

Quarterly Consolidated Financial Statements and Notes

For the Nine-Month Period Ended December 31, 2017

*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, 2017 and December 31, 2017

(Millions of yen)

	March 31, 2017	December 31, 2017
ASSETS		
Cash and due from banks	¥ 1,398,691	¥ 1,444,830
Call loans and bills bought	4,472	–
Receivables under securities borrowing transactions	1,625	2,520
Other monetary claims purchased	44,243	33,416
Trading assets	244,113	211,996
Monetary assets held in trust	241,681	241,557
Securities	1,014,635	1,156,309
Loans and bills discounted	1 4,833,452	1 4,944,133
Foreign exchanges	19,617	30,678
Lease receivables and leased investment assets	191,488	174,530
Other assets	1,2 895,158	1,2 836,204
Premises and equipment	47,980	53,424
Intangible assets	3,4 52,020	3,4 57,705
Assets for retirement benefits	7,075	9,268
Deferred issuance expenses for debentures	0	–
Deferred tax assets	15,542	15,114
Customers' liabilities for acceptances and guarantees	346,675	383,976
Reserve for credit losses	(100,154)	(99,856)
[Total assets]	¥ 9,258,324	¥ 9,495,812
LIABILITIES AND EQUITY		
Liabilities:		
Deposits	¥ 5,489,248	¥ 5,685,811
Negotiable certificates of deposit	373,673	418,396
Debentures	6,561	1,764
Call money and bills sold	53,600	–
Payables under repurchase agreements	36,467	59,141
Payables under securities lending transactions	337,952	418,916
Trading liabilities	212,241	192,127
Borrowed money	789,670	754,483
Foreign exchanges	102	89
Short-term corporate bonds	168,000	171,600
Corporate bonds	112,600	88,000
Other liabilities	388,307	368,678
Accrued employees' bonuses	8,519	6,068
Accrued directors' bonuses	75	40
Liabilities for retirement benefits	8,256	8,562
Reserve for reimbursement of debentures	3,737	3,786
Reserve for losses on interest repayments	101,846	80,429
Acceptances and guarantees	346,675	383,976
[Total liabilities]	8,437,537	8,641,875
Equity:		
Shareholders' equity:		
Common stock	512,204	512,204
Capital surplus	78,506	78,506
Retained earnings	312,538	345,559
Treasury stock, at cost	(79,539)	(79,540)
[Total shareholders' equity]	823,710	856,729
Accumulated other comprehensive income:		
Unrealized gain (loss) on available-for-sale securities	10,299	8,715
Deferred gain (loss) on derivatives under hedge accounting	(13,925)	(14,035)
Foreign currency translation adjustments	199	1,028
Defined retirement benefit plans	(1,344)	(883)
[Total accumulated other comprehensive income]	(4,770)	(5,175)
Stock acquisition rights	584	327
Noncontrolling interests	1,262	2,055
[Total equity]	820,786	853,936
[Total liabilities and equity]	¥ 9,258,324	¥ 9,495,812

Quarterly Consolidated Statements of Income

Shinsei Bank, Limited, and Consolidated Subsidiaries

For the nine-month periods ended December 31, 2016 and 2017

(Millions of yen)

	December 31, 2016 (9 months)	December 31, 2017 (9 months)
ORDINARY INCOME	¥ 285,210	¥ 286,087
Interest income	104,022	111,554
Interest on loans and bills discounted	95,323	101,010
Interest and dividends on securities	7,138	9,104
Fees and commissions income	36,760	37,524
Trading income	4,435	5,762
Other business income	1 118,364	1 105,529
Other ordinary income	2 21,627	2 25,717
ORDINARY EXPENSES	244,601	245,687
Interest expenses	11,880	14,763
Interest on deposits	5,641	6,713
Interest on borrowings	2,606	2,624
Interest on corporate bonds	854	761
Fees and commissions expenses	17,653	18,739
Other business expenses	3 71,409	3 64,800
General and administrative expenses	4 113,409	4 110,706
Other ordinary expenses	5 30,248	5 36,676
ORDINARY PROFIT	40,609	40,400
Extraordinary gains	6 5,402	6 301
Extraordinary losses	7 749	7 1,147
Income before income taxes	45,263	39,553
Income taxes (benefit)	1,995	3,758
Profit	43,267	35,795
Profit (loss) attributable to noncontrolling interests	(129)	186
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 43,397	¥ 35,609

