

Quarterly Consolidated Financial Statements and Notes

For the Nine-Month Period Ended December 31, 2020

*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, 2020 and December 31, 2020

(Millions of yen)

	March 31, 2020	December 31, 2020
ASSETS		
Cash and due from banks	¥ 1,614,134	¥ 1,798,195
Other monetary claims purchased	63,575	51,147
Trading assets	213,707	185,351
Monetary assets held in trust	415,107	392,148
Securities	957,040	902,246
Loans and bills discounted	1 5,110,404	1 5,183,726
Foreign exchanges	73,879	50,207
Lease receivables and leased investment assets	193,445	193,985
Other assets	1,2 1,007,605	1,2 1,161,740
Premises and equipment	69,414	64,626
Intangible assets	3,4 67,073	3,4 69,089
Assets for retirement benefits	5,683	6,063
Deferred tax assets	16,977	14,578
Customers' liabilities for acceptances and guarantees	526,520	549,563
Reserve for credit losses	(107,998)	(107,715)
[Total assets]	¥ 10,226,571	¥ 10,514,956
LIABILITIES AND EQUITY		
Liabilities:		
Deposits	¥ 5,849,211	¥ 6,022,396
Negotiable certificates of deposit	455,950	440,527
Call money and bills sold	165,000	82,404
Payables under repurchase agreements	38,956	26,908
Payables under securities lending transactions	350,407	335,070
Trading liabilities	183,943	163,415
Borrowed money	881,991	968,288
Foreign exchanges	687	2,219
Short-term corporate bonds	221,300	224,400
Corporate bonds	166,500	348,169
Other liabilities	404,973	380,179
Accrued employees' bonuses	8,560	6,130
Accrued directors' bonuses	47	34
Liabilities for retirement benefits	8,422	8,438
Reserve for directors' retirement benefits	50	18
Reserve for reimbursement of deposits	621	557
Reserve for reimbursement of debentures	3,513	3,385
Reserve for losses on interest repayments	49,308	40,780
Deferred tax liabilities	119	382
Acceptances and guarantees	526,520	549,563
[Total liabilities]	9,316,086	9,603,272
Equity:		
Shareholders' equity:		
Common stock	512,204	512,204
Capital surplus	78,506	72,961
Retained earnings	389,600	413,177
Treasury stock, at cost	(61,097)	(78,916)
[Total shareholders' equity]	919,214	919,426
Accumulated other comprehensive income:		
Unrealized gain (loss) on available-for-sale securities	4,755	7,834
Deferred gain (loss) on derivatives under hedge accounting	(15,719)	(19,446)
Foreign currency translation adjustments	(1,670)	(1,714)
Defined retirement benefit plans	(3,585)	(3,464)
[Total accumulated other comprehensive income]	(16,219)	(16,791)
Stock acquisition rights	125	147
Noncontrolling interests	7,364	8,900
[Total equity]	910,485	911,684
[Total liabilities and equity]	¥ 10,226,571	¥ 10,514,956

Quarterly Consolidated Statements of Income

Shinsei Bank, Limited, and Consolidated Subsidiaries
For the nine-month periods ended December 31, 2019 and 2020

(Millions of yen)

	December 31, 2019 (9 months)	December 31, 2020 (9 months)
ORDINARY INCOME	¥ 298,799	¥ 275,735
Interest income	115,537	101,338
Interest on loans and bills discounted	105,487	95,471
Interest and dividends on securities	7,951	4,232
Fees and commissions income	44,322	41,021
Trading income	7,542	2,067
Other business income	1 111,974	1 115,306
Other ordinary income	2 19,423	2 16,001
ORDINARY EXPENSES	249,189	244,028
Interest expenses	15,165	9,656
Interest on deposits	4,378	3,262
Interest on borrowings	2,103	2,157
Interest on corporate bonds	179	374
Fees and commissions expenses	20,177	19,335
Trading losses	—	64
Other business expenses	3 71,545	3 74,776
General and administrative expenses	4 113,106	4 112,063
Other ordinary expenses	5 29,194	5 28,133
ORDINARY PROFIT	49,609	31,706
Extraordinary gains	0	32
Extraordinary losses	6 1,009	6 325
Income before income taxes	48,600	31,413
Income taxes (benefit)	3,609	6,271
Profit	44,991	25,141
Profit (loss) attributable to noncontrolling interests	(113)	(1,041)
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 45,105	¥ 26,182

