SHINSEI BANK

Back to Basics

基本に立ち返る

ANNUAL REPORT 2009

FOR THE FISCAL YEAR ENDED MARCH 31, 2009

Shinsei Bank is a leading diversified Japanese financial institution providing a full range of financial products and services to both institutional and individual customers. The Bank has total assets of ¥11.9 trillion (US$121 billion) on a consolidated basis (as of March 2009) and a network of 36 outlets that includes 32 Shinsei Financial Centers, 2 Platinum Centers and 2 Consulting Spots in Japan. Shinsei Bank demands uncompromising levels of integrity and transparency in all its activities to earn the trust of customers, staff and shareholders. The Bank is committed to delivering long-term profit growth and increasing value for all its stakeholders.

CONTENTS

FORWARD-LOOKING STATEMENTS

This annual report contains statements that constitute forward-looking statements. These statements appear in a number of places in this annual report and include statements regarding our intent, belief or current expectations, and/or the current belief or current expectations of our officers with respect to the results of our operations and the financial condition of the Bank and its subsidiaries. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Our forward-looking statements are not a guarantee of future performance and involve risks and uncertainties. Actual results may differ from those in such forward-looking statements as a result of various factors.

Fiscal year 2008 was another challenging year for Shinsei Bank. However, we are taking decisive steps now to improve our performance in these testing times. We made the decision to deal with our problems head-on in order to put our operations back on track as soon as possible. In short, we are going back to basics. We have appropriately recorded losses in fiscal year 2008, reducing our portfolio of overseas asset-backed investments and securities, including investments made for trading purposes, which

Back to Basics

基本に立ち返る

were the main cause of our weakened performance. At the same time, we have strived to meet the needs of our customers, while strengthening our risk management structure and concentrating the allocation of management resources in Japan. We are listening to our customers better, and making sure we provide them with the right products and solutions to meet their needs. We are refocusing on operational efficiency and risk management, two key elements to success. And we are concentrating on the domestic businesses as we strive to return to profitability.

FINANCIAL HIGHLIGHTS

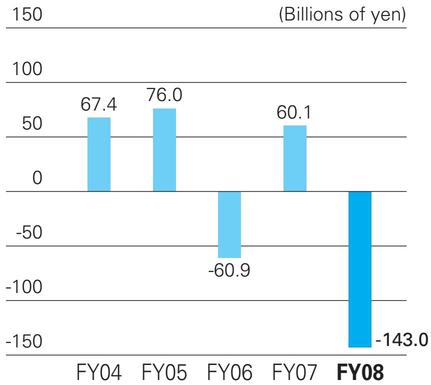
Shinsei Bank, Limited, and Consolidated Subsidiaries
For the fiscal years ended March 31, 2005, 2006, 2007, 2008 and 2009*1

	Billions of yen				
	2005	2006	2007	2008	**2009**
For the fiscal year:					
Net interest income	¥ 66.8	¥ 82.2	¥ 95.4	¥ 137.7	**¥ 202.9**
Net fees and commissions	32.4	45.4	46.4	40.8	**26.5**
Net trading income (loss)	23.9	27.5	17.8	9.0	**(4.6)**
Net other business income (loss)	54.5	118.0	96.6	74.9	**(41.7)**
Total revenue	177.8	273.4	256.3	262.6	**183.1**
Net income (loss)	67.4	76.0	(60.9)	60.1	**(143.0)**
Cash basis net income (loss) *2	74.7	101.9	35.3	71.3	**(97.0)**
Balances at fiscal year-end:					
Loans and bills discounted	3,430.4	4,087.5	5,146.3	5,622.2	**5,876.9**
Total assets	8,576.3	9,405.0	10,837.6	11,525.7	**11,949.1**
Deposits and negotiable certificates of deposit	3,452.8	4,071.7	5,420.9	5,806.6	**6,272.1**
Debentures	1,242.6	1,018.9	703.2	662.4	**675.5**
Total liabilities	7,735.7	8,287.8	9,904.4	10,560.5	**11,181.7**
Total equity*3	—	—	933.2	965.2	**767.4**
Total liabilities and equity	¥ 8,576.3	¥ 9,405.0	¥ 10,837.6	¥ 11,525.7	**¥ 11,949.1**
	Yen				
Per share data:					
Common equity*3	¥ 329.65	¥ 380.20	¥ 308.60	¥ 364.35	**¥ 284.95**
Fully diluted equity*3,*4	390.06	421.62	355.09	364.35	**284.95**
Basic net income (loss)	46.78	53.16	(45.92)	38.98	**(72.85)**
Diluted net income	34.98	37.75	—	32.44	**—**
Dividends	2.58	2.96	2.66	2.94	**—**
Cash basis per share data:					
Basic net income	¥ 52.15	¥ 72.16	¥ 23.82	¥ 46.31	**¥ (49.39)**
Diluted net income	38.76	50.55	18.41	38.50	**—**
	%				
Ratios:					
Return on assets*5	0.9	0.8	(0.6)	0.5	**(1.2)**
Cash basis return on assets	1.0	1.2	0.4	0.6	**(0.8)**
Return on equity (fully diluted)*3,*6	8.9	9.3	(8.1)	8.8	**(22.4)**
Cash basis return on equity (fully diluted)	9.8	12.4	4.7	10.5	**(15.2)**
Total capital adequacy ratio	11.78	15.53	13.13	11.74	**8.35**
Tier I capital ratio	7.00	10.27	8.11	7.37	**6.02**
Core Tier I capital ratio*7	6.94	7.64	5.35	5.52	**4.03**
Tangible common equity ratio*8	1.56	2.45	1.72	4.28	**3.00**

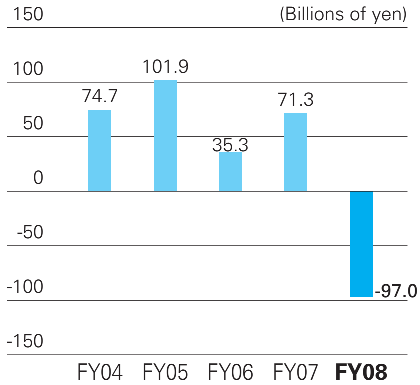
*1 Since all yen figures have been truncated rather than rounded, the totals do not necessarily equal the sum of the individual amounts.
*2 Cash basis net income is calculated by excluding impairment and amortization of goodwill and other intangible assets, net of tax benefit, from net income (loss) under Japanese Generally Accepted Accounting Principles (GAAP).
*3 As required by a new accounting standard published by the Accounting Standards Board of Japan (ASBJ), certain items which were previously presented outside of shareholders' equity are now presented as components of equity. Such items included stock acquisition rights, minority interests and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ended on or after May 1, 2006. Reclassification of the prior period amounts is not permitted under Japanese GAAP.
*4 Fully diluted equity per share is calculated by dividing equity at the end of the periods presented by the number of common shares that would have been outstanding had all securities convertible into or exercisable for common shares been converted or exercised with an applicable conversion or exercise price within the predetermined range at the end of the period.
*5 Return on assets is calculated by dividing net income (loss) by the average of total assets at the beginning and end of the period presented.
*6 Return on equity (fully diluted) is calculated by dividing net income (loss) by the average of fully diluted equity at the beginning and end of the period presented.
*7 Core Tier I capital ratio: Tier I, excluding preferred securities and non-convertible preferred stock minus deferred tax assets (net) divided by risk weighted assets.
*8 Tangible common equity ratio: Net assets minus preferred stock, intangible assets and minority interests divided by total assets, excluding intangible assets. The figures for fiscal years ended March 31, 2005 and 2006 have been calculated to conform to current period presentation.

EARNINGS

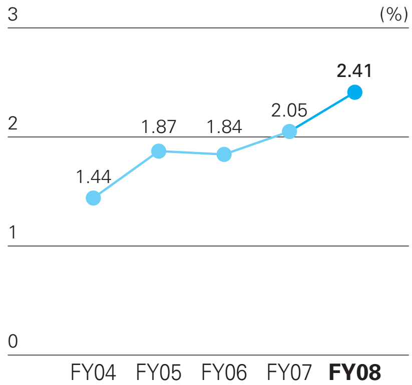
Net Income (Loss)



Cash Basis Net Income (Loss)

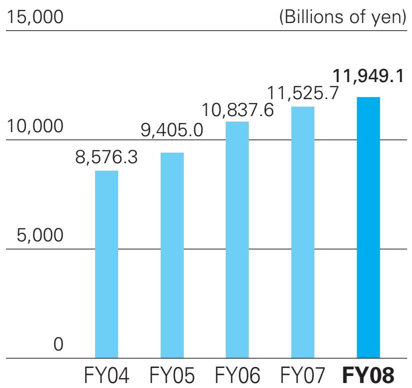


Net Interest Margin

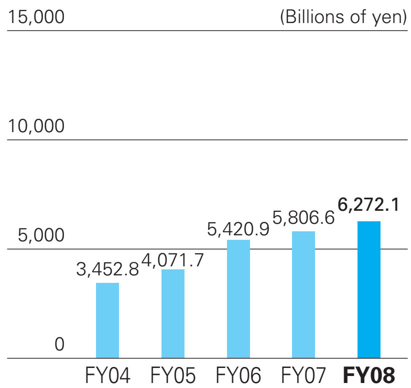


ASSETS AND LIABILITIES

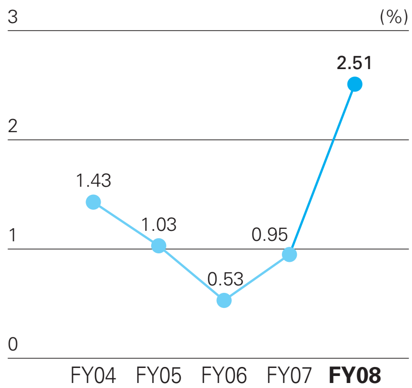
Total Assets



Deposits and Negotiable Certificates of Deposit

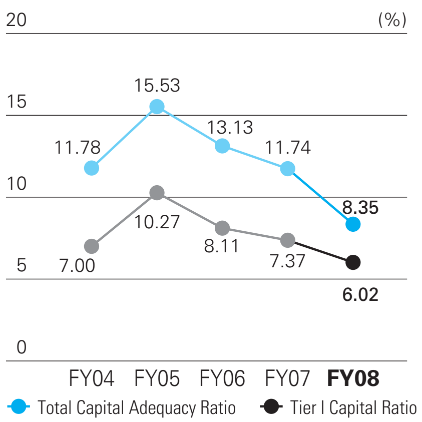


Ratio of Non-Performing Claims to Total Claims (Non-Consolidated)