Quarterly Consolidated Statements of Comprehensive Income

Shinsei Bank, Limited, and Consolidated Subsidiaries

For the nine-month periods ended December 31, 2016 and 2017

(Millions of yen)

	December 31, 2016 (9 months)	December 31, 2017 (9 months)
PROFIT	¥ 43,267	¥ 35,795
OTHER COMPREHENSIVE INCOME	(2,198)	(426)
Unrealized gain (loss) on available-for-sale securities	(2,027)	(2,420)
Deferred gain (loss) on derivatives under hedge accounting	1,404	(110)
Foreign currency translation adjustments	(2,109)	172
Defined retirement benefit plans	286	454
Share of other comprehensive income in affiliates	246	1,477
COMPREHENSIVE INCOME	¥ 41,068	¥ 35,368

(Breakdown)

Attributable to:

Owners of the parent	¥ 41,725	¥ 35,204
Noncontrolling interests	(657)	164

Notes to Quarterly Consolidated Financial Statements

(Accounting method specific to quarterly consolidated financial statements)

(1) Income taxes

Income taxes (benefit) are calculated based on income before income taxes for the nine-month period ended December 31, 2017 and the reasonably estimated effective tax rate for the fiscal year ending March 31, 2018.

(Quarterly consolidated balance sheets as of March 31, 2017 and December 31, 2017)

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

(Millions of yen)

	March 31, 2017	December 31, 2017
Loans to bankrupt obligors	¥ 4,618	¥ 5,590
Nonaccrual delinquent loans	33,358	32,160
Loans past due for three months or more	1,728	1,539
Restructured loans	32,023	34,974
Total	¥ 71,728	¥ 74,264

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

(Millions of yen)

	March 31, 2017	December 31, 2017
Credits to bankrupt obligors	¥ 113	¥ 98
Nonaccrual delinquent credits	9,306	7,723
Credits past due for three months or more	423	410
Restructured credits	184	108
Total	¥ 10,028	¥ 8,342

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, 2017	December 31, 2017
Installment receivables	¥ 541,401	¥ 548,962

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, 2017	December 31, 2017
Goodwill	¥ 18,492	¥ 16,055
Negative goodwill	3,808	3,536
Net	¥ 14,683	¥ 12,518

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, 2017	December 31, 2017
Intangible assets acquired in business combinations	¥ 2,504	¥ 1,535

(Quarterly consolidated statements of income for the nine-month periods ended December 31, 2016 and 2017)

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

(Millions of yen)

	December 31, 2016 (9 months)	December 31, 2017 (9 months)
Leasing revenue	¥ 61,550	¥ 56,349

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

(Millions of yen)

	December 31, 2016 (9 months)	December 31, 2017 (9 months)
Gain on sale of equity securities and others	¥ 5,183	¥ 6,363
Recoveries of written-off claims	¥ 4,043	¥ 5,126

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

(Millions of yen)

	December 31, 2016 (9 months)	December 31, 2017 (9 months)
Leasing cost	¥ 55,551	¥ 52,526

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

(Millions of yen)

	December 31, 2016 (9 months)	December 31, 2017 (9 months)
Amortization of goodwill	¥ 2,788	¥ 2,165
Amortization of intangible assets acquired in business combinations ^(Note)	1,322	968

Note: Represents amortization of intangible assets that have been recognized by applying the purchase method to the acquisitions of Showa Leasing Co., Ltd., Shinsei Financial Co., Ltd. and their consolidated subsidiaries.

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

(Millions of yen)

	December 31, 2016 (9 months)	December 31, 2017 (9 months)
Provision of reserve for credit losses	¥ 26,161	¥ 33,722

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

(Millions of yen)

	December 31, 2016 (9 months)	December 31, 2017 (9 months)
Gain on reversal of stock acquisition rights	¥ -	¥ 293
Gain on purchase of loans	4,236	-

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

(Millions of yen)

	December 31, 2016 (9 months)	December 31, 2017 (9 months)
Impairment losses	¥ 46	¥ 944
Loss on liquidation of affiliates	528	-

(Quarterly consolidated statements of cash flows for the nine-month periods ended December 31, 2016 and 2017)

Quarterly consolidated statements of cash flows for the nine-month periods ended December 31, 2016 and 2017 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, 2016 (9 months)	December 31, 2017 (9 months)
Depreciation (other than leased assets as lessor)	¥ 9,797	¥ 8,167
Amortization of goodwill	2,788	2,165
Amortization of intangible assets acquired in business combinations	1,322	968

(Shareholders equity)

Nine-month period ended December 31, 2016

1. Dividends paid

(Resolution)	Type of shares	Total amount	Per share amount	Record date	Effective date	Source of dividend
The Board of Directors meeting on May 11, 2016	Common stock	¥ 2,653 million	¥ 1.00	March 31, 2016	June 2, 2016	Retained earnings

2. There was no dividend of which the record date belongs to the nine-month period ended December 31, 2016, and of which the effective date was after December 31, 2016.

