

# Quarterly Consolidated Financial Statements and Notes

For the Three-Month Period Ended June 30, 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 June 30, 2019

(Millions of yen)

	March 31, 2019	June 30, 2019
<b>ASSETS</b>		
Cash and due from banks	¥ 1,355,966	¥ 1,373,405
Receivables under securities borrowing transactions	2,119	2,147
Other monetary claims purchased	30,994	74,807
Trading assets	204,415	234,811
Monetary assets held in trust	305,879	314,057
Securities	1,130,286	1,065,785
Loans and bills discounted	1 4,986,839	1 4,921,199
Foreign exchanges	29,546	32,299
Lease receivables and leased investment assets	176,553	175,260
Other assets	1,2 851,287	1,2 937,934
Premises and equipment	45,341	44,923
Intangible assets	3,4 67,189	3,4 66,507
Assets for retirement benefits	10,931	11,081
Deferred tax assets	15,096	13,722
Customers' liabilities for acceptances and guarantees	456,759	481,428
Reserve for credit losses	(98,034)	(95,285)
[Total assets]	¥ 9,571,172	¥ 9,654,087
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities:</b>		
Deposits	¥ 5,351,564	¥ 5,394,456
Negotiable certificates of deposit	570,580	505,184
Call money and bills sold	145,000	274,854
Payables under repurchase agreements	59,098	33,554
Payables under securities lending transactions	510,229	454,314
Trading liabilities	182,363	193,235
Borrowed money	684,077	644,937
Foreign exchanges	471	912
Short-term corporate bonds	191,000	238,000
Corporate bonds	92,335	82,335
Other liabilities	347,383	373,183
Accrued employees' bonuses	8,598	2,433
Accrued directors' bonuses	44	15
Liabilities for retirement benefits	8,232	8,207
Reserve for reimbursement of debentures	3,764	3,690
Reserve for losses on interest repayments	63,025	60,269
Acceptances and guarantees	456,759	481,428
[Total liabilities]	8,674,529	8,751,012
<b>Equity:</b>		
<b>Shareholders' equity:</b>		
Common stock	512,204	512,204
Capital surplus	78,506	78,506
Retained earnings	346,562	356,196
Treasury stock, at cost	(37,729)	(40,929)
[Total shareholders' equity]	899,544	905,978
<b>Accumulated other comprehensive income:</b>		
Unrealized gain (loss) on available-for-sale securities	10,041	11,424
Deferred gain (loss) on derivatives under hedge accounting	(16,391)	(17,113)
Foreign currency translation adjustments	(1,527)	(2,752)
Defined retirement benefit plans	378	407
[Total accumulated other comprehensive income]	(7,500)	(8,034)
Stock acquisition rights	99	125
Noncontrolling interests	4,498	5,006
[Total equity]	896,642	903,074
[Total liabilities and equity]	¥ 9,571,172	¥ 9,654,087

## Quarterly Consolidated Statements of Income

Shinsei Bank, Limited, and Consolidated Subsidiaries

For the three-month periods ended June 30, 2018 and 2019

(Millions of yen)

	June 30, 2018 ( 3 months )	June 30, 2019 ( 3 months )
<b>ORDINARY INCOME</b>	¥ 91,791	¥ 91,545
Interest income	38,577	38,349
Interest on loans and bills discounted	34,624	35,039
Interest and dividends on securities	3,411	2,603
Fees and commissions income	12,743	15,076
Trading income	991	2,295
Other business income	1 34,991	1 32,425
Other ordinary income	2 4,488	2 3,398
<b>ORDINARY EXPENSES</b>	81,191	75,799
Interest expenses	5,116	4,960
Interest on deposits	2,108	1,290
Interest on borrowings	896	686
Interest on corporate bonds	172	59
Fees and commissions expenses	6,163	7,357
Trading losses	292	—
Other business expenses	3 20,366	3 19,603
General and administrative expenses	4 35,802	4 36,894
Other ordinary expenses	5 13,449	5 6,983
<b>ORDINARY PROFIT</b>	10,600	15,746
Extraordinary gains	6 216	0
Extraordinary losses	7 227	7 433
Income before income taxes	10,588	15,312
Income taxes (benefit)	1,560	3,221
Profit	9,028	12,091
Loss attributable to noncontrolling interests	(63)	(61)
<b>PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	¥ 9,091	¥ 12,153

