

Quarterly Consolidated Financial Statements and Notes

For the Nine-Month Period Ended December 31, 2019

*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, 2019 and December 31, 2019

(Millions of yen)

	March 31, 2019	December 31, 2019
ASSETS		
Cash and due from banks	¥ 1,355,966	¥ 1,452,891
Receivables under securities borrowing transactions	2,119	1,009
Other monetary claims purchased	30,994	70,226
Trading assets	204,415	183,226
Monetary assets held in trust	305,879	428,887
Securities	1,130,286	981,060
Loans and bills discounted	1 4,986,839	1 5,119,777
Foreign exchanges	29,546	50,363
Lease receivables and leased investment assets	176,553	193,840
Other assets	1,2 851,287	1,2 1,062,069
Premises and equipment	45,341	69,484
Intangible assets	3,4 67,189	3,4 66,447
Assets for retirement benefits	10,931	11,398
Deferred tax assets	15,096	13,840
Customers' liabilities for acceptances and guarantees	456,759	507,080
Reserve for credit losses	(98,034)	(98,097)
[Total assets]	¥ 9,571,172	¥ 10,113,507
LIABILITIES AND EQUITY		
Liabilities:		
Deposits	¥ 5,351,564	¥ 5,763,971
Negotiable certificates of deposit	570,580	466,932
Call money and bills sold	145,000	290,000
Payables under repurchase agreements	59,098	36,468
Payables under securities lending transactions	510,229	430,871
Trading liabilities	182,363	163,916
Borrowed money	684,077	692,510
Foreign exchanges	471	922
Short-term corporate bonds	191,000	274,400
Corporate bonds	92,335	116,500
Other liabilities	347,383	376,734
Accrued employees' bonuses	8,598	5,990
Accrued directors' bonuses	44	46
Liabilities for retirement benefits	8,232	8,364
Reserve for directors' retirement benefits	—	48
Reserve for reimbursement of debentures	3,764	3,527
Reserve for losses on interest repayments	63,025	53,301
Deferred tax liabilities	—	233
Acceptances and guarantees	456,759	507,080
[Total liabilities]	8,674,529	9,191,820
Equity:		
Shareholders' equity:		
Common stock	512,204	512,204
Capital surplus	78,506	78,506
Retained earnings	346,562	389,131
Treasury stock, at cost	(37,729)	(52,597)
[Total shareholders' equity]	899,544	927,245
Accumulated other comprehensive income:		
Unrealized gain (loss) on available-for-sale securities	10,041	4,832
Deferred gain (loss) on derivatives under hedge accounting	(16,391)	(17,062)
Foreign currency translation adjustments	(1,527)	(1,203)
Defined retirement benefit plans	378	347
[Total accumulated other comprehensive income]	(7,500)	(13,086)
Stock acquisition rights	99	125
Noncontrolling interests	4,498	7,402
[Total equity]	896,642	921,686
[Total liabilities and equity]	¥ 9,571,172	¥ 10,113,507

Quarterly Consolidated Statements of Income

Shinsei Bank, Limited, and Consolidated Subsidiaries

For the nine-month periods ended December 31, 2018 and 2019

(Millions of yen)

	December 31, 2018 (9 months)	December 31, 2019 (9 months)
ORDINARY INCOME	¥ 279,168	¥ 298,799
Interest income	116,046	115,537
Interest on loans and bills discounted	104,755	105,487
Interest and dividends on securities	9,743	7,951
Fees and commissions income	41,274	44,322
Trading income	4,060	7,542
Other business income	1 100,279	1 111,974
Other ordinary income	2 17,506	2 19,423
ORDINARY EXPENSES	233,877	249,189
Interest expenses	15,893	15,165
Interest on deposits	6,349	4,378
Interest on borrowings	2,596	2,103
Interest on corporate bonds	405	179
Fees and commissions expenses	18,270	20,177
Trading losses	103	–
Other business expenses	3 61,192	3 71,545
General and administrative expenses	4 109,398	4 113,106
Other ordinary expenses	5 29,018	5 29,194
ORDINARY PROFIT	45,291	49,609
Extraordinary gains	6 219	0
Extraordinary losses	7 532	7 1,009
Income before income taxes	44,978	48,600
Income taxes (benefit)	3,423	3,609
Profit	41,555	44,991
Profit (loss) attributable to noncontrolling interests	(16)	(113)
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 41,572	¥ 45,105

