

Quarterly Consolidated Financial Statements and Notes

For the Nine-Month Period Ended December 31, 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 December 31, 2018

(Millions of yen)

	March 31, 2018	December 31, 2018
ASSETS		
Cash and due from banks	¥ 1,465,663	¥ 1,360,542
Receivables under securities borrowing transactions	2,629	1,593
Other monetary claims purchased	36,332	29,670
Trading assets	205,295	192,367
Monetary assets held in trust	234,924	274,969
Securities	1,123,522	1,118,633
Loans and bills discounted	1 4,895,963	1 4,943,448
Foreign exchanges	32,511	30,237
Lease receivables and leased investment assets	171,429	178,120
Other assets	1,2 856,213	1,2 920,160
Premises and equipment	50,261	46,064
Intangible assets	3,4 59,484	3,4 67,339
Assets for retirement benefits	13,261	14,533
Deferred tax assets	14,705	14,521
Customers' liabilities for acceptances and guarantees	395,301	441,439
Reserve for credit losses	(100,840)	(101,192)
[Total assets]	¥ 9,456,660	¥ 9,532,450
LIABILITIES AND EQUITY		
Liabilities:		
Deposits	¥ 5,628,169	¥ 5,524,892
Negotiable certificates of deposit	438,927	522,116
Debentures	423	—
Call money and bills sold	—	780
Payables under repurchase agreements	55,919	42,714
Payables under securities lending transactions	433,462	504,659
Trading liabilities	184,582	171,104
Borrowed money	739,578	688,778
Foreign exchanges	102	562
Short-term corporate bonds	175,700	212,300
Corporate bonds	85,000	92,335
Other liabilities	367,734	364,846
Accrued employees' bonuses	8,489	5,987
Accrued directors' bonuses	51	48
Liabilities for retirement benefits	8,366	8,451
Reserve for reimbursement of debentures	4,130	3,911
Reserve for losses on interest repayments	74,687	62,183
Acceptances and guarantees	395,301	441,439
[Total liabilities]	8,600,625	8,647,112
Equity:		
Shareholders' equity:		
Common stock	512,204	512,204
Capital surplus	78,506	78,506
Retained earnings	361,368	336,080
Treasury stock, at cost	(89,540)	(37,729)
[Total shareholders' equity]	862,538	889,062
Accumulated other comprehensive income:		
Unrealized gain (loss) on available-for-sale securities	5,187	7,295
Deferred gain (loss) on derivatives under hedge accounting	(14,457)	(14,318)
Foreign currency translation adjustments	(1,573)	(1,954)
Defined retirement benefit plans	2,089	2,409
[Total accumulated other comprehensive income]	(8,754)	(6,567)
Stock acquisition rights	318	99
Noncontrolling interests	1,930	2,743
[Total equity]	856,034	885,337
[Total liabilities and equity]	¥ 9,456,660	¥ 9,532,450

Quarterly Consolidated Statements of Income

Shinsei Bank, Limited, and Consolidated Subsidiaries

For the nine-month periods ended December 31, 2017 and 2018

(Millions of yen)

	December 31, 2017 (9 months)	December 31, 2018 (9 months)
ORDINARY INCOME	¥ 286,087	¥ 279,168
Interest income	111,554	116,046
Interest on loans and bills discounted	101,010	104,755
Interest and dividends on securities	9,104	9,743
Fees and commissions income	37,524	41,274
Trading income	5,762	4,060
Other business income	1 105,529	1 100,279
Other ordinary income	2 25,717	2 17,506
ORDINARY EXPENSES	245,687	233,877
Interest expenses	14,763	15,893
Interest on deposits	6,713	6,349
Interest on borrowings	2,624	2,596
Interest on corporate bonds	761	405
Fees and commissions expenses	18,739	18,270
Trading losses	—	103
Other business expenses	3 64,800	3 61,192
General and administrative expenses	4 110,706	4 109,398
Other ordinary expenses	5 36,676	5 29,018
ORDINARY PROFIT	40,400	45,291
Extraordinary gains	6 301	6 219
Extraordinary losses	7 1,147	7 532
Income before income taxes	39,553	44,978
Income taxes (benefit)	3,758	3,423
Profit	35,795	41,555
Profit (loss) attributable to noncontrolling interests	186	(16)
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 35,609	¥ 41,572