Quarterly Consolidated Statements of Comprehensive Income

Shinsei Bank, Limited, and Consolidated Subsidiaries

For the nine-month periods ended December 31, 2019 and 2020

(Millions of yen)

	December 31, 2019 (9 months)	December 31, 2020 (9 months)
PROFIT	¥ 44,991	¥ 25,141
OTHER COMPREHENSIVE INCOME	(5,697)	152
Unrealized gain (loss) on available-for-sale securities	(7,035)	3,267
Deferred gain (loss) on derivatives under hedge accounting	(671)	(3,726)
Foreign currency translation adjustments	217	(18)
Defined retirement benefit plans	(27)	120
Share of other comprehensive income in affiliates	1,819	509
COMPREHENSIVE INCOME	¥ 39,294	¥ 25,294

(Breakdown)

Attributable to:

Owners of the parent	¥ 39,488	¥ 25,355
Noncontrolling interests	(194)	(61)

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, 2020 and the reasonably estimated effective tax rate after tax effects for the fiscal year ending March 31, 2021.

(Supplementary information)

(Provisioning reserve for credit losses by the spread of the novel coronavirus (COVID-19) infection)

The Group assumes that the spread of the COVID-19 infection and the impact of weaker economic activities caused by this spread will continue for the next three months until March 31, 2021, and that the impact will remain in credit risks for loans and claims to the specific obligors for next few years. In particular, the Group assumes that the credit risk of loans and claims of the Bank and certain consolidated subsidiaries to the specific obligors and industries will be affected seriously. Also, the Group reassessed the above assumptions for loans and claims to the specific obligors as at March 31, 2020, regarding the period during which the credit risks on certain assets would be affected by the spread of the COVID-19 infection in the light of circumstances.

Based on the above reassessed assumptions, the Group revised the specific obligors and specific industries which would be affected by the spread of the COVID-19 infection in this third quarter and provisioned an additional ¥5,632 million (¥7,011 million on March 31, 2020) of reserve for credit losses in order to prepare for future losses. The reserve is recalculated by reclassifying the obligor classification of specific obligors based on their recent performance deterioration and by the expected loss rate reflecting the performance deterioration in the actual credit losses in portfolios for specific industries.

The amount of reserve for credit losses is the best estimate at this point, however, the assumption used for the estimate is highly uncertain. The reserves to be recorded in the consolidated financial statements for March 31, 2021 and the after, may therefore increase or decrease according to the COVID-19 infection and its impact on the economic environment change.

(Application of tax effect accounting for the transition from the consolidated tax system to the group tax sharing system)

Pursuant to the transitional treatment of the paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ Practical Issues Task Force (PITF) No. 39, March 31, 2020, which is prescribed after the institution of the "Act on Partial Revision of the Income Tax Act" (Act No.8 of 2020) which is the law revising nonconsolidated tax system, the Bank and certain consolidated domestic subsidiaries record the amounts of deferred tax assets and deferred tax liabilities on the related items in accordance with the provisions of the previous tax law, not applying 44 of "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28, February 16, 2018).

(Acquisition of treasury shares)

On May 13, 2020, the Bank decided to acquire its own treasury shares 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

As a part of the Bank's efforts to achieve the repayment of public funds, a resolution to undertake the acquisition of treasury shares has been approved in light of factors such as the Bank's current 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 the per share values through the implementation of an appropriate capital policy.