Quarterly Consolidated Statements of Comprehensive Income

Shinsei Bank, Limited, and Consolidated Subsidiaries

For the nine-month periods ended December 31, 2018 and 2019

(Millions of yen)

	December 31, 2018 (9 months)	December 31, 2019 (9 months)
PROFIT	¥ 41,555	¥ 44,991
OTHER COMPREHENSIVE INCOME	(1,661)	(5,697)
Unrealized gain (loss) on available-for-sale securities	(3,750)	(7,035)
Deferred gain (loss) on derivatives under hedge accounting	138	(671)
Foreign currency translation adjustments	(464)	217
Defined retirement benefit plans	322	(27)
Share of other comprehensive income in affiliates	2,092	1,819
COMPREHENSIVE INCOME	¥ 39,893	¥ 39,294

(Breakdown)

Attributable to:

Owners of the parent	¥ 39,879	¥ 39,488
Noncontrolling interests	14	(194)

(Change in accounting policy)

("Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method")
(ASBJ Practical Issues Task Force (PITF) No. 24, September 14, 2018)

The Group has applied this accounting standard from the beginning of the first quarter of the current fiscal year. This accounting standard revises mainly the part of the consolidation process for foreign affiliates which are accounted for by the equity method. According to this accounting standard, when the affiliates have adopted IFRS 9, "Financial Instruments," and have elected to present as other comprehensive income for the subsequent changes in the fair value of investments in equity instruments, the amount equivalent to gains or losses on sales or impairment losses should be reclassified from other comprehensive income to profit and loss for the period when those instruments are disposed of or impaired unless it is extremely difficult to obtain the information necessary for the reclassification.

This accounting change had no effect on profit and loss in the 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, 2019 and the reasonably estimated effective tax rate after tax effects for the fiscal year ending March 31, 2020.

(Additional information)

(Acquisition of treasury shares)

On May 15, 2019, 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 part of the Bank's efforts to repay public funds, a resolution to acquire 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) Total number of shares to be repurchased

(Up to) 23,500 thousand shares (9.58% of total number of common shares issued, excluding treasury shares)

(3) Total repurchase amount

(Up to) ¥23,500 million

(4) Acquisition period

From May 16, 2019 to March 31, 2020

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

11,764,500 shares

(3) Total amount of repurchase

¥19,082,839,600

(4) Acquisition period

From May 16, 2019 to January 31, 2020

(5) Acquisition method

Open market purchase on the Tokyo Stock Exchange

(Quarterly consolidated balance sheets as of March 31, 2019 and December 31, 2019)

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

(Millions of yen)

	March 31, 2019	December 31, 2019
Loans to bankrupt obligors	¥ 4,836	¥ 4,550
Nonaccrual delinquent loans	28,383	31,390
Loans past due for three months or more	880	940
Restructured loans	43,458	45,710
Total	¥ 77,558	¥ 82,591

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

(Millions of yen)

	March 31, 2019	December 31, 2019
Credits to bankrupt obligors	¥ 0	¥ 5
Nonaccrual delinquent credits	5,957	5,208
Credits past due for three months or more	823	309
Restructured credits	212	857
Total	¥ 6,993	¥ 6,381

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, 2019	December 31, 2019
Installment receivables	¥ 562,236	¥ 653,956

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, 2019	December 31, 2019
Goodwill	¥ 14,072	¥ 13,757
Negative goodwill	3,082	2,810
Net	¥ 10,989	¥ 10,946

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, 2019	December 31, 2019
Intangible assets acquired in business combinations	¥ 690	¥ 2,590

(Quarterly consolidated statements of income for the nine-month periods ended December 31, 2018 and 2019)

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

(Millions of yen)

	December 31, 2018 (9 months)	December 31, 2019 (9 months)
Leasing revenue	¥ 51,664	¥ 59,900
Income from installment sales	25,872	27,056

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

(Millions of yen)

	December 31, 2018 (9 months)	December 31, 2019 (9 months)
Gain on sale of equity securities and others	¥ 403	¥ 6,430
Recoveries of written-off claims	5,025	4,914
Equity in net income of affiliates	5,956	2,596

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

(Millions of yen)

	December 31, 2018 (9 months)	December 31, 2019 (9 months)
Leasing cost	¥ 47,474	¥ 54,232

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

(Millions of yen)

	December 31, 2018 (9 months)	December 31, 2019 (9 months)
Amortization of goodwill	¥ 1,701	¥ 1,595
Amortization of intangible assets acquired in business combinations ^(Note)	541	197