## Quarterly Consolidated Statements of Comprehensive Income

Shinsei Bank, Limited, and Consolidated Subsidiaries

For the three-month periods ended June 30, 2018 and 2019

(Millions of yen)

	June 30, 2018 ( 3 months )	June 30, 2019 ( 3 months )
<b>PROFIT</b>	¥ 9,028	¥ 12,091
<b>OTHER COMPREHENSIVE INCOME</b>	(2,321)	(619)
Unrealized gain (loss) on available-for-sale securities	(2,585)	1,061
Deferred gain (loss) on derivatives under hedge accounting	36	(721)
Foreign currency translation adjustments	(503)	(132)
Defined retirement benefit plans	107	30
Share of other comprehensive income in affiliates	623	(856)
<b>COMPREHENSIVE INCOME</b>	¥ 6,707	¥ 11,472

(Breakdown)

Attributable to:

Owners of the parent	¥ 6,719	¥ 11,594
Noncontrolling interests	(12)	(121)

## Notes to Quarterly Consolidated Financial Statements

### (Change in accounting policy)

(Application of the "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 applies this accounting standard from the beginning of the first quarter of the current fiscal year. This accounting standard was revised mainly in 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 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 recycled from other comprehensive income to profit and loss, for the period in which those instruments are disposed and impaired.

There was no effect of this accounting change on profit and loss in the interim 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 three-month period ended June 30, 2019 and the reasonably estimated effective tax rate after tax effects for the fiscal year ending March 31, 2020.

### (Supplementary 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 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) 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  
3,071,400 shares
- (3) Total amount of repurchase  
4,999,903,900 yen
- (4) Acquisition period  
From May 16, 2019 to July 31, 2019
- (5) Acquisition method  
Open market purchase on the Tokyo Stock Exchange

**(Quarterly consolidated balance sheets as of March 31, 2019 and June 30, 2019)**

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

(Millions of yen)

	March 31, 2019	June 30, 2019
Loans to bankrupt obligors	¥ 4,836	¥ 4,884
Nonaccrual delinquent loans	28,383	27,046
Loans past due for three months or more	880	978
Restructured loans	43,458	43,601
Total	¥ 77,558	¥ 76,511

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

(Millions of yen)

	March 31, 2019	June 30, 2019
Credits to bankrupt obligors	¥ 0	¥ 471
Nonaccrual delinquent credits	5,957	5,636
Credits past due for three months or more	823	314
Restructured credits	212	219
Total	¥ 6,993	¥ 6,641

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	June 30, 2019
Installment receivables	¥ 562,236	¥ 566,929

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	June 30, 2019
Goodwill	¥ 14,072	¥ 14,426
Negative goodwill	3,082	2,991
Net	¥ 10,989	¥ 11,434

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	June 30, 2019
Intangible assets acquired in business combinations	¥ 690	¥ 639

**(Quarterly consolidated statements of income for the three-month periods ended June 30, 2018 and 2019)**

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

(Millions of yen)

	June 30, 2018 (3 months)	June 30, 2019 (3 months)
Leasing revenue	¥ 17,574	¥ 17,920
Income from installment sales	8,470	8,761

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

(Millions of yen)

	June 30, 2018 (3 months)	June 30, 2019 (3 months)
Recoveries of written-off claims	¥ 1,477	¥ 1,606
Gain on monetary assets held in trust	570	691
Equity in net income of affiliates	1,593	666

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

(Millions of yen)

	June 30, 2018 (3 months)	June 30, 2019 (3 months)
Leasing cost	¥ 16,090	¥ 16,182

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

(Millions of yen)

	June 30, 2018 (3 months)	June 30, 2019 (3 months)
Amortization of goodwill	¥ 610	¥ 510
Amortization of intangible assets acquired in business combinations <sup>(Note)</sup>	239	50

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)