2. Details of acquisition

(1) Type of shares to be repurchased

Common stock

(2) Number of shares to be repurchased

(Up to) 20,500 thousand shares (8.88% of total number of common shares issued excluding treasury shares)

(3) Total repurchase amount

(Up to) ¥20,500 million

(4) Acquisition period

From May 14, 2020 to March 31, 2021

In accordance with the aforementioned resolution by the Board of Directors, the Bank has undertaken the acquisition of treasury shares as follows:

(1) Type of shares repurchased

Common stock

(2) Total Number of shares repurchased

14,706,900 shares

(3) Total amount of repurchase

¥19,176,797,700

(4) Acquisition period

From May 14, 2020 to January 31, 2021

(5) Acquisition method

Open market purchase on the Tokyo Stock Exchange

(Quarterly consolidated balance sheets as of March 31, 2020 and December 31, 2020)

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

(Millions of yen)

	March 31, 2020	December 31, 2020
Loans to bankrupt obligors	¥ 4,555	¥ 3,516
Nonaccrual delinquent loans	35,335	58,525
Loans past due for three months or more	646	758
Restructured loans	46,680	55,704
Total	¥ 87,217	¥ 118,504

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

(Millions of yen)

	March 31, 2020	December 31, 2020
Credits to bankrupt obligors	¥ 3	¥ 69
Nonaccrual delinquent credits	5,643	6,388
Credits past due for three months or more	265	215
Restructured credits	1,007	2,214
Total	¥ 6,920	¥ 8,887

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, 2020	December 31, 2020
Installment receivables	¥ 670,716	¥ 824,093

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, 2020	December 31, 2020
Goodwill	¥ 13,346	¥ 18,324
Negative goodwill	2,719	2,447
Net	¥ 10,626	¥ 15,877

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, 2020	December 31, 2020
Intangible assets acquired in business combinations	¥ 2,496	¥ 2,235

(Quarterly consolidated statements of income for the nine-month periods ended December 31, 2019 and 2020)

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

(Millions of yen)

	December 31, 2019 (9 months)	December 31, 2020 (9 months)
Leasing revenue	¥ 59,900	¥ 60,785
Income from installment sales	27,056	27,667

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

(Millions of yen)

	December 31, 2019 (9 months)	December 31, 2020 (9 months)
Recoveries of written-off claims	¥ 4,914	¥ 5,577
Equity in net income of affiliates	2,596	3,537
Gain on sale of equity securities and others	6,430	1,812

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

(Millions of yen)

	December 31, 2019 (9 months)	December 31, 2020 (9 months)
Leasing cost	¥ 54,232	¥ 55,150

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

(Millions of yen)

	December 31, 2019 (9 months)	December 31, 2020 (9 months)
Amortization of goodwill	¥ 1,595	¥ 1,664
Amortization of intangible assets acquired in business combinations ^(Note)	197	260

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, 2019 (9 months)	December 31, 2020 (9 months)
Provision of reserve for credit losses	¥ 26,903	¥ 23,532

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

(Millions of yen)

	December 31, 2019 (9 months)	December 31, 2020 (9 months)
Impairment losses	¥ 264	¥ 242
Loss on liquidation of subsidiaries	297	—
Loss on change in ownership interest ^(Note)	270	—

Note: Loss on change in ownership interest is related to disposal of affiliate's treasury stock.

(Quarterly consolidated statements of cash flows for the nine-month periods ended December 31, 2019 and 2020)

Quarterly consolidated statements of cash flows for the nine-month periods ended December 31, 2019 and 2020 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, 2019 (9 months)	December 31, 2020 (9 months)
Depreciation (other than leased assets as lessor)	¥ 10,606	¥ 10,627
Amortization of goodwill	1,595	1,664
Amortization of intangible assets acquired in business combinations	197	260

(Shareholders equity)

Nine-month period ended December 31, 2019

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 15, 2019	Common stock	¥ 2,452 million	¥ 10.00	March 31, 2019	May 30, 2019	Retained earnings

2. There was no dividend of which the record date belongs to the nine-month period ended December 31, 2019, and of which the effective date was after December 31, 2019.