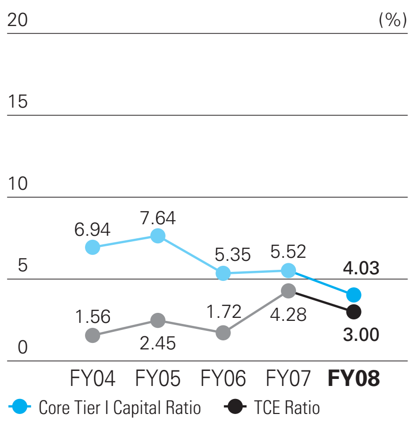


CAPITAL

Total Capital Adequacy Ratio and Tier I Capital Ratio



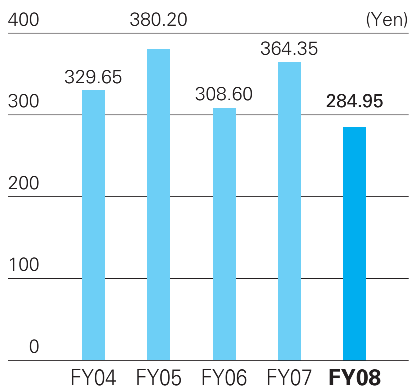
Core Tier I Capital Ratio*[1] and Tangible Common Equity Ratio*[2]



*[1] Core Tier I Capital Ratio: Tier I, excluding preferred securities and non-convertible preferred stock minus deferred tax assets (net) divided by risk weighted assets.

*[2] Tangible Common Equity Ratio: Net assets minus preferred stock, intangible assets and minority interests divided by total assets, excluding intangible assets. The figures for FY04 and FY05 have been calculated to conform to current period presentation.

Common Equity per Share



TO OUR SHAREHOLDERS, CUSTOMERS AND EMPLOYEES

Masamoto Yashiro
President and Chief Executive Officer

Fiscal year 2008 was, as expected, an extremely challenging year. The turmoil in the financial markets continued to impact economies and people around the globe, developing into what might aptly be described as a global financial pandemic. Monetary authorities in the U.S., Europe and Asia (including Japan) have intervened on a massive scale to stabilize the international financial system, and their efforts have met with some success. To the surprise of many market experts, Japan was particularly hard hit, and many financial institutions including Shinsei Bank recorded losses as a direct result of the market turmoil. At Shinsei, however, we are taking decisive steps now to improve our performance in this challenging environment. In short, we are going back to basics. We are listening to our customers better, and making sure we provide them with the right products and solutions to meet their needs. We are refocusing on operational efficiency and risk management, two key elements to success. And we are concentrating on the domestic businesses in retail banking and consumer finance as well as in institutional banking.

I was appointed as the new president and chief executive officer of Shinsei Bank and chairman of the board at a Board of Directors meeting held on November 12, 2008. Over the past eight months, I have undertaken a thorough review of the Group's organizational structure as well as operations and implemented many necessary changes.

Fiscal Year 2008 Highlights

Fiscal year 2008 was another challenging year for Shinsei Bank. However, we made the resolute decision to deal with our problems head-on in order to put our operations back on track as soon as possible. We recognized a consolidated "cash basis*1 net loss" of ¥97.0 billion in the fiscal year ended March 31, 2009 ("fiscal year 2008") compared to a consolidated cash basis*1 net income of ¥71.3 billion in fiscal year 2007. Shinsei Bank recognized a consolidated reported basis "net loss" of ¥143.0 billion for fiscal year 2008, a decrease of ¥203.1 billion as compared to the previous fiscal year.

While we did recognize a net loss, our net interest income grew strongly due to the addition of revenues from Shinsei Financial (formerly GE Consumer Finance). We acquired this new consumer finance subsidiary in September 2008 and it started contributing to earnings from the second half of fiscal year 2008. Net interest income was also boosted by the full year contribution from Shinki, which became a consolidated subsidiary in the second half of fiscal year 2007. As a result, our net interest margin rose to 2.41%, an improvement of 36 basis points compared to the previous fiscal year. Our retail banking operations were another area of strength as they moved back to profitability under new leadership and we regained our title of "Best Retail Bank in Japan" in *The Asian Banker* Excellence in Retail Financial Services Awards Programme 2008.

There were four major, mostly non-recurring events that together account for around ¥200 billion of our net loss. These four events were partially offset by the gains of over ¥70 billion we recorded on the buy back of preferred securities and subordinated debt. First, we took approximately ¥110 billion of mark-downs and reserves for our asset-backed securities, asset-backed investments as well as our collateralized loan obligations. Second, we recorded over ¥30 billion in additional reserves related to our real estate non-recourse finance and consumer finance businesses. Third, we recognized close to ¥30 billion of losses related to the bankruptcy of Lehman Brothers. Fourth, we decided to incur over ¥20 billion in restructuring costs.

In light of these results we have decided not to pay a dividend on our common shares.

Shinsei Bank has implemented a number of measures to improve the quality and level of its capital in light of the business environment. First, we recognized a gain of ¥74.1 billion by repurchasing a portion of our preferred securities and subordinated debt that were trading at a significant discount to their face value. Second, Shinsei Bank was able to raise ¥48.2 billion of capital through the issuance of Tier I preferred securities to qualified institutional investors as well as Tier I preferred securities to a limited number of select institutional and corporate investors both through private placements in Japan. As a result, while our Tier I capital ratio declined to 6.02% and the total capital adequacy ratio fell to 8.35%, our core Tier I capital ratio*2 and tangible common equity ratio*3 were both relatively strong at 4.03% and 3.00%, respectively.

We believe that the Bank's liquidity position is also another important measure of financial health. While the financial crisis has negatively impacted earnings of most companies, it has at the same time created an opportunity for deposit-gathering institutions which have benefited from individual consumers' renewed interest in bank deposits. Shinsei Bank has continued to improve its liquidity position and asset liability management through a series of successful retail time deposit campaigns where we successfully grew our balance by more than ¥1 trillion over the last fiscal year. Retail deposits have surpassed ¥5 trillion for the first time and the number of retail accounts now exceeds 2.4 million.

Our disappointing overall results are representative of the strategies we implemented in recent years; we pursued margins in areas and businesses where we did not have strong risk management expertise and oversight. But, we have learned from our mistakes and have put in place a framework to ensure that we do not repeat them. As we focus on strengthening the Bank's balance sheet and developing businesses around our customers, we are positioning the Group for steady, long-term growth.

*1 The "cash basis net income or loss" is calculated by excluding amortization of goodwill and other intangible assets, net of tax benefit, from net income under Japanese generally accepted accounting principles (JGAAP).
*2 Core Tier I capital ratio: Tier I, excluding preferred securities and non-convertible preferred stock minus deferred tax assets (net) divided by risk weighted assets.
*3 Tangible common equity ratio: Net assets minus preferred stock, intangible assets and minority interests divided by total assets, excluding intangible assets.

Strategy Going Forward

I have been reviewing the Group's current organizational structure and business operations and making the changes necessary to put us back on the path to sustainable profits. Together with our current management team, I have been examining what we need to do to restore our profitability and stability over the medium- to long-term and have taken some of the necessary actions in order to meet the challenges that face us in these difficult times.

We will continue focusing on individual and institutional customers in Japan through our Individual Group and Institutional Group. We will continue to leverage our best-in-class IT infrastructure and work to improve our risk management. We need to keep things simple, return to the basics of the banking business and listen more attentively to the voices of our customers. All of our actions must ultimately serve our customers. To this end, I have set forth three specific actions as outlined below:

1. Maximize profitability of the Individual Group by emphasizing responsible lending

Our Individual Group, consisting of our retail bank and our consumer finance subsidiaries under a single, unified management structure, provides innovative financial solutions to over 6 million active customers in Japan.

Our retail bank returned to profitability under new management in fiscal year 2008 by listening to customers' needs and prudently managing costs, while ensuring our businesses had ready access to low-cost funding through stable retail deposits. Going forward, we will continue to work to acquire quality customers by expanding our branch network while promoting asset management and loan products. In addition, we will continue to improve profitability and customer satisfaction while keeping expenses flat and enhancing operational processes.

In consumer finance, we have begun realigning our operations for greater business focus, improved efficiency and maximum synergy, taking full advantage of the Bank's innovative technology. The Shinsei Bank Group aims to become a leading provider of consumer finance services by establishing an organizational structure that will be capable of consistently delivering earnings even in this difficult business environment.

In fiscal year 2008 we demonstrated our commitment to consumer finance by making Shinsei Financial a wholly owned subsidiary after purchasing it in September 2008. This marks the first time that a Japanese bank has brought a consumer finance company completely onto its balance sheet and shared the name of the bank with a consumer finance subsidiary. Subsequently, Shinsei Bank and Shinsei Financial also completed a successful tender offer bid for Shinki's outstanding shares, opening the way for further integration in our personal loans business. We will continue to emphasize the acquisition of quality customers by leveraging Shinsei Financial's "Lake" brand and make efforts to achieve a profitable margin in the "white zone" by drawing on our risk management and fund raising capabilities while reducing expenses. Finally, at APLUS, we have decided to move to a holding company structure with two subsidiaries, namely APLUS PERSONAL LOAN, which will focus on consumer finance, and APLUS CREDIT, which will focus on installment sales, credit cards and the settlement business. These changes are geared to accelerate expense rationalization, increase efficiency, and ultimately improve profitability.

