

# Quarterly Consolidated Financial Statements and Notes

For the Three-Month Period Ended June 30, 2014

\*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, 2014 and June 30, 2014

(Millions of yen)

	March 31, 2014	June 30, 2014
<b>ASSETS</b>		
Cash and due from banks	¥ 1,451,492	¥ 1,385,902
Call loans and bills bought	36,451	62,448
Receivables under resale agreements	53,216	53,216
Receivables under securities borrowing transactions	23,651	16,575
Other monetary claims purchased	105,857	96,879
Trading assets	249,115	274,376
Monetary assets held in trust	199,117	186,911
Securities	1,557,020	1,653,257
Loans and bills discounted	※1 4,319,830	※1 4,217,003
Foreign exchanges	25,656	24,288
Lease receivables and leased investment assets	227,764	223,974
Other assets	※1, ※2 724,963	※1, ※2 984,970
Premises and equipment	50,143	48,149
Intangible assets	※3, ※4 57,643	※3, ※4 54,708
Asset for retirement benefit	1,567	2,838
Deferred issuance expenses for debentures	32	26
Deferred tax assets	16,519	16,168
Customers' liabilities for acceptances and guarantees	358,414	353,740
Reserve for credit losses	(137,358)	(116,522)
[Total assets]	¥ 9,321,103	¥ 9,538,914
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities:</b>		
Deposits	¥ 5,733,223	¥ 5,627,765
Negotiable certificates of deposit	117,223	127,216
Debentures	41,747	40,136
Call money and bills sold	180,000	392,028
Payables under securities lending transactions	317,599	278,839
Trading liabilities	218,585	236,867
Borrowed money	643,431	672,792
Foreign exchanges	37	21
Short-term corporate bonds	86,900	106,200
Corporate bonds	177,248	175,619
Other liabilities	497,804	576,990
Accrued employees' bonuses	7,782	2,616
Accrued directors' bonuses	67	21
Liability for retirement benefit	10,116	13,246
Reserve for directors' retirement benefits	119	74
Reserve for losses on interest repayments	208,201	196,255
Deferred tax liabilities	9	8
Acceptances and guarantees	358,414	353,740
[Total liabilities]	8,598,512	8,800,439
<b>Equity:</b>		
<b>Shareholders' equity:</b>		
Common stock	512,204	512,204
Capital surplus	79,461	79,461
Retained earnings	146,002	161,538
Treasury stock, at cost	(72,558)	(72,558)
[Total shareholders' equity]	665,110	680,646
<b>Accumulated other comprehensive income:</b>		
Unrealized gain (loss) on available-for-sale securities	6,288	6,898
Deferred gain (loss) on derivatives under hedge accounting	(8,769)	(9,382)
Foreign currency translation adjustments	267	12
Accumulated adjustments for retirement benefit	(5,195)	(5,286)
[Total accumulated other comprehensive income]	(7,409)	(7,758)
Stock acquisition rights	1,221	1,220
Minority interests	63,667	64,366
[Total equity]	722,590	738,474
[Total liabilities and equity]	¥ 9,321,103	¥ 9,538,914

## Quarterly Consolidated Statements of Income

Shinsei Bank, Limited, and Consolidated Subsidiaries

For the three-month periods ended June 30, 2013 and 2014

(Millions of yen)

	June 30, 2013 ( 3 months )	June 30, 2014 ( 3 months )
<b>ORDINARY INCOME</b>	¥ 93,493	¥ 98,299
Interest income	35,831	36,916
Interest on loans and bills discounted	31,491	31,648
Interest and dividends on securities	3,647	4,527
Fees and commissions income	11,410	10,189
Trading income	3,620	3,700
Other business income	※1 35,229	※1 38,050
Other ordinary income	※2 7,401	※2 9,442
<b>ORDINARY EXPENSES</b>	78,446	76,941
Interest expenses	8,836	6,015
Interest on deposits	5,667	3,168
Interest on borrowings	1,267	1,163
Interest on corporate bonds	1,453	1,327
Fees and commissions expenses	5,696	5,371
Trading losses	98	108
Other business expenses	※3 25,183	※3 24,623
General and administrative expenses	※4 35,891	※4 37,885
Other ordinary expenses	※5 2,739	※5 2,937
<b>ORDINARY PROFIT</b>	15,046	21,358
Extraordinary gains	30	350
Extraordinary losses	※6 550	※6 222
Income before income taxes and minority interests	14,526	21,486
Income taxes (benefit)	931	681
Income before minority interests	13,595	20,804
Minority interests in net income of subsidiaries	814	809
<b>NET INCOME</b>	¥ 12,780	¥ 19,994