Nine-month period ended December 31, 2020

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 13, 2020	Common stock	¥ 2,307 million	¥ 10.00	March 31, 2020	June 30, 2020	Retained earnings

2. There was no dividend of which the record date belongs to the nine-month period ended December 31, 2020, and of which the effective date was after December 31, 2020.

(Segment information)**Nine-month period ended December 31, 2019**

1. Revenue and profit (loss) by reportable segments

(Millions of yen)

	Institutional Business					
	Corporate Business	Structured Finance	Principal Transactions	Showa Leasing	Markets	Other Global Markets
Revenue:	¥ 15,185	¥ 14,841	¥ 8,481	¥ 10,463	¥ 7,145	¥ 3,030
Net interest income (loss)	7,926	8,869	2,766	(228)	2,068	448
Noninterest income (loss)	7,259	5,971	5,715	10,691	5,077	2,582
Expenses	9,498	6,290	3,076	7,857	2,539	2,308
Net credit costs (recoveries)	1,015	2,058	(2)	(89)	(30)	(8)
Segment profit (loss)	¥ 4,671	¥ 6,492	¥ 5,407	¥ 2,695	¥ 4,636	¥ 731

(Millions of yen)

	Individual Business				Corporate/Other		Total
	Retail Banking	Consumer Finance			Treasury	Other	
		Shinsei Financial	APLUS FINANCIAL	Other Individual			
Revenue:	¥ 21,599	¥ 51,381	¥ 43,585	¥ 933	¥ 6,052	¥ 421	¥ 183,124
Net interest income (loss)	17,924	52,128	7,408	675	383	0	100,371
Noninterest income (loss)	3,675	(746)	36,176	258	5,669	421	82,752
Expenses	20,862	25,367	28,850	1,426	1,207	1,895	111,181
Net credit costs (recoveries)	6	9,304	10,089	(60)	—	0	22,283
Segment profit (loss)	¥ 730	¥ 16,710	¥ 4,645	¥ (432)	¥ 4,845	¥ (1,474)	¥ 49,658

(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, 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 - L," the unsecured personal card loan business, as well as profit/loss of Shinsei Personal Loan Co., Ltd. "Shinsei Bank Card Loan -Lake" was renamed as "Shinsei Bank Card Loan -L" on November 28, 2019.
- "Other" under the Corporate/Other includes the 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, 2019

(Millions of yen)

Profit	Amount
Total segment profit	¥ 49,658
Amortization of goodwill	(1,595)
Amortization of intangible assets	(197)
Lump-sum payments	(127)
Gains on deposits derecognized from liabilities	577
Gain on reversal of reserve for losses on interest repayments	1,249
Other	45
Ordinary profit on the quarterly consolidated statement of income	¥ 49,609

Nine-month period ended December 31, 2020

1. Revenue and profit (loss) by reportable segments

(Millions of yen)

	Institutional Business					
	Corporate Business	Structured Finance	Principal Transactions	Showa Leasing	Markets	Other Global Markets
Revenue:	¥ 11,239	¥ 15,171	¥ 2,498	¥ 10,678	¥ 3,882	¥ 1,522
Net interest income (loss)	8,506	9,449	1,902	59	816	309
Noninterest income (loss)	2,732	5,721	596	10,619	3,066	1,213
Expenses	8,916	6,806	2,920	8,342	2,386	2,137
Net credit costs (recoveries)	(77)	4,830	145	197	—	(43)
Segment profit (loss)	¥ 2,400	¥ 3,534	¥ (567)	¥ 2,138	¥ 1,496	¥ (571)

(Millions of yen)