2. Re-allocate strategic resources in the Institutional Group, focusing on Japan

Fiscal year 2008 has changed the landscape of our business in the Institutional Group. We have been quick to recognize that previously profitable proprietary investment strategies are no longer sustainable, and we have moved swiftly and decisively to redeploy our management resources. We have conservatively marked down and impaired investments and reserved against possible losses, ready to make a fresh start in fiscal year 2009. We are going back to basics, focusing on the domestic market and the businesses to provide trusted solutions to our valued and long-standing customers, with the goal of solidifying our base. We believe these actions will ensure we achieve stable earnings over the medium- to long-term. Our focus on basics means we are scaling down or exiting several businesses that include asset and wealth management, alternative investment, private equity, health care finance, asset-backed investments, proprietary trading and international corporate banking. The focus going forward will be on three areas: niche finance, encompassing real estate finance, principal transactions, including credit trading, and advisory services; client-focused businesses centered on capital markets and securities operations as well as trust banking services; and core lending in the areas of basic banking and leasing.

3. Redefining risk management throughout the Group

We have recorded a large loss due to the fact that our risks were excessively concentrated in certain areas and businesses for the past few years, especially since the bankruptcy of Lehman Brothers in September 2008. In addition, there were some shortcomings in the process of approving and monitoring investments. In order to improve our risk management, I appointed Michael Cook as chief risk officer at the senior managing executive officer level in January 2009. He has drawn up and started to implement a remedial action plan to redefine risk management throughout the Shinsei Bank Group. This will result in a de-risking of the balance sheet and ensure that there is a better framework in place to prevent the reoccurrence of problems we encountered in the past, and thereby help minimize losses and maximize profits going forward.

While we have just begun to refocus and fortify our internal systems to facilitate more proactive risk management, this is an ongoing process. We will need to continuously monitor our implementation and fine-tune methodologies to ensure we deliver on our objectives in a timely manner.

Challenges and Outlook for Fiscal Year 2009

Considering the proactive measures we have taken in fiscal year 2008, we are expecting to return to profitability in fiscal year 2009 with a forecast for consolidated cash basis net income of ¥28.0 billion (consolidated reported basis net income of ¥10.0 billion) as we expect to begin reaping some of the benefits of past restructuring.

In terms of the economic environment, we do not expect Japan to start to recover until we see the global economy get back on track, which we believe will be in the second half of fiscal year 2009. For the time being, we expect the Japanese economy to remain stagnant, with ongoing depression of real estate prices and corporate profits, increasing corporate bankruptcies, continued pressure on exports and capital expenditure, a relatively strong yen, uncertain but increasing oil prices once again, weak consumer spending and wages, and a general rise in unemployment.

In our Institutional Group, we expect substantial improvement compared to fiscal year 2008 while achieving further reductions in expenses, but most business lines will remain challenged due to the operating environment and as we work to finish restructuring our operations in fiscal year 2009.

However, we believe that our retail banking operations will continue to build on their profitable customer base, and that we will achieve solid performance in our consumer finance operations as we begin to see the results of efforts to optimize operations while leveraging cost savings through IT.

Conclusion

The global banking sector including Japan is once again going through some very difficult times. We are witnessing a drastic change in the way banks will operate going forward, as they move from a center-stage role in the economy to a supporting role for individual and corporate customers. Shinsei has confronted some extraordinary challenges of our own over the last few years. However, we made the important decision to deal with our problems today, so that we can go on to deliver stable, sustainable profits in the future, by positioning our business around our individual and corporate customers in Japan. We will continue focusing on understanding our customers' needs and providing the right solutions to meet them—it is as simple as that. Ultimately, that is the best way to create value for customers, employees, shareholders and all our stakeholders.

I would like to sincerely thank you, our shareholders, customers and employees, for your support and guidance.

June 2009

Masamoto Yashiro
President and Chief Executive Officer

While you have already made substantial mark-downs and reserves for your overseas asset-backed investments and asset-backed securities, when will you be able to say that you have a clean book?

Our earnings were heavily impacted in fiscal year 2007 and fiscal year 2008 due to an ineffective risk management system at that time that was unable to properly weigh the risks associated with our pursuit of yield. Most of the losses from asset-backed investments (ABI)/asset-backed securities (ABS) relate mainly to investments that were made from the fiscal year beginning April 1, 2005 and onwards.

Against the backdrop of the subprime loan crisis that began in the summer of 2007, we took steps to clean up our residential mortgage backed securities, or RMBS, operations in the U.S. starting in the second half of fiscal year 2007, and subsequently made further substantial mark-downs and reserves for ABI and ABS in fiscal year 2008. We believe that we are taking the necessary measures to ensure that we clean up our overseas exposures as much as possible in the fiscal year ending March 31, 2010.

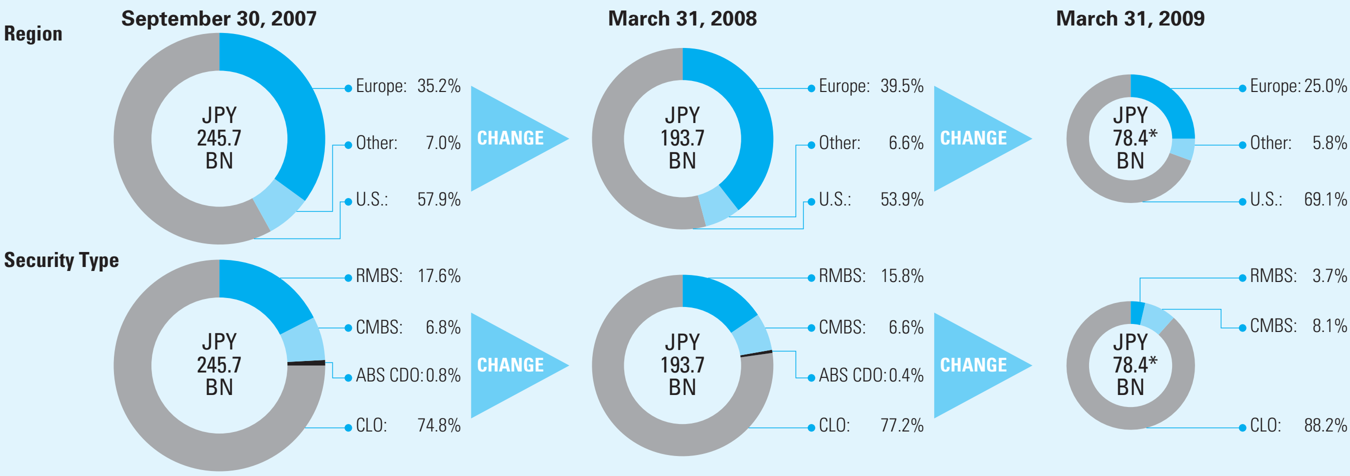
As our risk management was not functioning properly, we needed to take the necessary steps to remedy the problem. One of the first decisions that I made after resuming my post was to hire a chief risk officer at the senior managing executive officer level to put in place a proper risk management framework that included the freezing of all overseas exposure. In an important change, the chief risk officer has also been granted the power of veto on risk-related matters so that his decision may not be overruled by the CEO.

In light of the economic and operating environment, we have aggressively marked down our ABS, or what we refer to as securitized products, and as a result the balance of overseas ABS has decreased from ¥245.7 billion at September 30, 2007 to ¥193.7 billion at March 31, 2008 and to ¥78.4 billion*[1] at March 31, 2009 with a majority of the remaining securities being at the AAA rating indicating a higher quality portfolio. Our remaining overseas exposure is limited mainly to the U.S. and Europe.

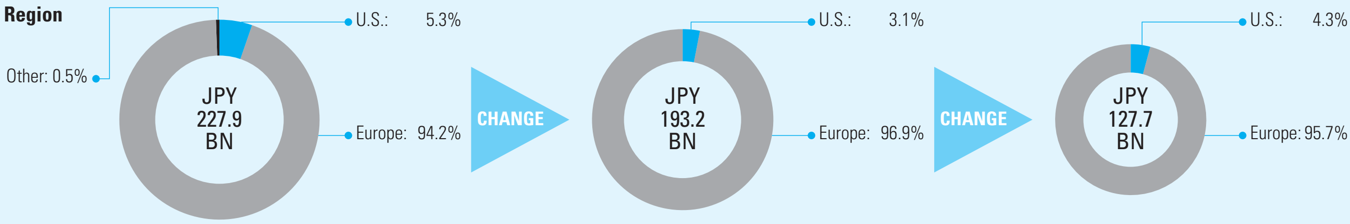
Regarding overseas ABI, the balance declined from ¥227.9 billion at September 30, 2007 to ¥193.2 billion at March 31, 2008 and to ¥127.7 billion*[2] at March 31, 2009 with more than 95% of the remaining balance in Europe, primarily concentrated in the U.K., Germany and Spain.

*1 These figures are the sums of overseas securitized products shown in Table 41 on page 93.
*2 These figures are the sums of asset-backed investments shown in Table 18 on page 77.

Overseas Asset-Backed Securities (Foreign-Currency Denominated Securitized Products)



Overseas Asset-Backed Investments



* More than 92% of foreign-currency denominated securitized products are rated AA or higher (as of March 31, 2009). Details on securitized products available on p. 93-94 of this annual report.