## Quarterly Consolidated Statements of Comprehensive Income

Shinsei Bank, Limited, and Consolidated Subsidiaries

For the three-month periods ended June 30, 2013 and 2014

(Millions of yen)

	June 30, 2013 ( 3 months )	June 30, 2014 ( 3 months )
<b>INCOME BEFORE MINORITY INTERESTS</b>	¥ 13,595	¥ 20,804
<b>OTHER COMPREHENSIVE INCOME</b>	(2,878)	200
Unrealized gain (loss) on available-for-sale securities	(6,258)	604
Deferred gain (loss) on derivatives under hedge accounting	2,562	(612)
Foreign currency translation adjustments	779	(363)
Adjustments for retirement benefit	/	556
Share of other comprehensive income in affiliates	39	15
<b>COMPREHENSIVE INCOME</b>	¥ 10,717	¥ 21,005

(Breakdown)

Attributable to:

Owners of the parent	¥ 9,572	¥ 20,294
Minority interests	1,144	711

**(Change in accounting policy)**

The Accounting Standards Board of Japan (the "ASBJ") issued, in May 2012, ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the previous accounting standards and the other related practical guidance for retirement benefits. The revised accounting standards included certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases, which were effective for the beginning of the fiscal year beginning on or after April 1, 2014.

The Group applied the revised accounting standard above from April 1, 2014 and changed i) the method of attributing expected benefit to periods from straight-line basis to benefit formula basis and ii) the method of determining the discount rate, from the method based on a single bond interest rate corresponding to the expected average remaining working lives of employees, to the method of using a single weighted average discount rate reflecting the estimated timing and amount of benefit payment.

As a result of this application on April 1, 2014, asset for retirement benefits of ¥1,223 million and liability for retirement benefits of ¥3,671 million increased and retained earnings of ¥1,799 million and accumulated other comprehensive income of ¥648 million decreased. The effect of this application on net income was immaterial.

**(Accounting method specific to quarterly consolidated financial statements)**

(1) Income taxes

Income taxes (benefit) are calculated based on income before income taxes and minority interests for the three-month period ended June 30, 2014 and the reasonably estimated effective tax rate for the fiscal year ending March 31, 2015.

**(Quarterly consolidated balance sheets as of March 31, 2014 and June 30, 2014)**

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

(Millions of yen)

	March 31, 2014	June 30, 2014
Loans to bankrupt obligors	¥ 10,049	¥ 6,929
Nonaccrual delinquent loans	177,786	150,265
Loans past due for three months or more	1,177	1,238
Restructured loans	31,719	30,925
Total	¥ 220,732	¥ 189,358

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

(Millions of yen)

	March 31, 2014	June 30, 2014
Credits to bankrupt obligors	¥ 496	¥ 478
Nonaccrual delinquent credits	9,154	9,004
Credits past due for three months or more	271	297
Restructured credits	731	663
Total	¥ 10,653	¥ 10,443

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, 2014	June 30, 2014
Installment receivables	¥ 421,920	¥ 423,802

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, 2014	June 30, 2014
Goodwill	¥ 33,847	¥ 32,238
Negative goodwill	4,897	4,806
Net	¥ 28,949	¥ 27,431

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, 2014	June 30, 2014
Intangible assets acquired in business combinations	¥ 9,182	¥ 8,421

**(Quarterly consolidated statements of income for the three-month periods ended June 30, 2013 and 2014)**

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

(Millions of yen)

	June 30, 2013 (3 months)	June 30, 2014 (3 months)
Leasing revenue	¥ 21,574	¥ 22,262

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

(Millions of yen)

	June 30, 2013 (3 months)	June 30, 2014 (3 months)
Gain on monetary assets held in trust	¥ 2,619	¥ 4,229
Recoveries of written-off claims	1,919	2,520

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

(Millions of yen)

	June 30, 2013 (3 months)	June 30, 2014 (3 months)
Leasing cost	¥ 19,209	¥ 20,053

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

(Millions of yen)

	June 30, 2013 (3 months)	June 30, 2014 (3 months)
Amortization of goodwill	¥ 1,711	¥ 1,517
Amortization of intangible assets acquired in business combinations <sup>(Note)</sup>	878	760

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 were included.