	Individual Business				Corporate/Other		Total
	Retail Banking	Consumer Finance			Treasury	Other	
		Shinsei Financial	APLUS FINANCIAL	Other Individual			
Revenue:	¥ 20,712	¥ 50,244	¥ 43,940	¥ 2,169	¥ (23)	¥ 152	¥ 162,189
Net interest income (loss)	18,508	50,201	6,504	829	(5,052)	(353)	91,682
Noninterest income (loss)	2,204	43	37,435	1,339	5,029	505	70,507
Expenses	21,387	24,599	28,558	1,895	1,166	727	109,844
Net credit costs (recoveries)	350	6,116	8,874	(443)	—	(4)	19,947
Segment profit (loss)	¥ (1,025)	¥ 19,528	¥ 6,507	¥ 716	¥ (1,189)	¥ (571)	¥ 32,397

(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, 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 - L," the unsecured personal card loan business, as well as profit/loss of Shinsei Personal Loan Co., Ltd.

5. "Other" under the Corporate/Other includes the accounts which are not included in our reportable segments, allocation variance of indirect expenses and elimination amount of inter-segment transactions. UDC Finance Limited (*), of which Shinsei acquired 100% of the outstanding shares in the second quarter of current fiscal year, is consolidated only in its balance sheet for the third quarter period of current fiscal year, and its revenue or profit (loss) is not included in the quarterly consolidated statement of income.

(* its third quarter closing date is the end of September.

2. Assets by reportable segments

As a result of the Shinsei's consolidation of UDC Finance Limited in the second quarter of current fiscal year, segment assets in "Other" increased by ¥230,522 million compared to the end of previous fiscal year. The relevant segment assets are provisionally calculated amounts, as the allocation of the acquisition cost has not been completed as of the end of the third quarter of current fiscal year.

3. Reconciliation between total segment profit and ordinary profit on the quarterly consolidated statement of income for the nine-month period ended December 31, 2020

(Millions of yen)

Profit	Amount
Total segment profit	¥ 32,397
Amortization of goodwill	(1,664)
Amortization of intangible assets	(260)
Lump-sum payments	(266)
Gains on deposits derecognized from liabilities	80
Gain on reversal of reserve for losses on interest repayments	968
Other	451
Ordinary profit on the quarterly consolidated statement of income	¥ 31,706

4. Impairment loss on long-lived assets or unamortized balance of goodwill by reportable segments. (Significant change in unamortized balance of goodwill)

As a result of the Shinsei's consolidation of UDC Finance Limited in the second quarter of current fiscal year, unamortized balance of goodwill of ¥6,916 million was recognized in "Other" segment. The relevant goodwill was provisionally calculated amount, as the allocation of the acquisition cost has not been completed as of the end of the third quarter of current fiscal year.

(Financial instruments)

Fair values of financial instruments as of March 31, 2020

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
(1) Other monetary claims purchased ¹	¥ 63,450	¥ 63,691	¥ 240
(2) Trading assets Securities held for trading purposes	5,533	5,533	–
(3) Monetary assets held in trust ¹	413,160	417,817	4,657
(4) Securities ²	899,132	883,421	(15,710)
(5) Loans and bills discounted ³ Reserve for credit losses	5,110,404 (71,925)		
Net	5,038,478	5,231,042	192,564
(6) Lease receivables and leased investment assets Estimated residual value ⁴ Reserve for credit losses	193,445 (6,128) (1,384)		
Net	185,932	193,897	7,965
(7) Other assets Installment receivables Deferred gains on installment receivables Reserve for credit losses	670,716 (11,443) (10,763)		
Net	648,510	709,012	60,502
(8) Deposits	5,849,211	5,847,831	1,379
(9) Negotiable certificates of deposit	455,950	456,012	(62)
(10) Borrowed money	881,991	882,211	(220)
(11) Short-term corporate bonds	221,300	221,300	–
(12) Corporate bonds	166,500	165,928	571
(13) Derivative instruments ⁵ : Hedge accounting is not applied Hedge accounting is applied	11,859 (1,165)	11,859 (1,165)	– –
Derivative instruments total	10,693	10,693	–

(Millions of yen)

	Contract amount	Fair value
Other: Guarantee contracts ⁶	¥ 526,520	¥ 12,759

- 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 ¥49,308 million was recognized for estimated losses on reimbursements of excess interest payments, which included the reserve for losses on interest repayments that has 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 consolidated balance sheets.

