the accounting treatment

Based on "Accounting Standard for Business Combinations (ASBJ Statement No. 21 of September 13, 2013)" and "Guidance on Accounting Standards for Business Combinations and Business Divestitures (ASBJ Guidance No. 10 of September 13, 2013)", the Bank treated this transaction with noncontrolling shareholders as a transaction under common control.

### (3) Acquisition cost of the acquired company and a breakdown of the cost

The Bank's common shares	¥1,856 million
Acquisition cost	¥1,856 million

### (4) Share exchange ratio, method of calculating the ratio, and number of shares issued

#### (i) Share exchange ratio

One share of common stock of Showa Leasing, in exchange for 2.17 shares of common stock of the Bank

#### (ii) Method of calculation

In order to ensure fairness and reasonability in calculating the share exchange ratio under the share exchange, the Bank and Showa Leasing requested an independent third-party appraisal agency to calculate the share exchange ratio, the said agency being KPMG



FAS Co., Ltd. (hereinafter, "KPMG FAS")

KPMG FAS analyzed the value of the Bank's common shares and Showa Leasing's common shares, and calculated the share exchange ratio by considering the result of the analysis. KPMG FAS adopted the average market price analysis for the Bank's common shares and the comparable companies analysis and the discounted cash flow analysis for Showa Leasing's common shares. As a result of giving consideration to the share exchange ratio calculation result submitted from KPMG FAS, both the Bank and Showa Leasing have found the share exchange ratio set out in "(i) Share exchange ratio" above to be appropriate and not damaging to the interests of the shareholders of the two companies, and the share exchange ratio has been determined and approved through board of directors meetings of each company on September 21, 2016.

- (iii) Number of shares issued  
10,037,782 shares

**(Per share information)**

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

		December 31, 2015 (9 months)	December 31, 2016 (9 months)
(1) Basic EPS	(Yen)	¥ 18.13	¥ 16.61
(Calculation basis)			
Profit attributable to owners of the parent	(Millions of yen)	¥ 48,125	¥ 43,397
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)	¥ 48,125	¥ 43,397
Weighted average number of common shares	(Thousands)	2,653,918	2,611,937
(2) Diluted EPS	(Yen)	¥ 18.13	¥ 16.61
(Calculation basis)			
Adjustment amount of profit attributable to owners of the parent	(Millions of yen)	—	—
Increase of the number of common shares	(Thousands)	5	106

## **(Subsequent event)**

(Acquisition of treasury shares)

On January 31, 2017, 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 overall 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. Through this acquisition of treasury shares, assuming the maintenance of capital at sufficient levels, the Bank aims to increase per share values through the implementation of an appropriate capital policy.

### **(2) Details of acquisition**

#### **(i) Type of shares to be repurchased**

Common stock

#### **(ii) Number of shares to be repurchased**

(Up to) 10,000 thousand shares (0.38% of total outstanding common shares (excluding treasury shares))

#### **(iii) Total repurchase amount**

(Up to) ¥2,500 million

#### **(iv) Acquisition period**

From February 1, 2017 to July 31, 2017

#### **(v) Acquisition method**

Open market purchase