(Millions of yen)

	June 30, 2013 (3 months)	June 30, 2014 (3 months)
Provision of reserve for credit losses	¥ 1,375	¥ 952
Write-off of loans	464	904

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

(Millions of yen)

	June 30, 2013 (3 months)	June 30, 2014 (3 months)
Impairment losses on premises and equipment	¥ 518	¥ 182

**(Quarterly consolidated statements of cash flows for the three-month periods ended June 30, 2013 and 2014)**

Quarterly consolidated statements of cash flows for the three-month periods ended June 30, 2013 and 2014 were not 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)

	June 30, 2013 (3 months)	June 30, 2014 (3 months)
Depreciation (other than depreciation of leased assets as lessor)	¥ 2,481	¥ 2,537
Amortization of goodwill	1,711	1,517
Amortization of intangible assets acquired in business combinations	878	760

**(Shareholders equity)**

**Three-month period ended June 30, 2013**

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 8, 2013	Common stock	¥ 2,653 million	¥ 1.00	March 31, 2013	May 30, 2013	Other retained earnings

2. There was no dividend of which the record date belongs to the three-month period ended June 30, 2013, and of which the effective date was after June 30, 2013.

**Three-month period ended June 30, 2014**

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 8, 2014	Common stock	¥ 2,653 million	¥ 1.00	March 31, 2014	May 29, 2014	Other retained earnings

2. There was no dividend of which the record date belongs to the three-month period ended June 30, 2014, and of which the effective date was after June 30, 2014.



**(Segment information)****Three-month period ended June 30, 2013****1. Revenue and profit (loss) by reportable segments**

(Millions of yen)

	Institutional Group				Global Markets Group		
	Institutional Business Sub-Group	Principal Transactions Sub-Group	Showa Leasing	Other Institutional Group	Financial Institutions Sub-Group	Markets Sub-Group	Other Global Markets Group
Revenue:	¥ 9,985	¥ 5,487	¥ 3,331	¥ 26	¥ 986	¥ 1,392	¥ 749
Net interest income	6,491	1,374	(608)	(77)	444	595	32
Noninterest income	3,493	4,113	3,940	103	542	797	717
Expenses	2,793	922	1,931	240	524	801	849
Net credit costs (recoveries)	857	(3)	(1,253)	471	34	(5)	(44)
Segment profit (loss)	¥ 6,333	¥ 4,568	¥ 2,653	¥ (685)	¥ 428	¥ 596	¥ (55)

(Millions of yen)

	Individual Group				Corporate/Other		Total
	Retail Banking Sub-Group	Consumer Finance Sub-Group			Treasury Sub-Group	Other	
		Shinsei Financial	APLUS FINANCIAL	Other			
Revenue:	¥ 8,776	¥ 10,773	¥ 11,654	¥ 415	¥ (2,339)	¥ (724)	¥ 50,514
Net interest income	6,357	11,897	2,024	351	(1,083)	(805)	26,994
Noninterest income	2,418	(1,124)	9,629	64	(1,256)	80	23,520
Expenses	8,116	7,588	8,634	139	391	(251)	32,682
Net credit costs (recoveries)	(3)	(1,573)	1,297	(44)	-	173	(95)
Segment profit (loss)	¥ 662	¥ 4,759	¥ 1,721	¥ 321	¥ (2,731)	¥ (647)	¥ 17,927

**(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 other intangible assets acquired in business combinations, amortization of net actuarial gains or losses of retirement benefit cost and lump-sum payments.
- "Net credit costs (recoveries)" consist of provision/reversal of reserve for credit losses, losses on write-off or 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 transferred from Shinsei Financial Co., Ltd. to Shinsei Bank, Limited on October 1, 2011, as well as profit/loss of SHINKI 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 three-month period ended June 30, 2013

(Millions of yen)