Fair values of financial instruments as of December 31, 2020

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
(1) Other monetary claims purchased ¹	¥ 51,034	¥ 51,322	¥ 287
(2) Trading assets			
Securities held for trading purposes	5,654	5,654	–
(3) Monetary assets held in trust ¹	389,432	393,622	4,190
(4) Securities ²	842,605	844,601	1,996
(5) Loans and bills discounted ³	5,183,726		
Reserve for credit losses	(67,977)		
Net	5,115,749	5,292,627	176,877
(6) Lease receivables and leased investment assets	193,985		
Estimated residual value ⁴	(6,357)		
Reserve for credit losses	(1,235)		
Net	186,391	194,809	8,418
(7) Other assets			
Installment receivables	824,093		
Deferred gains on installment receivables	(12,944)		
Reserve for credit losses	(11,394)		
Net	799,754	864,124	64,369
(8) Deposits	6,022,396	6,020,319	2,076
(9) Negotiable certificates of deposit	440,527	440,662	(135)
(10) Borrowed money	968,288	968,957	(668)
(11) Short-term corporate bonds	224,400	224,400	–
(12) Corporate bonds	348,169	348,093	75
(13) Derivative instruments ⁵ :			
Hedge accounting is not applied	11,092	11,092	–
Hedge accounting is applied	6,782	6,782	–
Derivative instruments total	17,875	17,875	–

(Millions of yen)

	Contract amount	Fair value
Other: Guarantee contracts ⁶	¥ 549,563	¥ 18,729

1. 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.
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 ¥40,780 million was recognized for estimated losses on reimbursements of excess interest payments, which included the reserve for losses on interest repayments that has a possibility of being appropriated for loan principal in the future.
4. 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.
5. 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.
6. Contract amount for guarantee contracts presents the amount of “Acceptances and guarantees” on the quarterly consolidated balance sheets.

(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 matching 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 spread etc. corresponding to the 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 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 maturities of six months or less are approximate to carrying amounts because of their short term maturities.

The fair values of time deposits and negotiable certificates of deposit 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 contracts with the same terms at the consolidated balance sheet date.

(10) 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.

(11) 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.

(12) Corporate bonds

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

The fair values of nonmarketable corporate bonds with floating interest rates are determined by discounting expected cash flows on forward rates, at the funding rates. 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.

(13) 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, 2020

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
Japanese national government bonds	¥ 277,173	¥ 278,770	¥ 1,596
Total	¥ 277,173	¥ 278,770	¥ 1,596

As of December 31, 2020

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
Japanese national government bonds	¥ 185,846	¥ 186,718	¥ 871
Total	¥ 185,846	¥ 186,718	¥ 871

2. Securities available for sale:

As of March 31, 2020

(Millions of yen)

	Amortized/ Acquisition cost	Carrying amount (Fair value)	Unrealized gain (loss)
Equity securities	¥ 6,749	¥ 10,653	¥ 3,904
Domestic bonds:	253,214	252,118	(1,096)
Japanese national government bonds	83,783	83,418	(364)
Japanese local government bonds	–	–	–
Japanese corporate bonds	169,430	168,699	(731)
Other:	335,404	334,018	(1,385)
Foreign securities	303,156	301,236	(1,920)
Other	32,247	32,782	535
Total	¥ 595,367	¥ 596,790	¥ 1,422

As of December 31, 2020

(Millions of yen)