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, 2018 (9 months)	December 31, 2019 (9 months)
Provision of reserve for credit losses	¥ 25,585	¥ 26,903

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

(Millions of yen)

	December 31, 2018 (9 months)	December 31, 2019 (9 months)
Gains on unexercised and forfeited stock acquisition rights	¥ 218	¥ -

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

(Millions of yen)

	December 31, 2018 (9 months)	December 31, 2019 (9 months)
Loss on liquidation of subsidiaries	¥ -	¥ 297
Loss on change in ownership interest ^(Note)	-	270
Impairment losses	478	264

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, 2018 and 2019)

Quarterly consolidated statements of cash flows for the nine-month periods ended December 31, 2018 and 2019 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, 2018 (9 months)	December 31, 2019 (9 months)
Depreciation (other than leased assets as lessor)	¥ 8,929	¥ 10,606
Amortization of goodwill	1,701	1,595
Amortization of intangible assets acquired in business combinations	541	197

(Shareholders equity)

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.

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.

(Segment information)**Nine-month period ended December 31, 2018**

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:	¥ 11,939	¥ 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 Individual			
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	20,750	24,846	28,501	1,326	1,284	(389)	106,615
Net credit costs (recoveries)	(57)	10,516	10,948	231	—	3	21,125
Segment profit (loss)	¥ (754)	¥ 16,943	¥ 3,881	¥ 400	¥ 2,749	¥ 838	¥ 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.

- "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 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	(1,701)
Amortization of intangible assets	(541)
Lump-sum payments	(534)
Provision for reimbursement of debentures	(122)
Gains on debentures derecognized from liabilities	321
Gains on deposits derecognized from liabilities	540
Gain on reversal of reserve for losses on interest repayments	1,754
Other	455
Ordinary profit on the quarterly consolidated statement of income	¥ 45,291

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.
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. "Shinsei Bank Card Loan -Lake" was renamed as "Shinsei Bank Card Loan -L" on November 28, 2019.
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, 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)
Provision for reimbursement of debentures	-
Gains on debentures derecognized from liabilities	-
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

3. Changes in reportable segments

The overview of the changes in names of reporting segment and classification method resulting from the revision in the organizational structure is shown below

(1)The changes in names of reportable segments

“Other Global Markets Business” was renamed as “Other Global Markets”. Also, “Others” in Individual Business was renamed as “Other Individual.” These changes in segment names have no impact on the segment information

(2)Changes in classification of reportable segments

The Group established the Business Unit targeting institutional and individual customers respectively as of April 1, 2019, in order to integrate operation of the Group businesses by customer segments. The Individual and Institutional Business Unit are responsible for developing business strategies of the individual and institutional businesses of the entire Shinsei Bank Group and for planning and implementing management resource allocation based on the strategies.

Accordingly, we have revised the reportable segments from the beginning of the fiscal year ending March 31, 2020, as follows.

We reorganized four groups of businesses; Institutional Business, Global Markets Business, Individual Business and Corporate/Other into three groups of businesses; Institutional Business, Individual Business and Corporate/Other. The Institutional Business includes “Markets” and “Other Global Markets” segments, which were formerly included in the Global Markets Business.

Also, due to the establishment of the Individual Business Unit in the “Other Individual” segment of the Individual Business, the “Other Individual” segment includes the business related to the Individual Business Unit, which was formerly included in the “Retail Banking” segment in the Individual Business.

“REVENUE, PROFIT (LOSS), AND OTHER ITEMS BY REPORTABLE SEGMENTS” for the nine-month period ended December 31, 2018 was presented based on the new classification of reportable segments.

(Financial instruments)