	June 30, 2018 (3 months)	June 30, 2019 (3 months)
Provision of reserve for credit losses	¥ 12,244	¥ 6,575

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

(Millions of yen)

	June 30, 2018 (3 months)	June 30, 2019 (3 months)
Gains on unexercised and forfeited stock acquisition rights	¥ 215	¥ —

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

(Millions of yen)

	June 30, 2018 (3 months)	June 30, 2019 (3 months)
Loss on change in ownership interest <sup>(Note)</sup>	¥ —	¥ 270
Impairment losses	212	148

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

**(Quarterly consolidated statements of cash flows for the three-month periods ended June 30, 2018 and 2019)**

Quarterly consolidated statements of cash flows for the three-month periods ended June 30, 2018 and 2019 have not been presented. Depreciation, including amortization of intangible assets other than those acquired in business combinations, and amortization of goodwill and intangible assets acquired in business combinations were as follows.

(Millions of yen)

	June 30, 2018 (3 months)	June 30, 2019 (3 months)
Depreciation (other than leased assets as lessor)	¥ 2,572	¥ 3,502
Amortization of goodwill	610	510
Amortization of intangible assets acquired in business combinations	239	50

**(Shareholders equity)****Three-month period ended June 30, 2018**

## 1. Dividends paid

(Resolution)	Type of shares	Total amount	Per share amount	Record date	Effective date	Source of dividend
The Board of Directors meeting on May 11, 2018	Common stock	¥ 2,528 million	¥ 10.00	March 31, 2018	May 31, 2018	Retained earnings

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

## 3. Significant changes in shareholders' equity

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

**Three-month period ended June 30, 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 three-month period ended June 30, 2019, and of which the effective date was after June 30, 2019.

**(Segment information)****Three-month period ended June 30, 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:	¥ 3,620	¥ 3,557	¥ 3,555	¥ 3,827	¥ 1,318	¥ 689
Net interest income (loss)	2,572	2,473	1,165	(43)	386	117
Noninterest income (loss)	1,048	1,083	2,390	3,871	931	572
Expenses	3,012	1,932	953	2,352	954	820
Net credit costs (recoveries)	(33)	1,911	130	(740)	(3)	(15)
Segment profit (loss)	¥ 641	¥ (287)	¥ 2,472	¥ 2,215	¥ 367	¥ (115)

(Millions of yen)

	Individual Business				Corporate/Other		Total
	Retail Banking	Consumer Finance			Treasury	Other	
		Shinsei Financial	APLUS FINANCIAL	Other Individual			
Revenue:	¥ 6,395	¥ 17,536	¥ 14,239	¥ 528	¥ 1,471	¥ 164	¥ 56,904
Net interest income (loss)	5,898	17,511	2,820	174	383	(0)	33,460
Noninterest income (loss)	496	24	11,418	353	1,087	164	23,443
Expenses	6,959	8,249	8,972	428	427	(253)	34,810
Net credit costs (recoveries)	(1)	4,665	4,804	68	—	0	10,787
Segment profit (loss)	¥ (562)	¥ 4,620	¥ 462	¥ 31	¥ 1,044	¥ 417	¥ 11,306

## (Notes)

1. "Revenue," which represents gross operating profit under our management reporting, is presented as a substitute for sales in other industries. "Revenue" is defined as the total of net interest income, net fees and commissions, net trading income, net other business income, net gain or loss on monetary assets held in trust and equity related transactions on the management reporting basis. "Revenue" represents income and related cost attributable to core businesses.

Interest on inter-segment transactions is calculated using an inter-office rate. Indirect expense is allocated, based on the predefined rule, to each reportable segment according to the budget which is set at the beginning of fiscal year.

- "Expenses" are general and administrative expenses deducting amortization of goodwill and intangible assets acquired in business combinations, amortization of actuarial gains or losses of retirement benefit cost and lump-sum payments.
- "Net credit costs (recoveries)" consists of provision/reversal of reserve for credit losses, losses on write-off/sales of loans and recoveries of written-off claims.
- "Shinsei Financial" includes profit/loss on "Shinsei Bank Card Loan - Lake," the unsecured personal card loan business, as well as profit/loss of Shinsei Personal Loan Co., Ltd.
- "Other" under the Corporate/Other includes company-wide accounts which are not included in our reportable segments, allocation variance of indirect expenses and elimination amount of inter-segment transactions.