We have learned a very valuable lesson the hard way and are determined to prevent its reoccurrence. Over a period of 18 months the balance of overseas ABI and ABS has declined from close to ¥500 billion down to just ¥200 billion, and this has had a large impact upon our results during this time. We will strive to finish any residual mark-downs and impairments of our overseas ABI and ABS portfolio in fiscal year 2009 giving us a clean bill of health. Going forward our focus will be on customer-based business in Japan, and with the appointment of a chief risk officer at the senior managing executive officer level we have redefined the concept of risk within the Shinsei Bank Group. Our ultimate goal is not to avoid risk, but to ensure that we take risks that are in line with our return profile so that we are able to deliver steady and sustainable profits over the medium- and long-term.

How have you been able to return your retail bank back to profitability in only one year despite the difficult economic environment?

Shinsei Bank was able to return its retail banking operations back to profitability in just one year as a result of efforts to restructure this business around the customer while improving services under new management.

One of the first steps we took last fiscal year to turn our retail banking operations around was to create a new management team. Sanjeev Gupta was made chief operating officer for the Individual Group in June 2008, and in January 2009 I appointed him to group head at the senior managing executive officer level. The key to returning to profitability has been a back to basics approach where we reviewed our operations from an efficiency and effectiveness point of view.

In the wake of the financial crisis that engulfed Lehman Brothers and AIG in the U.S., we've seen the demand for mutual funds and insurance products wane. We don't foresee a revival of interest in these products until the current financial uncertainty subsides. In contrast, there has been strong demand for deposit products, including structured deposits, and this has helped boost net interest income in fiscal year 2008. We expect this trend to continue in fiscal year 2009.

In retail banking, we have continued to ensure our strategy dovetails with customer needs while carefully monitoring costs. In fiscal year 2008 we have been able to reduce costs with very little impact on the customer experience. To give an example, we have reduced our retail marketing expenses significantly. Since this was done by shifting to a more cost-effective media mix, we were able to cut advertising spending without reducing the level of advertising activity or reducing customer service.

The retail bank is the funding engine of the Shinsei Bank Group. We have been able to enhance our solid liquidity position through a series of successful multi-year retail deposit campaigns and through the introduction of the *Shinsei Step Up Program* in January 2009, which offers three levels of service to customers — Standard, Gold and Platinum — depending on how much of their business they entrust to the Bank. In fiscal year 2008, these efforts contributed to net growth of approximately ¥1 trillion in retail deposits, and we now have over 2.4 million retail customers (as of March 31, 2009). More importantly, these deposit campaigns have also helped us improve our customer profile as the Standard segment migrates into the Gold segment. While we are focusing primarily on deposits in the short term, we will also continue to pursue increased fee income in line with our "Best Financial Advisor" strategy.

As a result of our efforts, Shinsei Bank has ranked in the top three over the past five years for outstanding customer satisfaction in the *Nihon Keizai Shimbun*'s annual survey of the retail banking industry in Japan. During the same period, we have also ranked in the top three in the "Best Retail Bank in Japan" category of *The Asian Banker* Excellence in Retail Financial Services Awards Programme, regaining the top place in 2008.

From fiscal year 2009 we will focus on expanding our reach in retail banking through the opening of new, small-scale branches called "Shinsei Consulting Spots." Specializing in asset management consultation, these low-cost branches will be strategically located in areas where we already have a strong customer base but where our branch presence is weak. They are designed to break even in less than one year and payback quickly so that the expansion is self-funded and highly sustainable as we build scale for the retail business.

We will also focus on enhancing our remote distribution capability through revamping the retail banking website in the first half of fiscal year 2009, and by improving our mobile banking channel.

Looking further to the future, we believe that there is a promising business to be built by using the Bank's balance sheet to expand our provision of unsecured personal loans to retail banking customers while working in partnership with one of our consumer finance subsidiaries for credit screening and guarantees.

Please provide an update of your consumer finance strategy in light of the regulatory changes.

Shinsei Bank has taken a contrarian approach to consumer finance, an industry which is currently undergoing an unprecedented transformation with many players being forced to exit the market. We believe that this business will be a major profit driver going forward. We enjoy a competitive advantage afforded by stable retail funding, strong brands and limited grey zone expenses, as the only bank in Japan to take direct control of its consumer finance business to meet the needs of individual customers.

Shinsei's consumer finance operations are included in our Individual Group and comprise unsecured personal loan providers Shinsei Financial (formerly GE Consumer Finance) and Shinki, as well as the consumer lending operations of APLUS. While the size of the consumer finance market has contracted from roughly ¥10 trillion down to an estimated ¥6 trillion, our unsecured personal loan balance of approximately ¥900 billion makes us about the fifth largest active player in the market.

With revisions to the Money-Lending Business Control and Regulation Law, we are targeting lower-risk customer segments going forward, and we believe that these customers will become increasingly aware of Shinsei as a brand they can trust. Shinsei has the opportunity now to be a leader in bringing together its highly regarded retail banking services and responsible consumer lending to a customer base that exceeds 6 million active customers. Our goal includes cross-selling the right products and solutions to customers at the appropriate stage of their life. These products include automobile, housing, and card loans, investment trusts, annuities and life insurance, for example.

Our competitive advantage is three-fold. First, we are able to utilize our stable, low-cost retail deposits to finance our consumer finance business. Second, our best-in-class IT infrastructure allows us to keep costs down, while providing 24 hour/365 day service to our customer base throughout Japan. Third, we have significant upside potential to cross-sell retail banking products to selected segments of our consumer finance customer base and vice versa. We believe that these strengths will allow us to achieve a sustainable risk-adjusted return on assets of 2% or greater, and position this business as a major profit driver for the Shinsei Bank Group going forward as we focus on sustainable lending to meet the financing needs of individuals in Japan.

What measures have you implemented in your efforts to manage expenses?

Considering the difficult environment where earnings continue to be under pressure and we are refocusing on the basics of our business, we are attempting to reduce costs by 20% in fiscal year 2009. However, we will not undertake cost rationalization at the expense of efficiency and service quality, both of which we are confident will improve. Our cost rationalization efforts will be focused on our Individual Group, Institutional Group and at the corporate level.

The Individual Group includes both our retail banking and consumer finance operations. We have taken a number of measures in both areas that we expect to lead to leaner and more productive operations going forward. For example, we will focus our efforts on what is important in our retail banking operations. Here we have reconfigured our sales force and optimized the efficiency of our staff by focusing on core processes and businesses. Starting in fiscal year 2009 we will attempt to broaden our branch coverage in Japan by utilizing a "lite branch model" strategy and opening a series of small scale branches called "Shinsei Consulting Spots," to maximize our presence at a reasonable cost. We expect to keep our retail banking expenses at fiscal year 2008 levels even as we expand our branch coverage.

In our consumer finance operations, we have decided to integrate and further automate operations at Shinsei Financial and Shinki, and rationalize the work force. As a result, we expect to realize significant cost synergies. At Shinsei Financial we have introduced an early retirement program and will reduce the number of employees from about 2,000 to about 1,300 in fiscal year 2009. In APLUS, we are currently pursuing several operational and IT enhancement activities to significantly improve customer service and reduce the overall expense base.

Given the market environment, we are committed to making changes by focusing on our core strengths to solidify our base and ensure stable earnings over the medium- to long-term in our institutional banking operations. In order to achieve this we are focusing on three action items. First, we are working to allocate staff to core businesses and improve operational efficiency by focusing on key functions. Second, in terms of our restructuring focus, we have decided to scale down or exit asset and wealth management as well as alternative investments and restructure our real estate finance, principal transactions, capital markets and advisory businesses. Third, regarding our business focus, we are going to concentrate on the Japanese market where the risk-return profile is medium risk and medium return and therefore less volatile and easier to predict.

As with our Individual Group and Institutional Group, under the concept of "Back to Basics" we have been able to rationalize our workforce at the corporate level by reevaluating and prioritizing essential duties while eliminating overlapping functions. This has allowed us to reduce costs and increase efficiency. Going forward we will continue to rationalize and optimize our operations to maximize shareholder value.

Please comment on the liquidity of your funding considering the turmoil in global financial markets.

The financial crisis has negatively impacted the earnings of most companies and has challenged funding and liquidity at many institutions that rely on capital markets. But, at the same time it has created unique opportunities for deposit-gathering institutions that have benefited from a renewed interest in bank deposits. The time deposit campaigns we offered in the latter half of fiscal year 2008 resonated with individual customers, who have become more risk-averse due to the financial turmoil. Our retail deposit balance has grown by more than ¥1 trillion over the last fiscal year, surpassing the ¥5 trillion mark on a total basis for the first time in March 2009, backed by more than 2.4 million retail accounts. Our efforts to develop a retail banking platform back in 2001 are now paying off, providing a stable and liquid funding base that complements our commercial funding sources.

Shinsei also practices prudent liquidity management under the governance of our Asset and Liability Committee (ALCO) to ensure the Bank has ample liquidity reserves for both normal and extraordinary, stressed environments. As a result of these regular liquidity management practices, the Bank already held a good level of liquidity when the market turmoil began in mid-September 2008, and these well-established practices have helped us to build robust liquidity levels quickly in this challenging environment.

We also leverage time deposits as a valuable asset-liability management tool to raise funds over varying tenors and minimize refinancing concentration. During fiscal year 2008, we have offered deposits in a wide range of time periods of up to 10 years, serving various customer needs while enhancing the stability and diversity of our funding sources. At present, about 75% of our funding is customer based, including retail and institutional deposits and, to a lesser extent, debentures. While we currently still utilize some external commercial funding sources, our goal is to equip ourselves with the capability to finance our core assets fully through retail deposits, core institutional deposits and capital, thus eliminating the need to rely on market-based funding or any particular financial institution. We believe that the provision of attractive retail deposit services will help us deepen our customer relationships while increasing the stability of our strong funding base and ultimately allowing us to lower our average funding costs.

Please provide an overview of the measures you have implemented or plan to implement to improve your capital position.

Shinsei Bank has implemented a number of measures to improve the quality and level of its capital in light of the business environment.