Fair values of financial instruments as of March 31, 2019

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
(1) Other monetary claims purchased ¹	¥ 30,841	¥ 31,141	¥ 300
(2) Trading assets Securities held for trading purposes	3,445	3,445	–
(3) Monetary assets held in trust ¹	304,039	309,452	5,412
(4) Securities ²	1,081,110	1,070,806	(10,303)
(5) Loans and bills discounted ³ Reserve for credit losses	4,986,839 (63,890)		
Net	4,922,948	5,114,537	191,588
(6) Lease receivables and leased investment assets Estimated residual value ⁴ Reserve for credit losses	176,553 (4,952) (1,487)		
Net	170,114	176,338	6,224
(7) Other assets Installment receivables Deferred gains on installment receivables Reserve for credit losses	562,236 (11,246) (9,962)		
Net	541,027	594,686	53,659
(8) Deposits	5,351,564	5,349,058	2,505
(9) Negotiable certificates of deposit	570,580	570,633	(52)
(10) Trading liabilities Trading securities sold for short sales	2,124	2,124	–
(11) Borrowed money	684,077	684,028	49
(12) Short-term corporate bonds	191,000	191,000	–
(13) Corporate bonds	92,335	92,373	(38)
(14) Derivative instruments ⁵ : Hedge accounting is not applied Hedge accounting is applied	22,481 (9,356)	22,481 (9,356)	– –
Derivative instruments total	13,125	13,125	–

(Millions of yen)

	Contract amount	Fair value
Other: Guarantee contracts ⁶	¥ 456,759	¥ 8,792

- 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 ¥63,025 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.

Fair values of financial instruments as of December 31, 2019

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
(1) Other monetary claims purchased ¹	¥ 70,094	¥ 70,343	¥ 249
(2) Trading assets			
Securities held for trading purposes	477	477	–
(3) Monetary assets held in trust ¹	428,065	431,187	3,122
(4) Securities ²	925,106	913,732	(11,373)
(5) Loans and bills discounted ³	5,119,777		
Reserve for credit losses	(64,965)		
Net	5,054,812	5,254,847	200,035
(6) Lease receivables and leased investment assets	193,840		
Estimated residual value ⁴	(5,798)		
Reserve for credit losses	(1,181)		
Net	186,860	194,454	7,593
(7) Other assets			
Installment receivables	653,956		
Deferred gains on installment receivables	(11,236)		
Reserve for credit losses	(10,193)		
Net	632,526	691,098	58,572
(8) Deposits	5,763,971	5,761,041	2,929
(9) Negotiable certificates of deposit	466,932	466,879	53
(10) Trading liabilities			
Trading securities sold for short sales	1,012	1,012	–
(11) Borrowed money	692,510	692,287	223
(12) Short-term corporate bonds	274,400	274,400	–
(13) Corporate bonds	116,500	116,342	157
(14) Derivative instruments ⁵ :			
Hedge accounting is not applied	19,454	19,454	–
Hedge accounting is applied	(5,622)	(5,622)	–
Derivative instruments total	13,831	13,831	–

(Millions of yen)

	Contract amount	Fair value
Other: Guarantee contracts ⁶	¥ 507,080	¥ 13,236

- 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 ¥53,301 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.

(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 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 maturities.

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) Trading liabilities

The fair values are measured at market prices.

(11) 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.

(12) 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.

(13) 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.

(14) 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, 2019

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
Japanese national government bonds	¥ 399,201	¥ 402,406	¥ 3,204
Total	¥ 399,201	¥ 402,406	¥ 3,204

As of December 31, 2019

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
Japanese national government bonds	¥ 307,680	¥ 309,466	¥ 1,785
Total	¥ 307,680	¥ 309,466	¥ 1,785

2. Securities available for sale:

As of March 31, 2019

(Millions of yen)

	Amortized/ Acquisition cost	Carrying amount (Fair value)	Unrealized gain (loss)
Equity securities	¥ 9,194	¥ 17,367	¥ 8,172
Domestic bonds:	273,729	273,535	(194)
Japanese national government bonds	101,496	102,386	889
Japanese local government bonds	–	–	–
Japanese corporate bonds	172,232	171,148	(1,084)
Other:	332,302	333,660	1,358
Foreign securities	331,234	332,677	1,443
Other	1,068	982	(85)
Total	¥ 615,226	¥ 624,563	¥ 9,336

As of December 31, 2019

(Millions of yen)

	Amortized/ Acquisition cost	Carrying amount (Fair value)	Unrealized gain (loss)
Equity securities	¥ 7,638	¥ 14,044	¥ 6,405
Domestic bonds:	257,330	254,977	(2,353)
Japanese national government bonds	86,679	86,215	(464)
Japanese local government bonds	–	–	–
Japanese corporate bonds	170,650	168,761	(1,889)
Other:	326,920	326,394	(526)
Foreign securities	289,920	288,916	(1,004)
Other	36,999	37,478	478
Total	¥ 591,889	¥ 595,415	¥ 3,526

(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, 2019, was ¥636 million, which consisted of ¥186 million for equity securities, ¥449 million for Japanese corporate bonds and ¥0 million for foreign securities.