2. Reconciliation between total segment profit and ordinary profit on the quarterly consolidated statement of income for the three-month period ended June 30, 2018

(Millions of yen)

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

Three-month period ended June 30, 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:	¥ 3,804	¥ 4,439	¥ 926	¥ 3,103	¥ 2,081	¥ 895
Net interest income (loss)	2,571	2,753	459	(47)	732	135
Noninterest income (loss)	1,232	1,686	466	3,151	1,349	760
Expenses	3,195	2,078	1,030	2,300	851	785
Net credit costs (recoveries)	216	(1,827)	(49)	(470)	(20)	12
Segment profit (loss)	¥ 392	¥ 4,188	¥ (55)	¥ 1,273	¥ 1,250	¥ 98

(Millions of yen)

	Individual Business				Corporate/Other		Total
	Retail Banking	Consumer Finance			Treasury	Other	
		Shinsei Financial	APLUS FINANCIAL	Other Individual			
Revenue:	¥ 7,059	¥ 16,901	¥ 14,188	¥ 306	¥ 3,676	¥ 134	¥ 57,518
Net interest income (loss)	6,035	17,174	2,414	235	923	0	33,388
Noninterest income (loss)	1,024	(272)	11,773	71	2,752	134	24,130
Expenses	6,587	8,356	9,486	484	400	651	36,208
Net credit costs (recoveries)	109	3,469	3,546	1	—	0	4,989
Segment profit (loss)	¥ 362	¥ 5,074	¥ 1,155	¥ (179)	¥ 3,275	¥ (517)	¥ 16,320

(Notes)

1. "Revenue," which represents gross operating profit under our management reporting, is presented as a substitute for sales in other industries. "Revenue" is defined as the total of net interest income, net fees and commissions, net trading income, net other business income, net gain or loss on monetary assets held in trust and equity related transactions on the management reporting basis. "Revenue" represents income and related cost attributable to core businesses.

Interest on inter-segment transactions is calculated using an inter-office rate. Indirect expense is allocated, based on the predefined rule, to each reportable segment according to the budget which is set at the beginning of fiscal year.

2. "Expenses" are general and administrative expenses deducting amortization of goodwill and intangible assets acquired in business combinations, amortization of actuarial gains or losses of retirement benefit cost and lump-sum payments.

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

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

5. "Other" under the Corporate/Other includes company-wide accounts which are not included in our reportable segments, allocation variance of indirect expenses and elimination amount of inter-segment transactions.

2. Reconciliation between total segment profit and ordinary profit on the quarterly consolidated statement of income for the three-month period ended June 30, 2019

(Millions of yen)

Profit	Amount
Total segment profit	¥ 16,320
Amortization of goodwill acquired in business combinations	(510)
Amortization of intangible assets acquired in business combinations	(50)
Lump-sum payments	(122)
Provision for reimbursement of debentures	-
Gains on debentures derecognized from liabilities	-
Other	110
Ordinary profit on the quarterly consolidated statement of income	¥ 15,746

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

As 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 —” for the three-month period ended June 30, 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 <sup>1</sup>	¥ 30,841	¥ 31,141	¥ 300
(2) Trading assets			
Securities held for trading purposes	3,445	3,445	–
Other monetary claims purchased for trading purposes	–	–	–
(3) Monetary assets held in trust <sup>1</sup>	304,039	309,452	5,412
(4) Securities <sup>2</sup>	1,081,110	1,070,806	(10,303)
(5) Loans and bills discounted <sup>3</sup>	4,986,839		
Reserve for credit losses	(63,890)		
Net	4,922,948	5,114,537	191,588
(6) Lease receivables and leased investment assets	176,553		
Estimated residual value <sup>4</sup>	(4,952)		
Reserve for credit losses	(1,487)		
Net	170,114	176,338	6,224
(7) Other assets			
Installment receivables	562,236		
Deferred gains on installment receivables	(11,246)		
Reserve for credit losses	(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 <sup>5</sup> :			
Hedge accounting is not applied	22,481	22,481	–
Hedge accounting is applied	(9,356)	(9,356)	–
Derivative instruments total	13,125	13,125	–