	Amortized/ Acquisition cost	Carrying amount (Fair value)	Unrealized gain (loss)
Equity securities	¥ 6,535	¥ 12,639	¥ 6,104
Domestic bonds:	296,949	294,820	(2,129)
Japanese national government bonds	132,163	131,670	(493)
Japanese local government bonds	–	–	–
Japanese corporate bonds	164,786	163,149	(1,636)
Other:	310,028	311,183	1,154
Foreign securities	287,405	288,261	855
Other	22,623	22,922	298
Total	¥ 613,513	¥ 618,643	¥ 5,129

(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, 2020, was ¥1,083 million, which consisted of ¥660 million for equity securities and ¥422 million for Japanese corporate bonds.

Impairment loss on available-for-sale securities carried at fair value for the nine-month period ended December 31, 2020, was ¥110 million, which was related to Japanese corporate bonds.

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, 2020 and December 31, 2020.

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

As of March 31, 2020

(Millions of yen)

	Acquisition cost	Carrying amount	Unrealized gain (loss)
Other monetary assets held in trust	¥ 406,663	¥ 405,811	¥ (851)

As of December 31, 2020

(Millions of yen)

	Acquisition cost	Carrying amount	Unrealized gain (loss)
Other monetary assets held in trust	¥ 384,929	¥ 382,068	¥ (2,861)

(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, 2020 and December 31, 2020 are adjusted for credit risk by a reduction of ¥1,843 million and ¥1,801 million, respectively, and also adjusted for liquidity risk by a reduction of ¥1,918 million and ¥1,720 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, 2020

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Future contracts	¥ 48,240	¥ 75	¥ 75
	Interest rate options	—	—	—
Over the counter	Forward contracts	—	—	—
	Interest rate swaps	10,294,302	20,152	20,152
	Interest rate swaptions	1,389,714	(591)	(750)
	Interest rate options	31,360	(28)	148
	Other	—	—	—
Total		—	¥ 19,608	¥ 19,626

(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, 2020

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Future contracts	¥ 11,884	¥ 26	¥ 26
	Interest rate options	—	—	—
Over the counter	Forward contracts	—	—	—
	Interest rate swaps	10,032,127	14,508	14,508
	Interest rate swaptions	1,029,477	2,606	2,902
	Interest rate options	37,486	67	196
	Other	—	—	—
Total		—	¥ 17,209	¥ 17,633

(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, October 8, 2020 of the JICPA are excluded from the table above.

(2) Currency-related transactions:

As of March 31, 2020

(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	¥ 523,007	¥ 6,516	¥ 6,516
	Forward foreign exchange contracts	2,080,579	(6,119)	(6,119)
	Currency options	1,544,952	(5,507)	6,373
	Other	—	—	—
Total		—	¥ (5,110)	¥ 6,770

(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, 2020

(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	¥ 538,339	¥ 997	¥ 997
	Forward foreign exchange contracts	1,650,315	(2,776)	(2,776)
	Currency options	1,573,980	(1,554)	8,781
	Other	—	—	—
Total		—	¥ (3,333)	¥ 7,002

(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, October 8, 2020 of the JICPA are excluded from the table above.

(3) Equity-related transactions:

As of March 31, 2020

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Equity index futures	¥ 1,599	¥ (190)	¥ (190)
	Equity index options	19,297	(72)	(310)
	Equity options	—	—	—
Over the counter	Equity options	5,972	634	738
	Equity index swaps	—	—	—
	Other	—	—	—
Total		—	¥ 371	¥ 237

(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, 2020

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Equity index futures	¥ 283	¥ (4)	¥ (4)
	Equity index options	—	—	—
	Equity options	—	—	—
Over the counter	Equity options	—	—	—
	Equity index swaps	—	—	—
	Other	—	—	—
Total		—	¥ (4)	¥ (4)

(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, 2020

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Bond futures	¥ 25,271	¥ (96)	¥ (96)
	Bond futures options	—	—	—
Over the counter	Bond options	—	—	—
	Other	—	—	—
Total		—	¥ (96)	¥ (96)

(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, 2020

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Bond futures	¥ 45,314	¥ (26)	¥ (26)
	Bond futures options	—	—	—
Over the counter	Bond options	—	—	—
	Other	—	—	—
Total		—	¥ (26)	¥ (26)

(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, 2020 and December 31, 2020.