Quarterly Consolidated Statements of Comprehensive Income

Shinsei Bank, Limited, and Consolidated Subsidiaries

For the nine-month periods ended December 31, 2017 and 2018

(Millions of yen)

	December 31, 2017 (9 months)	December 31, 2018 (9 months)
PROFIT	¥ 35,795	¥ 41,555
OTHER COMPREHENSIVE INCOME	(426)	(1,661)
Unrealized gain (loss) on available-for-sale securities	(2,420)	(3,750)
Deferred gain (loss) on derivatives under hedge accounting	(110)	138
Foreign currency translation adjustments	172	(464)
Defined retirement benefit plans	454	322
Share of other comprehensive income in affiliates	1,477	2,092
COMPREHENSIVE INCOME	¥ 35,368	¥ 39,893

(Breakdown)

Attributable to:

Owners of the parent	¥ 35,204	¥ 39,879
Noncontrolling interests	164	14

Notes to Quarterly Consolidated Financial Statements

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

(Supplementary information)

(Application of IFRS 9 "Financial Instruments" in certain foreign affiliates accounted for by the equity method)

From the first quarter of the fiscal year ending March 31, 2019, certain foreign affiliates accounted for by the equity method of the Bank, have adopted IFRS 9 "Financial Instruments."

IFRS 9 sets out new requirements with regards to classification and measurement of financial instruments, impairment and hedge accounting. In accordance with the accepted transitional provisions under this standard, the Group recognized the amount of the cumulative effect of the accounting change on "Retained earnings," and "Unrealized gain (loss) on available-for-sale securities" at the beginning of the nine-month period ended December 31, 2018.

As a result, "Retained Earnings" as of April 1, 2018, decreased by ¥48 million, and "Unrealized gain (loss) on available-for-sale securities" as of April 1, 2018, increased by ¥4,307 million, respectively.

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

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

(Millions of yen)

	March 31, 2018	December 31, 2018
Loans to bankrupt obligors	¥ 5,622	¥ 5,784
Nonaccrual delinquent loans	31,178	29,982
Loans past due for three months or more	1,842	1,038
Restructured loans	36,257	40,659
Total	¥ 74,900	¥ 77,464

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

(Millions of yen)

	March 31, 2018	December 31, 2018
Credits to bankrupt obligors	¥ 48	¥ 73
Nonaccrual delinquent credits	7,244	6,215
Credits past due for three months or more	382	347
Restructured credits	98	46
Total	¥ 7,774	¥ 6,682

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	December 31, 2018
Installment receivables	¥ 558,843	¥ 563,339

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	December 31, 2018
Goodwill	¥ 15,355	¥ 13,619
Negative goodwill	3,445	3,173
Net	¥ 11,910	¥ 10,445

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	December 31, 2018
Intangible assets acquired in business combinations	¥ 1,290	¥ 749

(Quarterly consolidated statements of income for the nine-month periods ended December 31, 2017 and 2018)

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

(Millions of yen)

	December 31, 2017 (9 months)	December 31, 2018 (9 months)
Leasing revenue	¥ 56,349	¥ 51,664
Income from installment sales	¥ 25,361	¥ 25,872

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

(Millions of yen)

	December 31, 2017 (9 months)	December 31, 2018 (9 months)
Equity in net income of affiliates	¥ 4,239	¥ 5,956
Recoveries of written-off claims	¥ 5,126	¥ 5,025
Gain on sale of equity securities and others	¥ 6,363	¥ 403

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

(Millions of yen)

	December 31, 2017 (9 months)	December 31, 2018 (9 months)
Leasing cost	¥ 52,526	¥ 47,474

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

(Millions of yen)

	December 31, 2017 (9 months)	December 31, 2018 (9 months)
Amortization of goodwill	¥ 2,165	¥ 1,701
Amortization of intangible assets acquired in business combinations ^(Note)	968	541

Note: Represents amortization of intangible assets that have been recognized by applying the purchase method to the acquisitions of consolidated subsidiaries.