Profit	Amount
Total segment profit	¥ 17,927
Amortization of goodwill acquired in business combinations	(1,676)
Amortization of intangible assets acquired in business combinations	(878)
Lump-sum payments	(652)
Other	328
Ordinary profit on the quarterly consolidated statement of income	¥ 15,046

**Three-month period ended June 30, 2014**

1. Revenue and profit (loss) by reportable segments

(Millions of yen)

	Institutional Group				Global Markets Group		
	Institutional Business Sub-Group	Principal Transactions Sub-Group	Showa Leasing	Other Institutional Group	Financial Institutions Sub-Group	Markets Sub-Group	Other Global Markets Group
Revenue:	¥ 9,764	¥ 7,335	¥ 3,092	¥ 354	¥ 904	¥ 2,095	¥ 661
Net interest income	7,036	1,590	(566)	(84)	432	878	43
Noninterest income	2,728	5,744	3,658	439	472	1,217	618
Expenses	3,035	1,450	1,979	329	574	823	875
Net credit costs (recoveries)	(1,503)	(118)	(1,256)	59	(142)	26	(24)
Segment profit (loss)	¥ 8,233	¥ 6,003	¥ 2,369	¥ (33)	¥ 472	¥ 1,245	¥ (188)

(Millions of yen)

	Individual Group				Corporate/Other		Total
	Retail Banking Sub-Group	Consumer Finance Sub-Group			Treasury Sub-Group	Other	
		Shinsei Financial	APLUS FINANCIAL	Other			
Revenue:	¥ 6,930	¥ 13,135	¥ 12,176	¥ 366	¥ 926	¥ 140	¥ 57,885
Net interest income	5,917	13,893	1,676	310	(225)	(1)	30,901
Noninterest income	1,012	(758)	10,500	55	1,151	141	26,984
Expenses	8,349	8,100	9,123	143	403	(153)	35,037
Net credit costs (recoveries)	77	112	2,031	(6)	—	7	(735)
Segment profit (loss)	¥ (1,497)	¥ 4,922	¥ 1,021	¥ 228	¥ 522	¥ 286	¥ 23,584

(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 other intangible assets acquired in business combinations, amortization of net actuarial gains or losses of retirement benefit cost and lump-sum payments.
  3. "Net credit costs (recoveries)" consist of provision/reversal of reserve for credit losses, losses on write-off or 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 transferred from Shinsei Financial Co., Ltd. to Shinsei Bank, Limited on October 1, 2011, as well as profit/loss of SHINKI 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 three-month period ended June 30, 2014

(Millions of yen)

Profit	Amount
Total segment profit	¥ 23,584
Amortization of goodwill acquired in business combinations	(1,482)
Amortization of intangible assets acquired in business combinations	(760)
Lump-sum payments	(605)
Other	622
Ordinary profit on the quarterly consolidated statement of income	¥ 21,358

### 3. Changes in reportable segments

#### Changes in classification of reportable segments

As a result of an organizational change in the Institutional Group on April 1, 2014, the Business Management Division in the "Other Institutional Group" was abolished and its business was transferred to the Institutional Business Division in the "Institutional Business Sub-Group." In accordance with this organizational change, the classification of reportable segments has been changed.

"Revenue and profit (loss) by reportable segments" for the three-month periods ended June 30, 2013 and 2014 on the above tables are presented based on the new classification of reportable segments.

**(Financial instruments)**

Fair values of financial instruments as of March 31, 2014

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
(1) Other monetary claims purchased <sup>(*)1</sup>	¥ 104,401	¥ 105,162	¥ 761
(2) Trading assets			
Securities held for trading purposes	14,362	14,362	—
(3) Monetary assets held in trust <sup>(*)1</sup>	199,115	202,915	3,800
(4) Securities <sup>(*)2</sup>	1,482,227	1,478,287	(3,939)
(5) Loans and bills discounted <sup>(*)3</sup>	4,319,830		
Reserve for credit losses	(92,484)		
Net	4,227,346	4,309,890	82,544
(6) Lease receivables and leased investment assets <sup>(*)1</sup>	223,805	225,471	1,665
(7) Other assets			
Installment receivables	421,920		
Deferred gains on installment receivables	(13,672)		
Reserve for credit losses	(10,700)		
Net	397,547	411,144	13,597
(8) Deposits	5,733,223	5,738,116	(4,892)
(9) Negotiable certificates of deposit	117,223	117,216	7
(10) Debentures	41,747	41,782	(35)
(11) Trading liabilities			
Trading securities sold for short sales	14,290	14,290	—
(12) Borrowed money	643,431	645,895	(2,463)
(13) Short-term corporate bonds	86,900	86,900	—
(14) Corporate bonds	177,248	181,687	(4,439)
(15) Derivative instruments <sup>(*)4</sup> :			
Hedge accounting is not applied	(17,867)	(17,867)	—
Hedge accounting is applied	(8,076)	(8,076)	—
Derivative instruments total	(25,943)	(25,943)	—