(6) Credit derivatives transactions:

As of March 31, 2020

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Over the counter	Credit default options	¥ 78,000	¥ 847	¥ 847
	Other	—	—	—
Total		—	¥ 847	¥ 847

(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, 2020

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Over the counter	Credit default options	¥ 70,000	¥ 770	¥ 770
	Other	—	—	—
Total		—	¥ 770	¥ 770

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

(Business Combination)

(TRANSACTIONS UNDER COMMON CONTROL)

(Demand for share cash-out)

At the board of directors' meeting dated October 30, 2020, the Bank resolved to demand that noncontrolling shareholders of APLUS FINANCIAL Co., Ltd. (hereinafter, "the Target Company") sell all of the shares to the Bank (hereinafter referred to as the "Demand for Share Cash-Out") and notified the Target Company of that on the same date. Following this notice, the Target Company resolved to approve the Demand for Share Cash-out at a board of directors' meeting of the Target Company, which was held on the same date, and the Target Company became a wholly owned subsidiary of the Group on December 1, 2020.

On December 11, 2020, Shinsei Financial Co., Ltd. distributed the shares of Target Company to the Bank as a dividend-in-kind. As a result, the Target Company became the wholly owned subsidiary of the Bank.

1. Outline of the transaction

(1) Name and business description of the acquired company:

Name of acquired company: APLUS FINANCIAL Co., Ltd.

Description of business : Operating Holding company, which is not only controlling its subsidiaries but also is operating finance business by itself

(2) Date of the business combination:

December 1, 2020

(3) Legal form of the business combination:

Acquisition of shares from noncontrolling shareholders with cash consideration

(4) Name of the company after the business combination:

A change of the company name is not planned.

(5) Other matters concerning outline of the trans

The ration of the voting rights of the shares of the Target Company to be additionally acquired by the Bank through the Demand for Share Cash-Out is 5.1%, and the Target Company became a wholly owned subsidiary of the Bank on December 1, 2020, effective date of the Demand for Share Cash-Out. As a result, the shares of Target Company were delisted from the First Section of the Tokyo Stock Exchange on November 27, 2020.

This transaction aims to allow us to optimize our group-based resources, as well as enable us to focus our decision-making towards further promoting our Medium-Term Strategies and also to achieve a higher level of corporate governance throughout our group headquarters, which was established in the Group in 2017.

2. Outline of the accounting treatment

Our Group treated the business combination as a transaction with noncontrolling interest in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and "Guidance on Accounting Standard for business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, January 16, 2019).

3. Matters concerning the additional purchase of the subsidiary's shares

The acquisition cost and the breakdown by type of consideration

<u>Consideration for acquisition</u>	<u>Cash</u>	<u>¥6,624 million</u>
Acquisition cost		¥6,624 million

(Per share information)

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

		December 31, 2019 (9 months)	December 31, 2020 (9 months)
(1) Basic EPS	(Yen)	¥ 187.00	¥ 116.13
(Calculation basis)			
Profit attributable to owners of the parent	(Millions of yen)	¥ 45,105	¥ 26,182
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)	¥ 45,105	¥ 26,182
Weighted average number of common shares	(Thousands)	241,200	225,454
(2) Diluted EPS	(Yen)	¥ 186.96	¥ 116.10
(Calculation basis)			
Adjustment amount of profit attributable to owners of the parent	(Millions of yen)	–	–
Increase of the number of common shares	(Thousands)	43	62