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

(Millions of yen)

	December 31, 2017 (9 months)	December 31, 2018 (9 months)
Provision of reserve for credit losses	¥ 33,722	¥ 25,585

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

(Millions of yen)

	December 31, 2017 (9 months)	December 31, 2018 (9 months)
Gains on unexercised and forfeited stock acquisition rights	¥ 293	¥ 218

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

(Millions of yen)

	December 31, 2017 (9 months)	December 31, 2018 (9 months)
Impairment losses	¥ 944	¥ 478

(Quarterly consolidated statements of cash flows for the nine-month periods ended December 31, 2017 and 2018)

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

	December 31, 2017 (9 months)	December 31, 2018 (9 months)
Depreciation (other than leased assets as lessor)	¥ 8,167	¥ 8,929
Amortization of goodwill	2,165	1,701
Amortization of intangible assets acquired in business combinations	968	541

(Shareholders equity)**Nine-month period ended December 31, 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 nine-month period ended December 31, 2017, and of which the effective date was after December 31, 2017.

Nine-month period ended December 31, 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 nine-month period ended December 31, 2018, and of which the effective date was after December 31, 2018.

3. Significant changes in shareholders' equity

On May 18, 2018, the Bank cancelled 16 million of treasury shares and decreased its "Retained Earnings" and "Treasury Stock, at cost" by ¥64,632 million, in accordance with the resolution of the Board of Directors meeting on May 11, 2018. Also, the Bank completed the acquisition of its treasury shares and increased its "Treasury Stock, at cost" by ¥12,999 million in accordance with that resolution for the nine-month period ended December 31, 2018. As a result, the balances of "Retained Earnings" and "Treasury Stock, at cost" as of December 31, 2018 were ¥336,080 million and ¥37,729 million, respectively.

(Segment information)**Nine-month period ended December 31, 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:	¥ 14,776	¥ 12,714	¥ 11,551	¥ 10,895	¥ 5,798	¥ 2,119
Net interest income (loss)	7,526	7,063	4,137	(95)	1,366	375
Noninterest income (loss)	7,250	5,650	7,414	10,991	4,431	1,744
Expenses	8,916	5,158	3,603	6,447	2,864	2,480
Net credit costs (recoveries)	(69)	2,287	(1,201)	2,697	(26)	42
Segment profit (loss)	¥ 5,930	¥ 5,267	¥ 9,150	¥ 1,751	¥ 2,959	¥ (403)

(Millions of yen)

	Individual Business				Corporate/Other		Total
	Retail Banking	Consumer Finance			Treasury	Other	
		Shinsei Financial	APLUS FINANCIAL	Other			
Revenue:	¥ 17,427	¥ 51,610	¥ 42,440	¥ 1,947	¥ 3,094	¥ 533	¥ 174,910
Net interest income (loss)	16,799	51,736	8,466	482	(1,062)	(5)	96,790
Noninterest income (loss)	628	(126)	33,973	1,465	4,157	539	78,120
Expenses	22,155	24,468	27,740	999	1,344	952	107,130
Net credit costs (recoveries)	115	17,565	8,481	57	—	(5)	29,944
Segment profit (loss)	¥ (4,842)	¥ 9,576	¥ 6,218	¥ 891	¥ 1,749	¥ (413)	¥ 37,835

(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.

- "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.
- "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.
- "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.
- "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 nine-month period ended December 31, 2017

(Millions of yen)

Profit	Amount
Total segment profit	¥ 37,835
Amortization of goodwill acquired in business combinations	(2,165)
Amortization of intangible assets acquired in business combinations	(968)
Lump-sum payments	(463)
Provision for reimbursement of debentures	(774)
Gains on debentures derecognized from liabilities	2,038
Gain on reversal of reserve for losses on interest repayments	3,924
Other	974
Ordinary profit on the quarterly consolidated statement of income	¥ 40,400

Nine-month period ended December 31, 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:	¥ 11,939	¥ 13,165	¥ 9,209	¥ 9,925	¥ 4,834	¥ 1,763
Net interest income (loss)	7,542	7,606	3,060	(251)	1,110	359
Noninterest income (loss)	4,396	5,559	6,148	10,176	3,723	1,403
Expenses	8,908	5,854	2,995	7,168	2,844	2,524
Net credit costs (recoveries)	2,904	(2,903)	(11)	(586)	14	64
Segment profit (loss)	¥ 126	¥ 10,214	¥ 6,225	¥ 3,343	¥ 1,975	¥ (825)