(Millions of yen)

	Contract amount	Fair value
Other: Guarantee contracts <sup>(*)5</sup>	¥ 358,414	¥ (3,171)

(\*1) Carrying amounts of other monetary claims purchased, monetary assets held in trust, and lease receivables and leased investment assets 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 ¥208,201 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) 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.

(\*5) Contract amount for guarantee contracts presents the amount of "Acceptances and guarantees" on the consolidated balance sheets.

## Fair values of financial instruments as of June 30, 2014

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
(1) Other monetary claims purchased <sup>(*)1</sup>	¥ 95,427	¥ 96,231	¥ 804
(2) Trading assets			
Securities held for trading purposes	27,944	27,944	—
(3) Monetary assets held in trust	186,911	191,356	4,445
(4) Securities <sup>(*)2</sup>	1,582,365	1,577,398	(4,967)
(5) Loans and bills discounted <sup>(*)3</sup>	4,217,003		
Reserve for credit losses	(72,070)		
Net	4,144,933	4,235,774	90,841
(6) Lease receivables and leased investment assets <sup>(*)1</sup>	220,433	223,129	2,696
(7) Other assets			
Installment receivables	423,802		
Deferred gains on installment receivables	(13,967)		
Reserve for credit losses	(10,399)		
Net	399,436	415,035	15,598
(8) Deposits	5,627,765	5,631,463	(3,698)
(9) Negotiable certificates of deposit	127,216	127,207	8
(10) Debentures	40,136	40,166	(30)
(11) Trading liabilities			
Trading securities sold for short sales	16,584	16,584	—
(12) Borrowed money	672,792	674,260	(1,468)
(13) Short-term corporate bonds	106,200	106,200	—
(14) Corporate bonds	175,619	180,179	(4,559)
(15) Derivative instruments <sup>(*)4</sup> :			
Hedge accounting is not applied	(18,685)	(18,685)	—
Hedge accounting is applied	(8,489)	(8,489)	—
Derivative instruments total	(27,174)	(27,174)	—

(Millions of yen)

	Contract amount	Fair value
Other: Guarantee contracts <sup>(*)5</sup>	¥ 353,740	¥ (2,939)

(\*1) Carrying amounts of other monetary claims purchased, and lease receivables and leased investment assets 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 ¥196,255 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) 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.

(\*5) 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

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

(2) Trading assets

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

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, 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 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.

For loans to obligors "legally bankrupt," "virtually bankrupt," and "possibly bankrupt," a reserve is provided based on the discounted cash flow method, or based on amounts expected to be collected through the disposal of collateral or execution of guarantees, so that the carrying amount net of the reserve is a reasonable estimate of the fair values of those loans.

(6) Lease receivables and leased investment assets

Fair values are primarily determined by discounting contractual cash flows at the rates that consist of the risk free rate, credit risk and certain costs, by a group of major product categories.

(7) Installment receivables

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 a group of major product categories.

(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 approximate carrying amounts because of their short-term maturity.

The fair values of time deposits are determined by discounting the contractual cash flows at the rates 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 debentures and corporate bonds are measured at market prices.

The fair values of nonmarketable corporate debentures and 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 and debentures funded in 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 rates.

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

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 meets 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

Fair values approximate carrying amounts because most of them are with short maturities of six months or less.