First, Shinsei took a very innovative approach to strengthen its Tier I capital by offering APLUS Class-D preferred share investors an opportunity to exchange their holdings into Shinsei Bank Tier I preferred securities. This transaction allowed Shinsei Bank to transfer a portion of its Tier II capital to Tier I capital as Class-D preferred shares of APLUS were included in Shinsei Bank's Tier II capital.

In March 2009, Shinsei Bank was able to raise ¥48.2 billion of capital through the issuance of Tier I preferred securities to APLUS Class-D preferred shareholders and to a limited number of select institutional and corporate investors in Japan. Both issuances were privately placed. The preferred securities are not convertible into common stock of Shinsei Bank.

Second, we decided to repurchase and cancel a portion of our Hybrid Tier I preferred securities and upper and lower Tier II subordinated debt originally issued in 2006 as they were trading at significant discounts to their original issue price. In total we purchased ¥21.7 billion or US$221 million out of the US$1,475 million across the step up and non step up Hybrid Tier I preferred securities issued and a portion of the outstanding upper and lower Tier II subordinated debt, which included principal buybacks of ¥30.0 billion of our sterling upper Tier II bonds and ¥50.8 billion of our EUR lower Tier II bonds. This resulted in a net gain of ¥74.1 billion, which is comprised of a gain of ¥18.5 billion on the repurchase of preferred securities and cancellation of associated swaps, and a gain of ¥55.5 billion on the repurchase of subordinated securities and cancellation of associated swaps in fiscal year 2008. As of March 31, 2009, our total capital adequacy ratio was 8.35%, Tier I capital ratio was 6.02%, core Tier I capital ratio*1 was 4.03% and tangible common equity ratio*2 was 3.00%.

Shinsei Bank will continue to work to strengthen its capital going forward by looking at reducing risk assets and selectively raising capital once the capital markets re-open.

*1 Core Tier I capital ratio = Tier I, excluding preferred securities and non-convertible preferred stock minus deferred tax assets (net) divided by risk weighted assets.
*2 Tangible common equity ratio = Net assets minus preferred stock, intangible assets and minority interests divided by total assets, excluding intangible assets.

Review of Operations

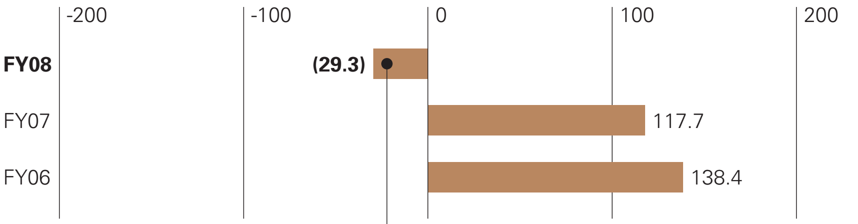
AT A GLANCE

Institutional Group

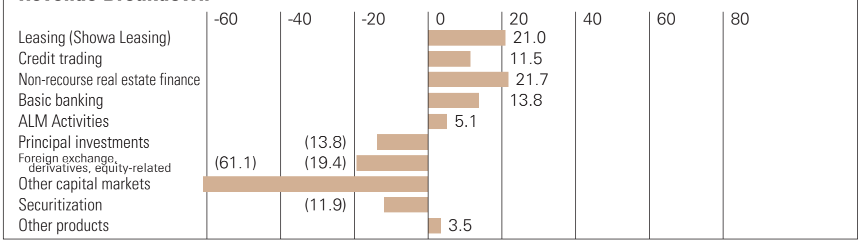
Fiscal year 2008 has changed the landscape of our business in the Institutional Group. We have been quick to recognize that previously profitable proprietary investment strategies are no longer sustainable, and we have moved swiftly and decisively to redeploy our management resources. Supported by ample liquidity reserves generated by the Bank's retail operations, we have conservatively marked down and impaired investments and reserved against possible losses, ready to make a fresh start in fiscal year 2009. We are going back to basics, focusing on the domestic market and the businesses to provide trusted solutions to our valued and long-standing customer base.

Revenue

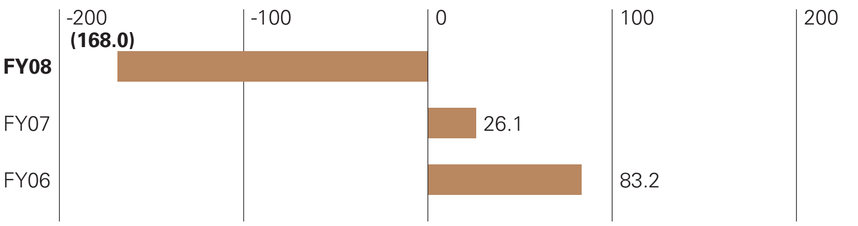
(Billions of yen)



Revenue Breakdown



Ordinary Business Profit (Loss) After Net Credit Costs (Recoveries)



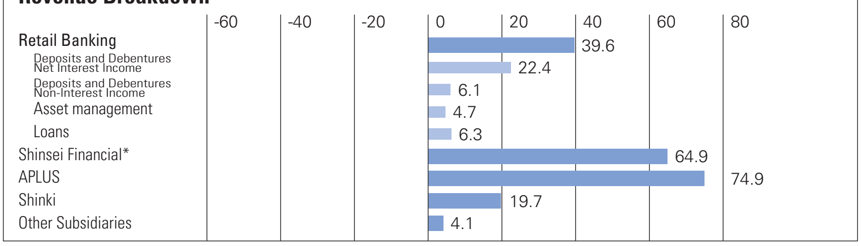
Individual Group

Combining the award-winning retail bank with our consumer finance subsidiaries, Shinsei's Individual Group brings innovative financial solutions to over 6 million active customers in Japan. Through product innovation, efficient use of technology, customer focus and prudently managing costs, our retail bank returned to profitability in fiscal year 2008 while ensuring our businesses had stable access to low-cost funding through retail deposits. These successes have been recognized in another top 3 ranking in the annual *Nihon Keizai Shimbun* customer satisfaction survey, and our recent selection as "Best Retail Bank in Japan" in *The Asian Banker* Excellence in Retail Financial Services Awards Programme 2008. In consumer finance, we have begun realigning our operations for greater business focus, improved efficiency and maximum synergy. Shinsei Bank and Shinsei Financial completed a successful tender offer bid for Shinki's outstanding shares, opening the way for further integration in our profitable personal loans business.

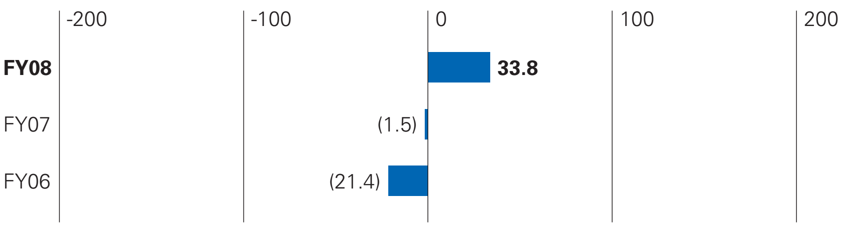
Revenue

(Billions of yen)

Revenue Breakdown



Ordinary Business Profit (Loss) After Net Credit Costs (Recoveries)



* For the six months ended March 31, 2009

PRODUCT & SERVICE HISTORY

2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009

- Corporate loans (basic banking), syndicate loans
- Capital markets (foreign exchange, derivatives)
- Advisory
- Securitization
- Credit trading
- Leveraged and project finance
- Non-recourse finance
- Structured credit
- Private equity
- Corporate revitalization
- Leasing
- Rentals
- Installment sales credit (for SMEs)

- Real estate secured loans and small property development loans
- Savings and time deposits, debentures
- Foreign currency deposits
- Structured deposits
- Mutual funds
- Comprehensive retail account, *PowerFlex*, and Internet banking service, *PowerDirect*
- *PowerSmart Home Mortgage*
- Fixed and variable annuities
- Installment sales credit (for individuals), auto loans
- Credit cards
- Consumer/business loans
- Guarantees
- Collection services
- Securities brokerage services
- Shinsei VISA Card
- Medical, cancer and automobile insurance
- Shinsei Bank *SmartCard Loan*

INSTITUTIONAL GROUP

Sang-Ho Sohn
Head and Chief Executive of Institutional Group

Fiscal year 2008 has changed the landscape of our business in the Institutional Group. We have been quick to recognize that previously profitable proprietary investment strategies are no longer sustainable, and we have moved swiftly and decisively to redeploy our management resources. Supported by ample liquidity reserves generated by the Bank's retail operations, we have conservatively marked down and impaired investments and reserved against possible losses, ready to make a fresh start in fiscal year 2009. We are going back to basics, focusing on the domestic market and the businesses to provide trusted solutions to our valued and long-standing customer base.

Results

The Institutional Group comprises the Institutional Banking business and Showa Leasing.

The Institutional Group recorded a total loss of ¥29.3 billion in fiscal year 2008, compared to a total revenue of ¥117.7 billion in fiscal year 2007. While revenues increased for Shinsei Bank's non-recourse real estate finance business and asset liability management (ALM) activities, the turmoil in global markets materially impacted all other businesses. In particular, the impairment of our U.S. and European CLO portfolio as well as mark-downs related to European and other asset-backed investments and asset-backed securities and other investments in Europe largely impacted revenue.

While we were able to reduce expenses by 8.6% due to stricter cost controls and cost reduction measures, an ordinary business loss was recorded in the fiscal year 2008 of ¥87.2 billion, compared to an ordinary business profit of ¥54.4 billion in the previous fiscal year due to the above reasons. An ordinary business loss after net credit costs of ¥168.0 billion was recorded in fiscal year 2008 due to lower revenues and an increase in credit costs mainly related to the failure of a Lehman Brothers subsidiary, reserves for real estate finance and credit costs related to European asset-backed investments, compared to an ordinary business profit after net credit costs of ¥26.1 billion in the previous fiscal year.