Nine-month period ended December 31, 2017

1. Dividends paid

(Resolution)	Type of shares	Total amount	Per share amount	Record date	Effective date	Source of dividend
The Board of Directors meeting on May 10, 2017	Common stock	¥ 2,588 million	¥ 1.00	March 31, 2017	June 2, 2017	Retained earnings

2. There was no dividend of which the record date belongs to the nine-month period ended December 31, 2017, and of which the effective date was after December 31, 2017.

(Segment information)**Nine-month period ended December 31, 2016**

1. Revenue and profit (loss) by reportable segments

(Millions of yen)

	Institutional Business				Global Markets Business	
	Corporate Business	Structured Finance	Principal Transactions	Showa Leasing	Markets	Other Global Markets
Revenue:	¥ 12,029	¥ 12,771	¥ 10,297	¥ 10,175	¥ 6,771	¥ 1,700
Net interest income (loss)	8,039	7,038	3,587	(935)	1,567	230
Noninterest income (loss)	3,989	5,733	6,710	11,110	5,204	1,469
Expenses	9,053	4,853	3,753	6,406	2,671	2,659
Net credit costs (recoveries)	630	3,263	(364)	(1,288)	(64)	30
Segment profit (loss)	¥ 2,345	¥ 4,654	¥ 6,907	¥ 5,057	¥ 4,164	¥ (989)

(Millions of yen)

	Individual Business				Corporate/Other		Total
	Retail Banking	Consumer Finance			Treasury	Other	
		Shinsei Financial	APLUS FINANCIAL	Other			
Revenue:	¥ 19,466	¥ 47,281	¥ 40,719	¥ 1,565	¥ 7,196	¥ 2,062	¥ 172,037
Net interest income (loss)	17,737	48,089	6,704	33	21	28	92,142
Noninterest income (loss)	1,729	(808)	34,014	1,532	7,175	2,033	79,894
Expenses	21,943	24,823	27,822	936	1,287	1,194	107,407
Net credit costs (recoveries)	(672)	14,298	6,595	321	—	201	22,952
Segment profit (loss)	¥ (1,805)	¥ 8,159	¥ 6,300	¥ 307	¥ 5,909	¥ 665	¥ 41,677

(Notes)

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

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

- "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 reportable segments, allocation variance of indirect expenses and elimination amount of inter-segment transactions.

2. Reconciliation between total segment profit and ordinary profit on the quarterly consolidated statement of income for the nine-month period ended December 31, 2016

(Millions of yen)

Profit	Amount
Total segment profit	¥ 41,677
Amortization of goodwill acquired in business combinations	(2,788)
Amortization of intangible assets acquired in business combinations	(1,322)
Lump-sum payments	(159)
Provision for reimbursement of debentures	(823)
Gains on debentures derecognized from liabilities	2,167
Gain on reversal of reserve for losses on interest repayments	-
Other	1,859
Ordinary profit on the quarterly consolidated statement of income	¥ 40,609

Nine-month period ended December 31, 2017

1. Revenue and profit (loss) by reportable segments

(Millions of yen)

	Institutional Business				Global Markets Business	
	Corporate Business	Structured Finance	Principal Transactions	Showa Leasing	Markets	Other Global Markets
Revenue:	¥ 14,776	¥ 12,714	¥ 11,551	¥ 10,895	¥ 5,798	¥ 2,119
Net interest income (loss)	7,526	7,063	4,137	(95)	1,366	375
Noninterest income (loss)	7,250	5,650	7,414	10,991	4,431	1,744
Expenses	9,011	5,158	3,603	6,447	2,864	2,480
Net credit costs (recoveries)	(69)	2,287	(1,201)	2,697	(26)	42
Segment profit (loss)	¥ 5,834	¥ 5,267	¥ 9,150	¥ 1,751	¥ 2,959	¥ (403)

(Millions of yen)