(Millions of yen)

	Individual Business				Corporate/Other		Total
	Retail Banking	Consumer Finance			Treasury	Other	
		Shinsei Financial	APLUS FINANCIAL	Other			
Revenue:	¥ 19,938	¥ 52,306	¥ 43,331	¥ 1,958	¥ 4,034	¥ 453	¥ 172,860
Net interest income (loss)	17,993	52,302	8,227	585	1,615	(0)	100,153
Noninterest income (loss)	1,944	4	35,104	1,372	2,418	453	72,707
Expenses	20,789	24,846	28,501	1,321	1,284	(423)	106,615
Net credit costs (recoveries)	(57)	10,516	10,948	231	—	3	21,125
Segment profit (loss)	¥ (793)	¥ 16,943	¥ 3,881	¥ 405	¥ 2,749	¥ 873	¥ 45,119

(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 nine-month period ended December 31, 2018

(Millions of yen)

Profit	Amount
Total segment profit	¥ 45,119
Amortization of goodwill acquired in business combinations	(1,701)
Amortization of intangible assets acquired in business combinations	(541)
Lump-sum payments	(534)
Provision for reimbursement of debentures	(122)
Gains on debentures derecognized from liabilities	321
Gain on reversal of reserve for losses on interest repayments	1,754
Other	996
Ordinary profit on the quarterly consolidated statement of income	¥ 45,291

(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 Reserve for credit losses	4,895,963 (67,160)		
Net	4,828,803	4,998,504	169,701
(6) Lease receivables and leased investment assets Estimated residual value ⁴ Reserve for credit losses	171,429 (4,971) (2,019)		
Net	164,439	168,801	4,362
(7) Other assets Installment receivables Deferred gains on installment receivables Reserve for credit losses	558,843 (11,883) (9,802)		
Net	537,158	581,827	44,669
(8) Deposits	5,628,169	5,626,728	1,441
(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	740,453	(874)
(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 Hedge accounting is applied	19,528 (1,712)	19,528 (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 December 31, 2018

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
(1) Other monetary claims purchased ¹	¥ 29,513	¥ 29,719	¥ 206
(2) Trading assets			
Securities held for trading purposes	5,284	5,284	–
(3) Monetary assets held in trust ¹	273,013	278,349	5,335
(4) Securities ²	1,069,164	1,054,026	(15,138)
(5) Loans and bills discounted ³	4,943,448		
Reserve for credit losses	(64,011)		
Net	4,879,437	5,054,445	175,008
(6) Lease receivables and leased investment assets	178,120		
Estimated residual value ⁴	(5,090)		
Reserve for credit losses	(1,506)		
Net	171,523	177,047	5,524
(7) Other assets			
Installment receivables	563,339		
Deferred gains on installment receivables	(11,336)		
Reserve for credit losses	(10,234)		
Net	541,768	594,606	52,837
(8) Deposits	5,524,892	5,522,251	2,641
(9) Negotiable certificates of deposit	522,116	522,135	(18)
(10) Debentures	–	–	–
(11) Trading liabilities			
Trading securities sold for short sales	1,595	1,595	–
(12) Borrowed money	688,778	690,145	(1,367)
(13) Short-term corporate bonds	212,300	212,300	–
(14) Corporate bonds	92,335	92,487	(152)
(15) Derivative instruments ⁵ :			
Hedge accounting is not applied	18,643	18,643	–
Hedge accounting is applied	(3,805)	(3,805)	–
Derivative instruments total	14,838	14,838	–

(Millions of yen)

	Contract amount	Fair value
Other: Guarantee contracts ⁶	¥ 441,439	¥ 6,523

- 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 ¥62,183 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 ¥22,241 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 December 31, 2018

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
Japanese national government bonds	¥ 429,718	¥ 432,677	¥ 2,958
Total	¥ 429,718	¥ 432,677	¥ 2,958

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 December 31, 2018

(Millions of yen)

	Amortized/ Acquisition cost	Carrying amount (Fair value)	Unrealized gain (loss)
Equity securities	¥ 9,262	¥ 16,789	¥ 7,526
Domestic bonds:	235,699	234,521	(1,177)
Japanese national government bonds	87,579	87,668	89
Japanese local government bonds	–	–	–
Japanese corporate bonds	148,119	146,852	(1,266)
Other:	332,590	330,876	(1,713)
Foreign securities	327,780	325,523	(2,257)
Other	4,809	5,353	543
Total	¥ 577,552	¥ 582,187	¥ 4,634

(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.