Operating Environment

After the bankruptcy of Lehman Brothers in September 2008, continuing dislocations in global financial markets, compounded by a widespread economic slowdown, severely impacted operations across the Institutional Group. The implications have been two-fold: we have taken valuation losses on proprietary investments; and we have seen a marked decline in business volume from our clients, who have also suffered in the crisis. While our competitors have been affected by the economic shock to varying degrees, across the board, financial firms including banks are striving to bolster their capital ratios as they return to basics. Many global financial firms are retrenching and withdrawing from the Japanese market.

The impact of rapidly deteriorating overseas markets, particularly on asset-backed investments and securities related to the European real estate market, led to losses in the Institutional Group. On the other hand, limited cross-shareholdings with Japanese corporations meant that we were insulated to some extent from falling Japanese equity prices. Anticipating the downturn in advance, we accelerated the deleveraging process that we initiated in fiscal year 2007, taking conservative mark-downs on impaired investments and posting robust reserves against possible future loan losses. Throughout these trying times, we have maintained strong and proactive relationships with Japanese customers, enabling us to minimize credit costs related to domestic lending.

Challenges

The uncertainty and dysfunctionality that persist in domestic and overseas markets present the biggest challenge for the Institutional Group. In some cases, entire markets remain frozen and may only return under very different conditions. This implies potential difficulties as we seek to de-risk our balance sheet of impaired assets.

Having built a high quality and generally profitable domestic real estate portfolio, we will also be monitoring the property market vigilantly for signs of further deterioration. Conversely, the vacuum left by foreign investment banks means that there are opportunities to profit from widening spreads through selective underwriting.

Shinsei's exposure to overseas markets is by no means unique. Other Japanese banks have also sustained losses through investments, and as they begin to refocus on domestic business, we are likely to face an increasingly competitive environment. With over 50 years experience in serving the Japanese market, Shinsei's Institutional Group has built strong franchises, based on trusted products, extensive experience and a solid customer base. We are confident that these franchises will act as a credible differentiator going forward.

Strategy

We believe the investment banking model that prevailed over the last ten years, centered on leveraged, proprietary transactions, has come to an end. Leaving this model behind, the Institutional Group is embarking on an extensive restructuring program that will place the highest priority on building competitive franchises based around the needs of our core customers in the Japanese market: domestic corporates, the public sector and financial institutions.

We have already ceased proprietary trading and investment activities. We are now carefully monitoring remaining portfolios, looking to shrink them further while minimizing the risk of losses. In order to devote more resources to key clients, we will scale down or close non-core operations where we lack the scale to be competitive. These include our Asset Management and Wealth Management operations. We will also continue restructuring the Bank's Capital Markets Division and our subsidiary, Shinsei Securities, as our shift away from proprietary transactions creates excess capacity in these areas.

Focusing exclusively on the Japanese market, we will concentrate on providing basic banking services, and leveraging these lending relationships to provide value-added solutions that meet varying customer needs. We will also work to build on existing core competencies in real estate finance and principal transactions where we have already established a solid reputation. In this way, we aim to balance core and niche lending in order to optimize our risk-adjusted returns.

Our broad and diversified base of customer relationships is both a source of competitive advantage and of new opportunities, particularly in the current challenging macroeconomic environment. Our partnerships with other financial institutions, such as regional banks, represent an important source of business for which we do not directly compete with megabanks. As the Japanese government increases public spending in an effort to revive a weakened economy, we will work to expand our presence in the public sector where we have nurtured long-standing relationships with governmental agencies, municipalities and affiliated associations. We will also strive to grow our share in the niche market of acquisition financing, emphasizing our ability to offer clients unrivalled access to funding through our strong relationships with foreign private equity funds. Our M&A advisory practice will constitute another source of stable, fee-based revenue. We plan to make new inroads into the middle market M&A business while handling a steady flow of corporate revitalization projects that look set to grow as the economic slowdown runs its course.

Listening carefully to these customers' needs, we will deliver solutions that draw on Shinsei's tried and tested strengths. As a pioneer in non-recourse lending in Japan, we are well positioned to take advantage of the vacuum left by foreign financial institutions. This will allow us to be selective in our lending and enjoy more attractive spreads. Looking from a longer-term perspective, we aim to build value chains that begin with non-recourse lending relationships. As these non-recourse lending relationships mature, they will offer us opportunities to provide a variety of value-added services including but not limited to corporate loan products. In principal transactions, our emphasis will be on credit trading, providing solutions to help our customers in restructuring their balance sheets. Here we will work with our subsidiary, Shinsei Servicing Company, one of the highest rated companies in the Japanese servicing industry.

The driving force behind this strategy will be our people: our experienced relationship managers, who work closely with clients to understand their needs, and our talented product specialists who design effective solutions. Management at the highest levels are spending time and resources to help our people work in even closer cooperation going forward, as we strive to provide outstanding value to our customers.

Progress

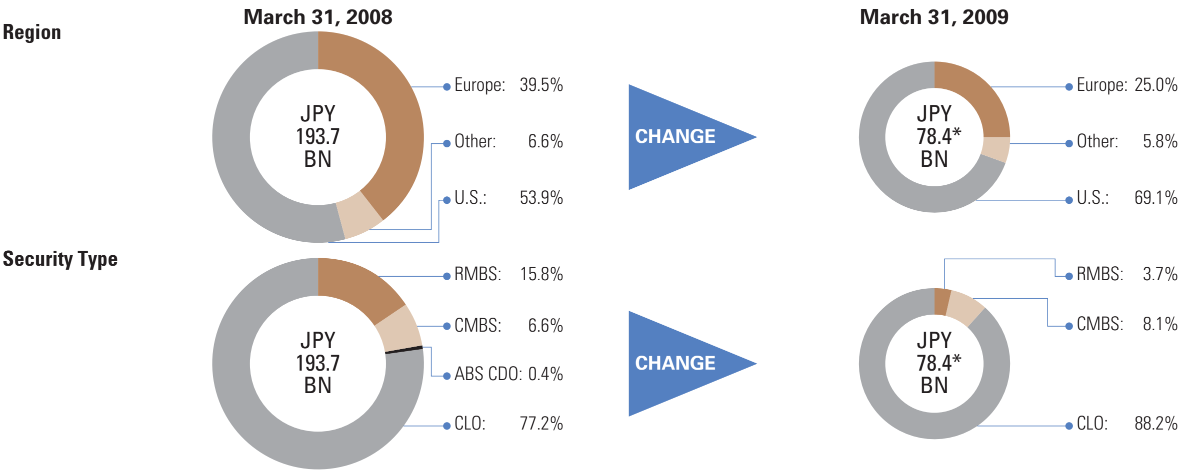
The Institutional Group was formed in June 2008, bringing our institutional banking operations and subsidiaries together with Showa Leasing and its strong base of small- and medium-sized corporate customers, in order to leverage further cross-selling opportunities between these complementary businesses. In June 2008, Shinsei combined the former Corporate Banking, Financial Institutions, and Public Sector Finance relationship manager sub-groups into a new Institutional Business Sub-Group, strengthening our capacity to provide the best financial products and services to both existing and new customer categories.

Our key goal for fiscal year 2008 in the Institutional Group was to refocus the organization on customer-centric business through a thorough review of our strategy, extensive business restructuring, and redeployment of our personnel.

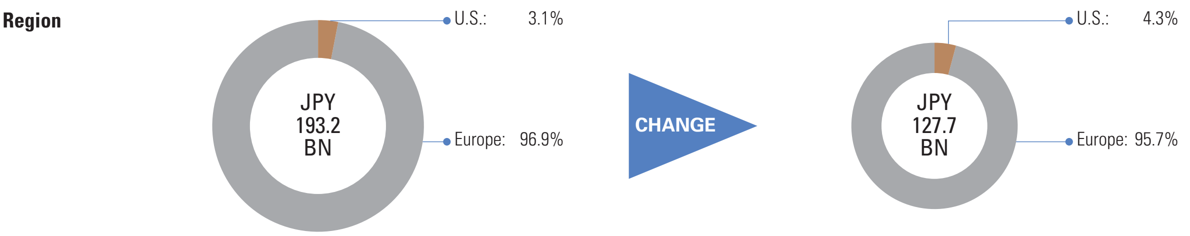
Right-Sizing Capital Markets and Shinsei Securities

As the global economy continued to worsen in the second half of the fiscal year, we suspended lending and proactively reduced our exposure to European asset-backed investments and securities, in order to prevent further losses on

Overseas Asset-Backed Securities (Foreign-Currency Denominated Securitized Products)



Overseas Asset-Backed Investments



* More than 92% of foreign-currency denominated securitized products are rated AA or higher (as of March 31, 2009). Details on securitized products available on p. 93-94 of this annual report.

these portfolios. As of March 31, 2009, the balance of our overseas ABI/ABS (including CLOs) was approximately ¥200 billion, down from roughly ¥380 billion at March 31, 2008. Despite aggressive investment in hedge funds in previous years, we worked quickly to redeem funds invested and were able to avoid large-scale losses related to these vehicles. Going forward, we will continue devoting our energy to monitoring and actively managing this exposure, aiming to gradually reduce its size while minimizing additional losses.

By mid-2008, it was clear that proprietary transactions were accounting for a major part of business in our Capital Markets division, and in Shinsei Securities, as client flow declined due to adverse market conditions. Consequently, we began right-sizing these businesses through attrition and implementation of a voluntary early retirement program, to reach staffing levels in line with the opportunities available in the new market environment.

Alongside this restructuring and down-sizing, Capital Markets and Shinsei Securities continued to work closely with our retail banking operations to create innovative products for individual customers. Shinsei Securities, for example, expanded its financial products brokerage service (*chukai*) in partnership with retail banking, in response to a gradual increase in demand for enhanced yield products from individual investors. Having boosted its retail-focused capacity, Shinsei Securities plans to enlarge the product line-up and grow this business further going forward.