	Individual Business				Corporate/Other		Total
	Retail Banking	Consumer Finance			Treasury	Other	
		Shinsei Financial	APLUS FINANCIAL	Other			
Revenue:	¥ 17,427	¥ 51,610	¥ 42,440	¥ 1,947	¥ 3,094	¥ 533	¥ 174,910
Net interest income (loss)	16,799	51,736	8,466	482	(1,062)	(5)	96,790
Noninterest income (loss)	628	(126)	33,973	1,465	4,157	539	78,120
Expenses	22,125	24,468	27,740	976	1,344	909	107,130
Net credit costs (recoveries)	115	17,565	8,481	57	—	(5)	29,944
Segment profit (loss)	¥ (4,812)	¥ 9,576	¥ 6,218	¥ 914	¥ 1,749	¥ (370)	¥ 37,835

(Notes)

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

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

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

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

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

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

2. Reconciliation between total segment profit and ordinary profit on the quarterly consolidated statement of income for the nine-month period ended December 31, 2017

(Millions of yen)

Profit	Amount
Total segment profit	¥ 37,835
Amortization of goodwill acquired in business combinations	(2,165)
Amortization of intangible assets acquired in business combinations	(968)
Lump-sum payments	(442)
Provision for reimbursement of debentures	(774)
Gains on debentures derecognized from liabilities	2,038
Gain on reversal of reserve for losses on interest repayments	3,924
Other	952
Ordinary profit on the quarterly consolidated statement of income	¥ 40,400

3. Changes in reportable segments

On June 1, 2017, the Bank integrated the business related to Asset Management Products Division, which was formerly in the Global Markets Business, into the Retail Products Division in the Individual Business. On June 30, 2017, the Bank transferred a part of business related to Asset Management Controlling Division in the Global Markets Business to Principal Investments Department in the Institutional Business. On October 1, 2017, the Bank realigned Group companies. In order to realign the servicer business, the Bank merged Alfa Servicer Co., Ltd. (hereinafter, "Alfa Servicer") whose principal business is servicing small loans to individual borrowers and Shinsei Servicing & Consulting Limited (hereinafter, "SSC") whose principal business is servicing non-performing loans and commercial secured loans. Additionally, in order to realign the real estate secured loan business, the Bank merged Shinsei Investment & Finance Limited, Shinsei Property Finance Co., (hereinafter, "SPF") whose real estate secured loan business are highly compatible, and Shinsei Principal Investments Limited (hereinafter, "SPI"), which is responsible for management operations in the Shinsei Principal Investments Group. After the mergers, SPI, the surviving company, changed its name to Shinsei Investment & Finance Limited as of October 1, 2017. The Bank also consolidated investment businesses of the Institutional Business as of October 1, 2017. As a result, the reportable segments in the nine-month period ended December 31, 2017 have been revised as follows:

(1) Changes in classification of reportable segments

The "Principal Transactions" segment in the Institutional Business includes a part of business related to asset management, which was formerly included in the "Other Global Markets" segment.

The "Principal Transactions" segment in the Institutional Business includes the business of SPF, which was formerly included in the "Other" of the Consumer Finance segment.

The "Principal Transactions" segment in the Institutional Business includes the new business promotion and support business, which was formerly included in the "Corporate Business" segment.

The "Other" of the Consumer Finance segment in the Individual Business includes the business of SSC and Alfa Servicer, which were formerly included in the "Principal Transactions" segment and the "APLUS FINANCIAL" segment, respectively.

The "Retail Banking" segment in the Individual Business includes an asset management product business, which was formerly included in the "Other Global Markets" segment.

As a result of these organizational changes, the classifications of reportable segments have changed and "Revenue and profit (loss) by reportable segments" for the nine-month period ended December 31, 2016, has been presented in accordance with the new classification of reportable segments.

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

In the six-month period ended September 30, 2017, as a result of reviewing allocation method of costs of the Group's funding business, the Bank has changed the methods of measurement for the amounts of segment profit (loss). Costs of the funding business related to Retail Banking, which were formerly included in "Retail Banking" segment, have been allocated to each segment in proportion to operating assets, in order to cover costs related to bank's funding operation. The amount of profit and loss of reportable segments for the nine-month period ended December 31, 2016 has been presented in accordance the allocation method for the nine-month period ended December 31, 2017.