(15) Derivative instruments

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

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, 2014

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
Japanese national government bonds	¥ 497,405	¥ 499,177	¥ 1,771
Other	48,269	52,371	4,101
Total	¥ 545,675	¥ 551,548	¥ 5,872

As of June 30, 2014

(Millions of yen)

	Carrying amount	Fair value	Unrealized gain (loss)
Japanese national government bonds	¥ 502,883	¥ 504,846	¥ 1,963
Other	43,212	46,764	3,551
Total	¥ 546,096	¥ 551,611	¥ 5,514

### 2. Securities available for sale:

As of March 31, 2014

(Millions of yen)

	Amortized/ Acquisition cost	Carrying amount (Fair value)	Unrealized gain (loss)
Equity securities	¥ 13,511	¥ 19,947	¥ 6,435
Domestic bonds	746,430	746,084	(346)
Japanese national government bonds	630,133	629,398	(735)
Japanese local government bonds	502	523	21
Japanese corporate bonds	115,794	116,162	368
Other	132,347	136,533	4,186
Total	¥ 892,289	¥ 902,565	¥ 10,276

As of June 30, 2014

(Millions of yen)

	Amortized/ Acquisition cost	Carrying amount (Fair value)	Unrealized gain (loss)
Equity securities	¥ 13,510	¥ 20,881	¥ 7,370
Domestic bonds	851,908	852,127	219
Japanese national government bonds	758,187	758,532	344
Japanese local government bonds	502	521	19
Japanese corporate bonds	93,218	93,074	(144)
Other	124,074	127,808	3,733
Total	¥ 989,493	¥ 1,000,817	¥ 11,323



(Note)

Individual securities are written down when a decline in fair value below the cost of such securities is deemed to be other than temporary. The amount written down is accounted for as an impairment loss.

Impairment loss on available-for-sale securities carried at fair value for the fiscal year ended March 31, 2014 was ¥1,716 million, which consisted of ¥0 million for equity securities, ¥1,699 million for Japanese corporate bonds and ¥16 million for other securities.

There was no impairment loss on available-for-sale securities carried at fair value for the three-month period ended June 30, 2014.

To determine whether an other-than-temporary impairment has occurred, the Group applies the following rule, by the obligor classification of the security issuer based on the Group's self-assessment guidelines:

Securities issued by "legally bankrupt," "virtually bankrupt" and "possibly bankrupt" obligors	The fair value of securities is lower than the amortized/acquisition cost
Securities issued by "need caution" obligors	The fair value of securities is 30% or more lower than the amortized/acquisition cost
Securities issued by "normal" obligors	The fair value of securities is 50% or more lower than 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 gone legally or formally bankrupt but who are substantially bankrupt 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 bankrupt but are in financial difficulties and are very likely to go bankrupt in the future.

"Need caution" obligors are those who require 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 terms of their financial position.

### (Monetary assets held in trust)

1. There were no monetary assets held in trust held to maturity as of March 31, 2014 and June 30, 2014.

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

As of March 31, 2014			(Millions of yen)
	Acquisition cost	Carrying amount	Unrealized gain (loss)
Other monetary assets held in trust	¥ 131,163	¥ 131,163	—

As of June 30, 2014			(Millions of yen)
	Acquisition cost	Carrying amount	Unrealized gain (loss)
Other monetary assets held in trust	¥ 124,152	¥ 124,152	—

### (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, 2014 and June 30, 2014 are adjusted for credit risk by a reduction of ¥623 million and ¥626 million, respectively, and also adjusted for liquidity risk by a reduction of ¥1,102 million and ¥1,102 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, 2014

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Future contracts	¥ 12,077	¥ 0	¥ 0
	Interest rate options	639	(0)	0
Over the counter	Forward contracts	—	—	—
	Interest rate swaps	11,791,572	23,309	23,309
	Interest rate swaptions	2,332,912	(5,060)	4,688
	Interest rate options	216,928	(135)	99
	Other	—	—	—
Total		—	¥ 18,113	¥ 28,097

(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 of the Japanese Institute of Certified Public Accountant (the "JICPA") are excluded from the table above.

As of June 30, 2014

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Future contracts	¥ 102,795	¥ 6	¥ 6
	Interest rate options	630	(0)	0
Over the counter	Forward contracts	—	—	—
	Interest rate swaps	11,863,000	24,859	24,859
	Interest rate swaptions	2,261,870	(7,241)	2,793
	Interest rate options	201,958	(120)	119
	Other	—	—	—
Total		—	¥ 17,502	¥ 27,778

(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 of the JICPA are excluded from the table above.