Generating Returns from Real Estate Despite Challenging Conditions

Despite adverse market conditions characterized by declining land prices and commercial rents, our real estate-related businesses weathered the financial turmoil relatively well, and continue to be the most profitable unit in the Institutional Group. Non-recourse loans account for about two-thirds of our approximately ¥1 trillion (non-consolidated) in lending to the real estate sector, with the remainder consisting primarily of lending to medium-sized and major real estate companies. At Shinsei, we perform all of the screening, contract-related administration, property appraisals, origination and management for non-recourse lending in-house. Our exposure is diversified by customer, property type and geography, with a strategic focus on premium urban locations.

Borrower demand grew after the end of 2007, as foreign lenders stricken by the subprime loan crisis pulled out of the Japanese market. During fiscal year 2008, the Institutional Group was able to increase its exposure selectively, focusing on transactions with the best risk-adjusted returns after strict credit screening. As market conditions continued to deteriorate, however, we curtailed origination in the latter part of the fiscal year. While we have seen a rise in risk-monitored loans and prudently reserved for potential losses, we have managed the portfolio proactively, ensuring we maximize risk-adjusted returns by enhancing the credit profile of our positions.

Basic Banking and Lending–the Core of our Business

We see lending as a core product for developing customer relationships that will unlock opportunities to serve our customers with more sophisticated financial solutions. The effects of the economic downturn on Shinsei's core lending business have so far been limited due to our relatively small exposure to small- and medium-sized real estate companies. While there was strong demand for corporate lending in fiscal year 2008, corporate bankruptcies increased 11% year-on-year and lackluster business performance implied that credit risks may rise going forward. Taking a prudent approach to credit management, we are leveraging the expertise accrued by our experienced and specialized relationship managers, and will look to expand our customer base, focusing on lending to medium-size enterprises and the public sector.

INDIVIDUAL GROUP

Combining the award-winning retail bank with our consumer finance subsidiaries, Shinsei's Individual Group brings innovative financial solutions to over 6 million active customers in Japan. Through product innovation, efficient use of technology, customer focus and prudently managing costs, our retail bank returned to profitability in fiscal year 2008 while ensuring our businesses had stable access to low-cost funding through retail deposits. These successes have been recognized in another top 3 ranking in the annual *Nihon Keizai Shimbun* customer satisfaction survey, and our recent selection as "Best Retail Bank in Japan" in *The Asian Banker* Excellence in Retail Financial Services Awards Programme 2008. In consumer finance, we have begun realigning our operations for greater business focus, improved efficiency and maximum synergy. Shinsei Bank and Shinsei Financial completed a successful tender offer bid for Shinki's outstanding shares, opening the way for further integration in our profitable personal loans business.

Results

The Individual Group consists of the retail banking business as well as the subsidiaries Shinsei Financial, APLUS, Shinki and Shinsei Property Finance. Shinsei Financial was acquired on September 22, 2008 from GE Japan Holdings Corporation and its results have been incorporated in our consolidated financial results from October 1, 2008.

Total revenue increased 50.1% to ¥203.5 billion in fiscal year 2008, compared to ¥135.5 billion in the previous fiscal year due mainly to the consolidation of Shinsei Financial, which was largely accretive to earnings, and to the continued improvement in our retail banking operations.

Ordinary business profit in fiscal year 2008 was up 96.8% to ¥83.3 billion, compared to ¥42.3 billion in the previous fiscal year. The increase in ordinary business profit was due to higher revenues for the reasons given above and lower expenses achieved in retail banking and APLUS due to efforts to rationalize these businesses.

Ordinary business profit after net credit costs was ¥33.8 billion in fiscal year 2008, compared to an ordinary business loss after net credit costs of ¥1.5 billion in the previous fiscal year, due primarily to the incorporation of Shinsei Financial within the Individual Group as well as the progress that was made in retail banking, APLUS and Shinki.

Operating Environment

From the second half of fiscal year 2008 onwards, the ongoing credit crisis began to impact the real economy and the day-to-day lives of our individual customers in Japan. We saw a marked shift away from investment and annuity products in retail banking. In our consumer finance business, reduced consumer expenditure impacted sales finance revenues while the monthly volume of refund claims for "grey zone" interest showed few signs of decline. Competition remains fierce as competitor banks refocus their efforts on individuals to offset declines in institutional revenue, and consumer finance companies gear up for upcoming legislation that will limit lending and interest rates. The Individual Group responded proactively with a series of highly successful deposit campaigns from our retail bank, and by tightening credit standards and promoting the bank-affiliated status of our consumer finance operations.

Challenges

The ongoing economic uncertainty poses significant challenges in both retail banking and consumer finance. Amid dampened interest in investment and annuity products, the retail bank will focus on maintaining deposit growth momentum, while continuing to promote long-term asset management, and sourcing fee-earning products that can offer asset growth even in the current environment. Regulatory changes remain the single biggest challenge for our consumer finance operations. However, we are confident that cost synergies generated through further operational integration, coupled with access to low-cost funding and the peace-of-mind afforded by bank affiliation, position us favorably to become the lender of choice among lowest risk borrowers.

Strategy

Retail Banking

In retail banking, we strive to be our customers' "Best Financial Advisor" and the bank of choice for asset management solutions for both experienced and first time investors. By offering a comprehensive selection of financial products and services over a customer-empowering, low-cost distribution platform, we aim to grow our share of the mass-affluent market and achieve an optimal mix of net interest and fee-based income.

As account numbers continue to grow at a steady rate, we are focusing on deepening our relationships with both new and existing customers through initiatives that reward our most committed customers. We are constantly reviewing our product portfolio to ensure we channel resources into products that both meet customers' needs and generate sustainable income. Our ability to offer customers 24-hour access to their accounts over a multi-channel platform remains a key differentiator from our competition. We are able to achieve this due to our unique IT infrastructure. While working to further enhance our remote distribution channels, we are reviewing our branch network to ensure our locations are cost-effective and support the broader goal of increasing transaction volume from existing and new customers. From June 2009, we will expand our distribution capability through the roll-out of new "Shinsei Consulting Spots." Specializing in asset management consultation, these small-scale branches will be strategically located in areas where we already have a strong customer base but where our branch presence is weak. They are designed to break even in under one year and payback quickly so that the expansion is self-funded and highly sustainable as we build scale for the retail business. Our unique "Bricks and Clicks" distribution model allows us to originate a significant share of our new customer acquisition and deposits through remote channels.

Consumer Finance

Shinsei's Individual Group is committed to becoming the leading provider of responsible consumer finance services in Japan. Our strategy focuses on attracting lowest risk customers and maximizing cost efficiency to secure sustainable profitability, while ensuring 100% compliance with regulatory changes.

With the acquisition of Shinsei Financial Co., Ltd. (previously GE Consumer Finance), we have achieved the critical mass in terms of customer base, brand and distribution, to take a leading position in this increasingly challenging market. We are now working to realign our operations for optimal deployment of management resources; APLUS will concentrate on installment sales credit, credit cards and the collection/guarantee business while Shinsei Financial and Shinki will focus on unsecured personal loans, funded primarily through low-cost deposits from our retail bank. We will pursue further operational efficiency by introducing Shinsei Bank's low-cost and highly flexible IT infrastructure across businesses, and identifying areas, such as branch network, where we can consolidate functions and expenses. In our personal loans business in particular, we will also develop our non-price related proposition through strategic investment in brand image and product innovation.

As business integration progresses, we will look for opportunities to cross-sell retail banking services to selected segments of our consumer finance customer base and vice versa, through careful customer profiling and targeted marketing.

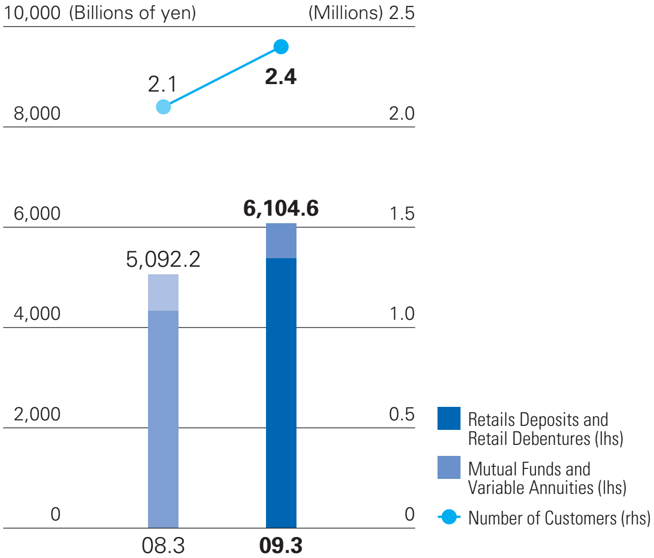
Progress

Retail Banking

Striving to be our customers' "Best Financial Advisor," the Retail Banking Sub-Group remains focused on providing solutions that help our customers build wealth throughout every stage of their lives.

We continued to see strong customer growth in fiscal year 2008, as our total number of accounts topped 2.4 million. This momentum was driven in large part by our ability to tap into customer demand for deposit products. A series of yen time deposit campaigns offering highly competitive interest rates over a variety of tenors contributed to net growth of approximately ¥1 trillion in retail deposits (as of March 31, 2009). Approximately 70% of revenue derived from our annuity business despite challenging market conditions. As a result, our balance of assets under management increased almost 17% year-on-year to over ¥6 trillion. Our *PowerSmart* housing loans, which ranked top in the *Nihon Keizai Shimbun*'s 2008 survey of retail banking strength, also performed steadily in fiscal year 2008.