(Financial instruments)

Fair values of financial instruments as of March 31, 2017

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
(1) Other monetary claims purchased ¹	¥ 43,944	¥ 44,760	¥ 815
(2) Trading assets Securities held for trading purposes	15,479	15,479	–
(3) Monetary assets held in trust ¹	240,911	246,403	5,492
(4) Securities ²	969,677	959,220	(10,456)
(5) Loans and bills discounted ³ Reserve for credit losses	4,833,452 (60,484)		
Net	4,772,968	4,934,474	161,505
(6) Lease receivables and leased investment assets Estimated residual value ⁴ Reserve for credit losses	191,488 (5,425) (2,053)		
Net	184,008	187,559	3,550
(7) Other assets Installment receivables Deferred gains on installment receivables Reserve for credit losses	541,401 (14,205) (10,446)		
Net	516,750	556,047	39,297
(8) Deposits	5,489,248	5,490,787	(1,538)
(9) Negotiable certificates of deposit	373,673	373,623	50
(10) Debentures	6,561	6,564	(2)
(11) Trading liabilities Trading securities sold for short sales	1,621	1,621	–
(12) Borrowed money	789,670	791,278	(1,607)
(13) Short-term corporate bonds	168,000	168,000	–
(14) Corporate bonds	112,600	113,252	(652)
(15) Derivative instruments ⁵ : Hedge accounting is not applied Hedge accounting is applied	20,095 4,758	20,095 4,758	– –
Derivative instruments total	24,853	24,853	–

(Millions of yen)

	Contract amount	Fair value
Other: Guarantee contracts ⁶	¥ 346,675	¥ (122)

1 Carrying amounts of Other monetary claims purchased and Monetary assets held in trust are presented as the amount net of reserve for credit losses because they are immaterial.

2 Equity securities without readily available market price and some of investments in partnerships are out of the scope of fair value disclosure because their fair values cannot be reliably determined.

3 For consumer loans held by consolidated subsidiaries included in Loans and bills discounted, reserve for losses on interest repayments of ¥101,846 million was recognized for estimated losses on reimbursements of excess interest payments, which included the reserve for losses on interest repayments that have a possibility of being appropriated for loan principal in the future.

4 Estimated residual value of leased investment assets arising from finance lease transactions, where the ownership of the property is not deemed to transfer to the lessee, is deducted from leased investment assets.

5 Derivative instruments include derivative transactions both in trading assets and liabilities, and in other assets and liabilities. Derivative instruments are presented as net of assets and liabilities and presented with () when a liability stands on net basis.

6 Contract amount for guarantee contracts presents the amount of “Acceptances and guarantees” on the quarterly consolidated balance sheets. Unearned guarantee fees of ¥21,889 million were recognized as “Other liabilities.”

Fair values of financial instruments as of December 31, 2017

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
(1) Other monetary claims purchased ¹	¥ 33,158	¥ 33,826	¥ 668
(2) Trading assets			
Securities held for trading purposes	5,429	5,429	–
(3) Monetary assets held in trust ¹	240,881	245,844	4,962
(4) Securities ²	1,101,509	1,090,711	(10,797)
(5) Loans and bills discounted ³	4,944,133		
Reserve for credit losses	(65,220)		
Net	4,878,912	5,063,086	184,173
(6) Lease receivables and leased investment assets	174,530		
Estimated residual value ⁴	(5,093)		
Reserve for credit losses	(1,732)		
Net	167,704	172,180	4,475
(7) Other assets			
Installment receivables	548,962		
Deferred gains on installment receivables	(11,962)		
Reserve for credit losses	(10,038)		
Net	526,960	572,849	45,889
(8) Deposits	5,685,811	5,684,873	938
(9) Negotiable certificates of deposit	418,396	418,395	1
(10) Debentures	1,764	1,765	(0)
(11) Trading liabilities			
Trading securities sold for short sales	2,519	2,519	–
(12) Borrowed money	754,483	755,950	(1,467)
(13) Short-term corporate bonds	171,600	171,600	–
(14) Corporate bonds	88,000	88,329	(329)
(15) Derivative instruments ⁵ :			
Hedge accounting is not applied	20,499	20,499	–
Hedge accounting is applied	(12,607)	(12,607)	–
Derivative instruments total	7,892	7,892	–

(Millions of yen)

	Contract amount	Fair value
Other: Guarantee contracts ⁶	¥ 383,976	¥ 1,621

1 Carrying amounts of Other monetary claims purchased and Monetary assets held in trust are presented as the amount net of reserve for credit losses because they are immaterial.

2 Equity securities without readily available market price and some of investments in partnerships are out of the scope of fair value disclosure because their fair values cannot be reliably determined.