Impairment loss on available-for-sale securities carried at fair value for the nine-month period ended December 31, 2018, was ¥204 million, which was related to equity securities.

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 December 31, 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 December 31, 2018

(Millions of yen)

	Acquisition cost	Carrying amount	Unrealized gain (loss)
Other monetary assets held in trust	¥ 260,873	¥ 259,929	¥ (943)

(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 December 31, 2018 are adjusted for credit risk by a reduction of ¥1,399 million and ¥1,679 million, respectively, and also adjusted for liquidity risk by a reduction of ¥1,676 million and ¥1,884 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 December 31, 2018

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Future contracts	¥ 15,919	¥ 18	¥ 18
	Interest rate options	—	—	—
Over the counter	Forward contracts	—	—	—
	Interest rate swaps	9,986,994	17,747	17,747
	Interest rate swaptions	1,656,970	(204)	(511)
	Interest rate options	21,305	(51)	99
	Other	—	—	—
Total		—	¥ 17,510	¥ 17,354

(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 December 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	¥ 403,829	¥ (675)	¥ (675)
	Forward foreign exchange contracts	1,577,022	3,982	3,982
	Currency options	1,805,756	(1,596)	10,806
	Other	—	—	—
Total		—	¥ 1,710	¥ 14,113

(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 December 31, 2018

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Equity index futures	¥ 10,210	¥ 403	¥ 403
	Equity index options	127,738	(258)	(254)
	Equity options	—	—	—
Over the counter	Equity options	17,369	2,327	1,301
	Equity index swaps	—	—	—
	Other	735	54	54
Total		—	¥ 2,525	¥ 1,504

(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 December 31, 2018

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Bond futures	¥ 75,308	¥ 267	¥ 267
	Bond futures options	—	—	—
Over the counter	Bond options	—	—	—
	Other	—	—	—
Total		—	¥ 267	¥ 267

(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 December 31, 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 December 31, 2018

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Over the counter	Credit default options	¥ 104,750	¥ 200	¥ 200
	Other	—	—	—
Total		—	¥ 200	¥ 200

(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.

		December 31, 2017 (9 months)	December 31, 2018 (9 months)
(1) Basic EPS	(Yen)	¥ 137.57	¥ 167.32
(Calculation basis)			
Profit attributable to owners of the parent	(Millions of yen)	¥ 35,609	¥ 41,572
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)	¥ 35,609	¥ 41,572
Weighted average number of common shares	(Thousands)	258,838	248,454
(2) Diluted EPS	(Yen)	¥ 137.55	¥ 167.30
(Calculation basis)			
Adjustment amount of profit attributable to owners of the parent	(Millions of yen)	–	–
Increase of the number of common shares	(Thousands)	26	30

(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.

(Subsequent event)

(Succession of business by absorption-type company split)

Shinsei Financial Co., Ltd., a wholly-owned subsidiary of the Bank, succeeded a partial financial business relating to consumer mortgage loans from CFJ G.K. (the former DIC FINANCE CO., LTD., a group company of Citigroup Inc.) on January 15, 2019 as the effective date, pursuant to the “SALE AND PURCHASE AGREEMENT” dated on October 5, 2018 and the absorption-type company split contract dated on November 14, 2018.

(1) Transaction outline**(i) Name and business description of the divesting entity**

Name: CFJ G.K.

Divested business: A partial financial business relating to consumer mortgage loans

(ii) Purpose of the succession

Revenue growth of the Group

(iii) Date on which the business combination was effected

January 15, 2019

(iv) Legal form of the business combination

Absorption-type company split;

Successor entity: Shinsei Financial Co., Ltd.

Divested entity: CFJ G.K.

(2) Acquisition costs of the succeeded business and their breakdown

¥9,154 million in cash

(3) Primary acquisition-related costs and their breakdown

Not determined

(4) Amount, reason of the occurrence and amortization method and period of goodwill

Not determined

(5) Amounts and breakdown of succeeded assets and liabilities on the date of the business combination

Not determined