## (2) Currency-related transactions:

As of March 31, 2014

(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	¥ 839,527	¥ (26,309)	¥ (26,309)
	Forward foreign exchange contracts	1,468,927	19,161	19,161
	Currency options	2,894,097	(34,659)	(30,917)
	Other	—	—	—
Total		—	¥ (41,807)	¥ (38,065)

(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 of the JICPA are excluded from the table above.

As of June 30, 2014

(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	¥ 797,267	¥ (29,240)	¥ (29,240)
	Forward foreign exchange contracts	1,695,008	17,947	17,947
	Currency options	2,544,596	(29,791)	(26,193)
	Other	—	—	—
Total		—	¥ (41,084)	¥ (37,487)

(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 of the JICPA are excluded from the table above.

(3) Equity-related transactions:

As of March 31, 2014

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Equity index futures	¥ 26,106	¥ 57	¥ 57
	Equity index options	1,249,873	2,452	259
	Equity options	—	—	—
Over the counter	Equity options	160,528	6,392	4,738
	Equity index swaps	—	—	—
	Other	172,277	(1,111)	(1,111)
Total		—	¥ 7,790	¥ 3,943

(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, 2014

(Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Equity index futures	¥ 25,302	¥ 123	¥ 123
	Equity index options	1,130,177	1,533	(265)
	Equity options	—	—	—
Over the counter	Equity options	165,896	6,419	4,765
	Equity index swaps	—	—	—
	Other	172,277	(1,097)	(1,097)
Total		—	¥ 6,979	¥ 3,526

(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, 2014 (Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Bond futures	¥ 18,567	¥ (16)	¥ (16)
	Bond futures options	—	—	—
Over the counter	Bond options	—	—	—
	Other	—	—	—
Total		—	¥ (16)	¥ (16)

(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, 2014 (Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Listed	Bond futures	¥ 53,325	¥ (38)	¥ (38)
	Bond futures options	33,183	(43)	33
Over the counter	Bond options	—	—	—
	Other	—	—	—
Total		—	¥ (81)	¥ (4)

(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, 2014 and June 30, 2014.

(6) Credit derivatives transactions:

As of March 31, 2014 (Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Over the counter	Credit default options	¥ 582,826	¥ (220)	¥ (220)
	Other	—	—	—
Total		—	¥ (220)	¥ (220)

(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, 2014 (Millions of yen)

	Contract type	Contract/Notional principal	Fair value	Unrealized gain (loss)
Over the counter	Credit default options	¥ 562,811	¥ (271)	¥ (271)
	Other	—	—	—
Total		—	¥ (271)	¥ (271)

(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 net income per share ("EPS") and their calculation basis were as follows.

Diluted EPS for the three-month period ended June 30, 2014 is not presented because the existing potential common shares have no dilutive effect.

		June 30, 2013 (3 months)	June 30, 2014 (3 months)
(1) Basic EPS	(Yen)	¥ 4.81	¥ 7.53
(Calculation basis)			
Net income	(Millions of yen)	¥ 12,780	¥ 19,994
The amount which is not attributable to common shareholders	(Millions of yen)	—	—
Net income attributable to common shares	(Millions of yen)	¥ 12,780	¥ 19,994
Weighted average number of common shares	(Thousands)	2,653,919	2,653,919
(2) Diluted EPS	(Yen)	¥ 4.81	—
(Calculation basis)			
Adjustment amount of net income	(Millions of yen)	—	—
Increase of the number of common shares	(Thousands)	5	—

**(Subsequent event)**

On May 26, 2014, the Bank decided to redeem the preferred securities issued by the Bank's wholly owned subsidiaries outside Japan, which were subsequently redeemed on July 23, 2014. The outline of the redeemed preferred securities is as follows:

(1) Issuer:

- (i) Shinsei Finance III (Cayman) Limited
- (ii) Shinsei Finance IV (Cayman) Limited

(2) Type of securities:

Japanese yen denominated preferred securities

(3) Aggregate redemption amount:

- (i) ¥33,600 million
- (ii) ¥9,100 million

(4) Redemption date:

July 23, 2014

(5) Reason for redemption:

Optional redemption date arrived