3 For consumer loans held by consolidated subsidiaries included in Loans and bills discounted, reserve for losses on interest repayments of ¥80,429 million was recognized for estimated losses on reimbursements of excess interest payments, which included the reserve for losses on interest repayments that have a possibility of being appropriated for loan principal in the future.

4 Estimated residual value of leased investment assets arising from finance lease transactions, where the ownership of the property is not deemed to transfer to the lessee, is deducted from leased investment assets.

5 Derivative instruments include derivative transactions both in trading assets and liabilities, and in other assets and liabilities. Derivative instruments are presented as net of assets and liabilities and presented with () when a liability stands on net basis.

6 Contract amount for guarantee contracts presents the amount of “Acceptances and guarantees” on the quarterly consolidated balance sheets. Unearned guarantee fees of ¥22,656 million were recognized as “Other liabilities.”

(Note) Valuation methodologies for financial instruments

(1) Other monetary claims purchased

The fair values are measured at quoted prices from third parties or determined using the discounted cash flow method.

(2) Trading assets

The fair values are measured at market prices or quoted prices from third parties, or determined using the discounted cash flow method.

(3) Monetary assets held in trust

The fair values are determined using the discounted cash flow method based on the characteristics of the components of the entrusted assets.

Notes on monetary assets held in trust for other than trading purposes are included in notes for "Monetary assets held in trust."

(4) Securities

The fair values of marketable equity securities are measured at closing prices on exchanges. The fair values of bonds and mutual funds are measured at market prices or quoted prices from third parties or determined using the discounted cash flow method.

Notes on securities being held to maturity and available for sale are included in notes for "Securities."

(5) Loans and bills discounted

The fair values of loans and bills discounted with fixed interest rate are determined by discounting contractual cash flows, and the fair values of loans and bills discounted with floating interest rate are determined by discounting expected cash flows based on the forward rates (for loans and bills discounted hedged by interest rate swaps which meet specific matching criteria, the expected cash flows include the cash flows of 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 spreads that would be applied for the new housing loans with the same terms at the consolidated balance sheet date. The fair values of consumer loans are determined by discounting expected cash flows that reflect expected loss at the rates that consist of the risk-free rate and certain costs, by a group of similar product types and customer segments.

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

(6) Lease receivables and leased investment assets

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

(7) Installment receivables

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

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

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

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

(10) Debentures and (14) Corporate bonds

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

The fair values of nonmarketable corporate bonds under the Medium Term Note program are determined by discounting expected cash flows at the actual average funding rates of corporate time deposits etc. funded within the past three months of the consolidated balance sheet date. The fair values of retail debentures are determined by discounting contractual cash flows at the latest actual funding rate of large-denomination (¥10 million or more) time deposits.

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

(11) Trading liabilities

The fair values are measured at market prices.

(12) Borrowed money

The fair values of borrowed money with fixed interest rates are primarily determined by discounting contractual cash flows (for borrowed money hedged by interest rate swaps which meet specific matching criteria, the contractual cash flows include the cash flows of the interest rate swaps), and the fair values of borrowed money with floating interest rates are determined by discounting expected cash flows on forward rates, at the funding rates that reflect the credit risk of the borrower.

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

(13) Short-term corporate bonds

The fair values are approximate to carrying amounts because most of them are with short maturities of one year or less.

(15) Derivative instruments

The fair values are primarily measured at closing prices on exchanges or determined using the discounted cash flow method or option-pricing models.

Other:

Guarantee contracts

The fair values are determined by discounting the amount of difference between the original contractual cash flows and the expected cash flows that would be applied for the new contracts with the same terms at the risk-free rate.

(Securities)

In addition to “Securities” on the quarterly consolidated balance sheets, the figures in the following tables include beneficiary interests included in “Other monetary claims purchased” that are accounted for in the same way as securities.

1. Securities being held to maturity:

As of March 31, 2017

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
Japanese national government bonds	¥ 493,562	¥ 499,156	¥ 5,593
Other	2,706	2,870	164
Total	¥ 496,268	¥ 502,026	¥ 5,758

As of December 31, 2017

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
Japanese national government bonds	¥ 486,858	¥ 490,570	¥ 3,711
Other	–	–	–
Total	¥ 486,858	¥ 490,570	¥ 3,711

2. Securities available for sale:

As of March 31, 2017

(Millions of yen)