(Millions of yen)

	Contract amount	Fair value
Other: Guarantee contracts <sup>6</sup>	¥ 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 June 30, 2019

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
(1) Other monetary claims purchased <sup>1</sup>	¥ 74,678	¥ 74,949	¥ 271
(2) Trading assets			
Securities held for trading purposes	5,446	5,446	–
Other monetary claims purchased for trading purposes	16,185	16,185	–
(3) Monetary assets held in trust <sup>1</sup>	313,154	318,024	4,870
(4) Securities <sup>2</sup>	1,014,323	1,009,251	(5,072)
(5) Loans and bills discounted <sup>3</sup>	4,921,199		
Reserve for credit losses	(62,796)		
Net	4,858,403	5,059,822	201,419
(6) Lease receivables and leased investment assets	175,260		
Estimated residual value <sup>4</sup>	(4,937)		
Reserve for credit losses	(1,275)		
Net	169,047	174,632	5,585
(7) Other assets			
Installment receivables	566,929		
Deferred gains on installment receivables	(11,221)		
Reserve for credit losses	(9,784)		
Net	545,924	601,240	55,316
(8) Deposits	5,394,456	5,393,381	1,075
(9) Negotiable certificates of deposit	505,184	505,256	(72)
(10) Trading liabilities			
Trading securities sold for short sales	2,143	2,143	–
(11) Borrowed money	644,937	645,758	(821)
(12) Short-term corporate bonds	238,000	238,000	–
(13) Corporate bonds	82,335	82,508	(173)
(14) Derivative instruments <sup>5</sup> :			
Hedge accounting is not applied	22,286	22,286	–
Hedge accounting is applied	1,095	1,095	–
Derivative instruments total	23,381	23,381	–

(Millions of yen)

	Contract amount	Fair value
Other: Guarantee contracts <sup>6</sup>	¥ 481,428	¥ 10,668

- 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 ¥60,269 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 criteria, summing up the cash flows from the interest rate swaps), using the risk-free rate adjusted to account for credit risk (after consideration of collateral) with CDS spreads etc. corresponding to internal credit rating of each borrower. The fair values of housing loans are determined by discounting expected cash flows at the rates that consist of the risk free rate and spread that would be applied for the new housing loans with the same terms at the consolidated balance sheet date. The fair values of consumer loans are determined by discounting expected cash flows that reflect expected loss at the rates that consist of the risk-free rate and certain costs, by a group of similar product types and customer segments.

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

(6) Lease receivables and leased investment assets

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

(7) Installment receivables

The fair values are primarily determined by discounting expected cash flows that reflect the probability of prepayment at the rates that consist of the risk-free rate, credit risk and certain costs, by major product category groups.

(8) Deposits and (9) Negotiable certificates of deposit

The fair values of demand deposits, such as current deposits and ordinary deposits are recognized as the payment amount at the consolidated balance sheet date. The fair values of the deposits with maturity of six months or less are approximate to carrying amounts because of their short term maturity.

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

(10) 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.

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

(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.

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

(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 June 30, 2019

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
Japanese national government bonds	¥ 368,693	¥ 371,910	¥ 3,216
Total	¥ 368,693	¥ 371,910	¥ 3,216

## 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 June 30, 2019

(Millions of yen)

	Amortized/ Acquisition cost	Carrying amount (Fair value)	Unrealized gain (loss)
Equity securities	¥ 9,084	¥ 17,580	¥ 8,496
Domestic bonds:	280,501	280,973	472
Japanese national government bonds	106,957	108,166	1,208
Japanese local government bonds	–	–	–
Japanese corporate bonds	173,543	172,807	(735)
Other:	334,309	335,708	1,398
Foreign securities	287,786	289,295	1,509
Other	46,523	46,413	(110)
Total	¥ 623,895	¥ 634,262	¥ 10,367