Impairment loss on available-for-sale securities carried at fair value for the nine-month period ended December 31, 2019, was ¥116 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, 2019 and December 31, 2019.

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

As of March 31, 2019

(Millions of yen)

	Acquisition cost	Carrying amount	Unrealized gain (loss)
Other monetary assets held in trust	¥ 294,432	¥ 293,325	¥ (1,106)

As of December 31, 2019

(Millions of yen)

	Acquisition cost	Carrying amount	Unrealized gain (loss)
Other monetary assets held in trust	¥ 420,906	¥ 418,719	¥ (2,186)

(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, 2019 and December 31, 2019 are adjusted for credit risk by a reduction of ¥1,427 million and ¥2,088 million, respectively, and also adjusted for liquidity risk by a reduction of ¥1,766 million and ¥1,627 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, 2019

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Future contracts	¥ 16,299	¥ 34	¥ 34
	Interest rate options	—	—	—
Over the counter	Forward contracts	—	—	—
	Interest rate swaps	10,279,129	21,350	21,350
	Interest rate swaptions	1,587,911	(2,529)	(2,765)
	Interest rate options	21,312	(43)	107
	Other	—	—	—
Total		—	¥ 18,812	¥ 18,727

(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, 2019

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Future contracts	¥ 45,050	¥ 33	¥ 33
	Interest rate options	—	—	—
Over the counter	Forward contracts	—	—	—
	Interest rate swaps	10,057,289	17,626	17,626
	Interest rate swaptions	1,342,530	1,577	1,341
	Interest rate options	28,973	(38)	145
	Other	—	—	—
Total		—	¥ 19,199	¥ 19,147

(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, 2019

(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	¥ 386,172	¥ 1,000	¥ 1,000
	Forward foreign exchange contracts	1,781,570	5,725	5,725
	Currency options	1,690,832	(2,962)	9,840
	Other	—	—	—
Total		—	¥ 3,763	¥ 16,566

(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, 2019

(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	¥ 530,581	¥ 2,086	¥ 2,086
	Forward foreign exchange contracts	1,713,084	4,202	4,202
	Currency options	1,634,239	(3,656)	8,576
	Other	—	—	—
Total		—	¥ 2,632	¥ 14,864

(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, 2019

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Equity index futures	¥ 9,212	¥ 156	¥ 156
	Equity index options	127,116	(154)	(152)
	Equity options	—	—	—
Over the counter	Equity options	17,369	2,574	1,549
	Equity index swaps	—	—	—
	Other	735	18	18
Total		—	¥ 2,594	¥ 1,571

(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, 2019

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Equity index futures	¥ 3,468	¥ 13	¥ 13
	Equity index options	23,283	(607)	(871)
	Equity options	—	—	—
Over the counter	Equity options	5,972	1,065	1,169
	Equity index swaps	—	—	—
	Other	—	—	—
Total		—	¥ 471	¥ 311

(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, 2019

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Bond futures	¥ 48,935	¥ 263	¥ 263
	Bond futures options	—	—	—
Over the counter	Bond options	—	—	—
	Other	—	—	—
Total		—	¥ 263	¥ 263

(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, 2019

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Bond futures	¥ 42,508	¥ (1)	¥ (1)
	Bond futures options	—	—	—
Over the counter	Bond options	—	—	—
	Other	—	—	—
Total		—	¥ (1)	¥ (1)

(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, 2019 and December 31, 2019.

(6) Credit derivatives transactions:

As of March 31, 2019

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Over the counter	Credit default options	¥ 92,000	¥ 241	¥ 241
	Other	—	—	—
Total		—	¥ 241	¥ 241

(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, 2019

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Over the counter	Credit default options	¥ 82,500	¥ 868	¥ 868
	Other	—	—	—
Total		—	¥ 868	¥ 868

(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, 2018 (9 months)	December 31, 2019 (9 months)
(1) Basic EPS	(Yen)	¥ 167.32	¥ 187.00
(Calculation basis)			
Profit attributable to owners of the parent	(Millions of yen)	¥ 41,572	¥ 45,105
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)	¥ 41,572	¥ 45,105
Weighted average number of common shares	(Thousands)	248,454	241,200
(2) Diluted EPS	(Yen)	¥ 167.30	¥ 186.96
(Calculation basis)			
Adjustment amount of profit attributable to owners of the parent	(Millions of yen)	—	—
Increase of the number of common shares	(Thousands)	30	43