	Amortized/ Acquisition cost	Carrying amount (Fair value)	Unrealized gain (loss)
Equity securities	¥ 12,916	¥ 27,446	¥ 14,529
Domestic bonds:	120,599	119,924	(674)
Japanese national government bonds	2,036	2,055	18
Japanese local government bonds	–	–	–
Japanese corporate bonds	118,562	117,869	(693)
Other	281,402	281,791	388
Foreign securities	270,042	269,247	(794)
Other	11,360	12,543	1,183
Total	¥ 414,918	¥ 429,162	¥ 14,244

As of December 31, 2017

(Millions of yen)

	Amortized/ Acquisition cost	Carrying amount (Fair value)	Unrealized gain (loss)
Equity securities	¥ 10,849	¥ 25,662	¥ 14,812
Domestic bonds:	184,500	182,694	(1,805)
Japanese national government bonds	22,459	22,422	(36)
Japanese local government bonds	–	–	–
Japanese corporate bonds	162,040	160,272	(1,768)
Other	354,047	353,040	(1,006)
Foreign securities	347,629	345,879	(1,749)
Other	6,418	7,160	742
Total	¥ 549,397	¥ 561,397	¥ 12,000

(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, 2017, was ¥27 million, which was related to equity securities.

Impairment loss on available-for-sale securities carried at fair value for the nine-month period ended December 31, 2017, was ¥0 million, which was related to foreign 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, 2017 and December 31, 2017.

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

As of March 31, 2017

(Millions of yen)

	Acquisition cost	Carrying amount	Unrealized gain (loss)
Other monetary assets held in trust	¥ 220,543	¥ 219,883	¥ (659)

As of December 31, 2017

(Millions of yen)

	Acquisition cost	Carrying amount	Unrealized gain (loss)
Other monetary assets held in trust	¥ 223,950	¥ 223,420	¥ (529)

(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, 2017 and December 31, 2017 are adjusted for credit risk by a reduction of ¥1,070 million and ¥1,231 million, respectively, and also adjusted for liquidity risk by a reduction of ¥1,523 million and ¥1,662 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, 2017

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Future contracts	¥ 1,377	¥ (1)	¥ (1)
	Interest rate options	—	—	—
Over the counter	Forward contracts	—	—	—
	Interest rate swaps	10,600,162	19,728	19,728
	Interest rate swaptions	1,985,210	(3,481)	(4,145)
	Interest rate options	50,877	(62)	154
	Other	—	—	—
Total		—	¥ 16,182	¥ 15,735

(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, 2017

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Future contracts	¥ 70,898	¥ (4)	¥ (4)
	Interest rate options	—	—	—
Over the counter	Forward contracts	—	—	—
	Interest rate swaps	10,549,257	17,100	17,100
	Interest rate swaptions	1,676,917	(1,178)	(2,111)
	Interest rate options	38,147	(45)	98
	Other	—	—	—
Total		—	¥ 15,872	¥ 15,083

(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, 2017

(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	¥ 427,099	¥ (2,654)	¥ (2,654)
	Forward foreign exchange contracts	1,751,914	7,076	7,076
	Currency options	1,574,121	(4,118)	5,090
	Other	—	—	—
Total		—	¥ 303	¥ 9,513

(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, 2017

(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	¥ 435,180	¥ (1,011)	¥ (1,011)
	Forward foreign exchange contracts	1,669,491	9,517	9,517
	Currency options	1,642,789	(5,216)	5,273
	Other	—	—	—
Total		—	¥ 3,288	¥ 13,779

(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, 2017

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Equity index futures	¥ 23,592	¥ (934)	¥ (934)
	Equity index options	350,573	1,672	710
	Equity options	—	—	—
Over the counter	Equity options	37,412	5,365	3,589
	Equity index swaps	—	—	—
	Other	3,870	(81)	(81)
Total		—	¥ 6,023	¥ 3,285

(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, 2017

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Equity index futures	¥ 12,632	¥ (2,088)	¥ (2,088)
	Equity index options	125,662	1,953	1,722
	Equity options	—	—	—
Over the counter	Equity options	25,214	4,237	2,967
	Equity index swaps	—	—	—
	Other	100	(2)	(2)
Total		—	¥ 4,100	¥ 2,599

(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, 2017

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Bond futures	¥ 36,301	¥ 12	¥ 12
	Bond futures options	—	—	—
Over the counter	Bond options	—	—	—
	Other	—	—	—
Total		—	¥ 12	¥ 12

(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, 2017

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Bond futures	¥ 36,030	¥ (90)	¥ (90)
	Bond futures options	—	—	—
Over the counter	Bond options	—	—	—
	Other	—	—	—
Total		—	¥ (90)	¥ (90)

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

(5) There were no commodity derivatives transactions as of March 31, 2017 and December 31, 2017.