(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 three-month period ended June 30, 2019, was ¥110 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 June 30, 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 June 30, 2019

(Millions of yen)

	Acquisition cost	Carrying amount	Unrealized gain (loss)
Other monetary assets held in trust	¥ 303,143	¥ 302,353	¥ (789)

**(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 June 30, 2019 are adjusted for credit risk by a reduction of ¥1,427 million and ¥1,457 million, respectively, and also adjusted for liquidity risk by a reduction of ¥1,766 million and ¥1,547 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 June 30, 2019

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Future contracts	¥ 22,455	¥ 34	¥ 34
	Interest rate options	—	—	—
Over the counter	Forward contracts	—	—	—
	Interest rate swaps	10,234,625	22,822	22,822
	Interest rate swaptions	1,462,833	(3,168)	(3,388)
	Interest rate options	20,837	(43)	105
	Other	—	—	—
Total		—	¥ 19,645	¥ 19,575

(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 June 30, 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	¥ 376,450	¥ 1,200	¥ 1,200
	Forward foreign exchange contracts	1,454,602	2,076	2,076
	Currency options	1,677,864	(893)	10,861
	Other	—	—	—
Total		—	¥ 2,383	¥ 14,137

(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 June 30, 2019

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Equity index futures	¥ 9,510	¥ 140	¥ 140
	Equity index options	127,538	(145)	(143)
	Equity options	—	—	—
Over the counter	Equity options	17,369	2,585	1,560
	Equity index swaps	—	—	—
	Other	735	13	13
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.

(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 June 30, 2019

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Bond futures	¥ 44,278	¥ 218	¥ 218
	Bond futures options	—	—	—
Over the counter	Bond options	—	—	—
	Other	—	—	—
Total		—	¥ 218	¥ 218

(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 June 30, 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 June 30, 2019

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Over the counter	Credit default options	¥ 76,750	¥ 448	¥ 448
	Other	—	—	—
Total		—	¥ 448	¥ 448

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

**(Per share information)**

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

		June 30, 2018 (3 months)	June 30, 2019 (3 months)
(1) Basic EPS	(Yen)	¥ 35.99	¥ 49.65
(Calculation basis)			
Profit attributable to owners of the parent	(Millions of yen)	¥ 9,091	¥ 12,153
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)	¥ 9,091	¥ 12,153
Weighted average number of common shares	(Thousands)	252,605	244,773
(2) Diluted EPS	(Yen)	¥ 35.98	¥ 49.64
(Calculation basis)			
Adjustment amount of profit attributable to owners of the parent	(Millions of yen)	–	–
Increase of the number of common shares	(Thousands)	34	35

**(Subsequent events)**

(Acquisition of shares of SHINKO LEASE CO., LTD.)

On April 23, 2019, Showa Leasing Co., Ltd., a subsidiary of the Bank, concluded the share purchase agreement with Mitsubishi UFJ Lease & Finance Company Limited, the former parent company of SHINKO LEASE CO., LTD. Showa Leasing Co., Ltd. purchased the shares of SHINKO LEASE CO., LTD. on July 1, 2019 as the settlement date. As a result, Showa Leasing Co., Ltd. obtained control of SHINKO LEASE CO., LTD.

1. Outline of the business combination

- (1) Name and business description of the acquired company  
Name: SHINKO LEASE CO., LTD.  
Business description: General leasing business
- (2) Purpose of the acquisition  
For revenue growth of the Group.
- (3) Date on which the business combination was effected  
July 1, 2019
- (4) Legal form of the business combination  
Acquisition of shares with cash consideration
- (5) Company name after the business combination  
A change of the company name is not planned.
- (6) Percentage of voting rights acquired  
80%
- (7) Basis for determination of the acquiring company  
Showa Leasing Co., Ltd., acquired the shares by cash.

2. Outline of the business combination

Not disclosed by agreement with Mitsubishi UFJ Lease & Finance Company Limited

3. Major acquisition-related costs and their breakdown

Not determined

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

Not determined

5. Amounts and breakdown of assets and liabilities on the date of the business combination

These amounts are in the process of being calculated.