(6) Credit derivatives transactions:

As of March 31, 2017

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Over the counter	Credit default options	¥ 256,852	¥ 166	¥ 166
	Other	—	—	—
Total		—	¥ 166	¥ 166

(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, 2017

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Over the counter	Credit default options	¥ 184,300	¥ 222	¥ 222
	Other	—	—	—
Total		—	¥ 222	¥ 222

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

(Business combinations)

Business combinations under common control

(Mergers between consolidated subsidiaries)

As a result of reviewing the business operation structure, on October 1, 2017, two consolidated subsidiaries in the servicer area have merged, at the same time, three consolidated subsidiaries in the real estate secured loan business area have also merged in order to optimize the Group's existing business functions.

Prior to the following mergers, the Bank purchased the entire shares of Alfa Servicer Co., Ltd. from APLUS Co., Ltd, and the Bank received the entire shares of Shinsei Servicing & Consulting Limited as a dividend in kind from Shinsei Principal Investments Limited, both transactions were effective on July 1, 2017. As a result, Alfa Servicer Co., Ltd. and Shinsei Servicing & Consulting Limited became directly wholly-owned subsidiaries of the Bank.

(1) Transaction outline of realignment in the servicer business

(i) Names and business descriptions of the companies

•Surviving company

Name: Alfa Servicer Co.,Ltd.

Business: Claim management and collection business

•Absorbed company

Name: Shinsei Servicing & Consulting Limited

Business: Claim management and collection business

(ii) Date of business combination

October 1, 2017

(iii) Legal form of the business combination

Absorption-type merger

(iv) Name of the company after the business combination

Alfa Servicer Co.,Ltd.

(2) Transaction outline of realignment in the real estate secured loan business

(i) Names and business descriptions of the companies

•Surviving company

Name: Shinsei Principal Investments Limited

Business: Financial instruments business

•Absorbed companies

Name: Shinsei Investment & Finance Limited

Business: Finance business

Name: Shinsei Property Finance Co., Ltd.

Business: Real estate secured loan business

(ii) Date of business combination

October 1, 2017

(iii) Legal form of the business combination

Absorption-type merger

(iv) Name of the company after the business combination

Shinsei Investment & Finance Limited

Note:On October 1, 2017, Shinsei Principal Investments Limited, the surviving company, changed its name to Shinsei Investment & Finance Limited.

(3) Overview of the accounting treatment

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

(Per share information)

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

		December 31, 2016 (9 months)	December 31, 2017 (9 months)
(1) Basic EPS	(Yen)	¥ 166.14	¥ 137.57
(Calculation basis)			
Profit attributable to owners of the parent	(Millions of yen)	¥ 43,397	¥ 35,609
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)	¥ 43,397	¥ 35,609
Weighted average number of common shares	(Thousands)	261,193	258,838
(2) Diluted EPS	(Yen)	¥ 166.14	¥ 137.55
(Calculation basis)			
Adjustment amount of profit attributable to owners of the parent	(Millions of yen)	–	–
Increase of the number of common shares	(Thousands)	10	26

(Note) Shinsei Bank consolidated its shares with a rate of ten shares of common stock into one share on October 1, 2017. The above EPS data is calculated as if the consolidation of shares had occurred as of April 1, 2016.

(Subsequent event)**(Acquisition of treasury shares)**

On January 31, 2018, the Bank approved a resolution for the acquisition of treasury shares at the meeting of the Board of Directors in accordance with the provision of its Articles of Incorporation, pursuant to Article 459, paragraph 1 of the Companies Act of Japan.

(1) Reason for acquisition of treasury shares

The Bank identified the establishment of the path to repay public funds as one of its goals in its 3rd Medium-Term Management Plan. As a part of the Bank’s overall efforts to achieve this, a resolution for the acquisition of treasury shares was approved in light of factors such as the Bank’s capital position, earnings capability and per share values.

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

(2) Details of acquisition

- (i) Type of shares to be repurchased
Common stock
- (ii) Number of shares to be repurchased
(Up to) 10,000 thousand shares (3.86% of total outstanding common shares (excluding treasury shares))
- (iii) Total repurchase amount
(Up to) ¥10,000 million
- (iv) Acquisition period
From February 1, 2018 to July 31, 2018
- (v) Acquisition method
Open market purchase