Assets Under Management & Retail Customers



Following the success of *Shinsei Platinum Services* in fiscal year 2007, we launched the *Shinsei Step Up Program* in January 2009 (see box on page 27). The program introduces three service levels - Shinsei Platinum, Shinsei Gold and Shinsei Standard - for our *PowerFlex* account holders and offers powerful incentives for customers to 'step up' to a higher level. The popularity of our yen time deposit campaigns, coupled with the *Step Up Program*, has improved our levels of customer commitment as existing customers migrate from Standard to Gold status, and many of our new customers joined us at the Platinum level.

We continually review and optimize our product offering, striving to meet customer needs with timely launches of attractive products. In addition to our popular time deposits, we have also introduced innovative products for customers looking for higher returns. In fiscal year 2008, as the yen strengthened to historic highs against foreign currencies, we launched a structured time deposit product for customers looking for a mid-term investment vehicle for U.S. dollars. We also promoted our asset management products on a selected basis in fiscal year 2008.

The retail bank's successful return to profitability has been driven by thoroughgoing expense reductions and a continued commitment to best-in-class customer service. Significant cost reductions were achieved as we brought advertising activities more closely in line with our selective customer acquisition strategy through a sharply targeted print and Internet campaign. In our branches, we have moved resources away from low-traffic sites to focus more attention on our core customer bases, and we continue with ongoing training to upgrade our sales staff's skills and improve the customer experience.

Shinsei Financial and Shinki

Consolidated subsidiaries of Shinsei Bank, Shinsei Financial (formerly GE Consumer Finance) and Shinki both focus on providing unsecured personal loans to low risk customers at "white zone" interest rates. The consolidation of their earnings contributed ¥28.2 billion in ordinary business profit after net credit costs.

Since June 2008, Shinsei Financial's Lake brand has maintained a No. 1 or No. 2 position in new customer acquisition while keeping costs-per-application among the lowest in the industry among the top five players. Over a third of new applications are from customers with no existing borrowing relationships reflecting its powerful brand, customer-focused marketing strategies and selective underwriting.

Shinki, on the other hand, has been strategically shrinking its loan portfolio to focus on "white zone" customers while aggressively pursuing cost reduction measures.

We have now begun integrating these two complementary businesses to maximize efficiency and unlock synergy. Shinsei Financial has run off its legacy credit card and mortgage portfolios, leaving APLUS and the Retail Banking Sub-Group to focus on these areas respectively. In March 2009, Shinsei Bank and Shinsei Financial successfully completed a tender offer bid for Shinki's outstanding shares. On March 31, 2009, the three companies signed a Memorandum of Understanding that outlines plans for the two subsidiaries to rationalize their ACM (automatic contract machine) network, integrate call centers and back- and middle office processes, and formulate an integrated brand strategy targeting lowest-risk borrowers.

APLUS

As the Individual Group realigns its consumer finance operations, APLUS, a 76.7% owned consolidated subsidiary of Shinsei Bank, will focus on credit cards, installment sales credit and guarantee/collection services going forward, leveraging its long-standing merchant partner relationships.

While revenues at APLUS fell as planned in fiscal year 2008 due to stricter credit screening, this was offset by ongoing cost reductions and efficiency improvement efforts geared to increase profitability. Credit costs have remained at relatively low levels, supported by growth in quality assets under the stricter credit standards, and success in delinquency prevention through a more rigorous collection system.

Working in collaboration with our Banking Infrastructure Group, APLUS is currently deploying the same best-in-class IT infrastructure methods used in Shinsei Bank's core operations to establish a highly efficient and "paperless" sales finance business. It is also conducting a thorough review of its fee structure and credit card issuance processes, aiming to increase profitability and further lower costs.

APLUS will move to a holding company structure with two subsidiaries, namely APLUS PERSONAL LOAN, which will focus on consumer finance, and APLUS CREDIT, which will focus on installment sales, credit cards and the settlement business. These changes are geared to accelerate expense rationalization, increase efficiency, and ultimately improve profitability.

Shinsei Step Up Program

In January 2009, Shinsei Bank launched *Shinsei Step Up*, a new three-level program that makes it even more rewarding to bank with Shinsei. Introducing an array of new and attractive benefits, *Shinsei Step Up* provides powerful incentives for individual customers to do more of their banking with Shinsei. The program offers *PowerFlex* account holders a choice of three levels of service—Shinsei Platinum, Shinsei Gold and Shinsei Standard—to meet their evolving financial needs. The new Shinsei Gold service offers preferential interest rates, lower FX commission, and other discounts to customers who take advantage of more of the Bank's products and services. We have also expanded Shinsei Platinum for the Bank's most dedicated customers to improve benefits across virtually every product and service category. Service levels are determined by customers' average account balances over the previous month, so it is easy for customers to upgrade their relationship with Shinsei.

The promise we make through *Shinsei Step Up* is simple: we offer great value to our best customers on all our products, all of the time. The promise has resonated with customers, and in fiscal year 2008 many of our new customers joined us at the Shinsei Platinum level.

BANKING INFRASTRUCTURE GROUP

In a year of unprecedented change and challenges, the Banking Infrastructure Group's (BIG) "path-based" approach to IT has provided ongoing support for the Bank and its businesses' IT and operations needs. Our ongoing mission is to maintain a stable and highly efficient infrastructure that helps our businesses out-price the competition and provide unrivalled service to our customers. During fiscal year 2008 BIG continued to support the Bank's businesses and its expanding customer base with a secure and scalable IT and operations platform.

Simple, stable, secure and scaleable—Our Approach to IT

Our IT methodology is unique among banks and remains essentially unchanged since Shinsei's birth in 2000. Drawing on techniques more commonly found in industrial engineering, we take a "path-based approach" that assumes our businesses will evolve, and builds in the flexibility to power this change.

We approach business demands by deconstructing them into their simplest parts. We create discrete solutions for each part, using standard off-the-shelf components to achieve highly stable operation. This "building block" construction means that we can quickly and inexpensively modify existing components to accommodate new products and services. We then introduce these seamlessly across platforms without having to take systems off-line. Leveraging these methods we have achieved a high degree of automation and use of images, instead of paper documents, across all business processes in Shinsei.

In the design and deployment of IT and operations capability, we focus on giving the customer direct access to the portfolio of services we offer. In doing so, our endeavor is to provide a unique customer experience by delivering our products and services under machine control so as to ensure consistently high standards of service. All the tasks necessary to fulfill a customer's request are standardized and performed under machine control. Work is broken down into its elemental levels and is processed by machines or presented to staff along with all the information needed to complete the task. This allows us to have staff with general skills, as opposed to specialists, execute the work, and enables us to measure performance and throughput on a continuous basis. Since work is standardized, staff are assigned on the basis of available work, creating a flexible workforce that can be deployed on any product or service for the customer. We then focus on improving efficiency and throughput to help control costs effectively and achieve a high level of manageability.

Our retail branches and Internet banking services incorporate a capability we call the "assisted channel." This facility empowers customers to participate actively in their transactions through standardized, user-friendly interfaces. Not only does this self-service model free our staff to provide assistance and advice, but it also prevents errors and speeds up service times.

Shinsei's IT architecture is built upon low cost, standard machines, securely linked over the Internet. We are able to ramp up capacity incrementally, through adding machines unit-by-unit, to avoid unnecessary investment. Free from the expensive, proprietary arrangements that are common with mainframe systems, we are able to leverage a network of IT partners around the globe, sourcing expertise based on ability and cost rather than contractual obligations.

As we deploy new IT and operations capability, we also focus on making it robust and highly reliable. We deploy machines at multiple locations and have established multiple command and control centers. In our design, we assume things will fail, and build in the ability to recover passively so that our service to customers remains uninterrupted. As our businesses grow and as the transaction load increases, our platform scales up with ease. This allows us to serve an ever-greater number of customers, without any disruptions and with full safety. Throughout fiscal year 2008, we have continued to augment capacity at our Fukuoka data center, which together with the command and control center in Singapore, serves as a back up to our operational hub in Tokyo.

We continuously review the performance of our IT and operations platform, focusing on efficiency and looking for new ways to improve operations. We are constantly alert to the availability of better and lower cost components and endeavor to leverage them so that we keep our costs tightly controlled.

In this way, we combine the simplest possible technology with a truly modular design to ensure that we keep maintenance costs low and can scale up quickly to meet new demands.

Fiscal Year 2008 Overview

Fiscal year 2008 presented a variety of new challenges for the Banking Infrastructure Group, particularly as we supported the Individual Group in its efforts to manage costs more effectively and serve customers at an ever higher standard.

We have provided the tools and capability the Individual Group needs to manage its costs more effectively and serve its customers with a competitive portfolio of products and services. Among them were tools which helped the Retail Banking Sub-Group create the *Shinsei Step Up Program* (see page 27), launched successfully on January 1, 2009. A key initiative for retail banking, the Program offers increasingly attractive services and benefits over three different stages, incentivizing customers to grow their relationship with the Bank. Enabling our retail banking business to price products according to individual customer relationships is making a significant contribution to reducing transaction cost per customer.

The fiscal year also saw several new regulatory initiatives. These included the new Financial Instruments and Exchange Law (FIEL) and adoption of globally accepted Basel II standards. Under FIEL, customer protection is highly formalized and financial institutions are required to perform in-depth ‘know-your-customer’ checks and controls on each transaction. Our flexible and scalable platform allowed us to deliver this new capability in a very short time. FIEL also prescribes new controls on financial reporting more commonly known as J-SOX. We supported the Finance Group by providing tools and capability to meet key milestones in achieving compliance with the requirements of Basel II and J-SOX.

The Banking Infrastructure Group is now leveraging its entire toolkit for our consumer finance subsidiaries. Our aim is to give customers of these businesses the same first-class experience enjoyed by Shinsei Bank customers, delivering a unique experience and market-leading products and services that clearly set us apart from the competition. This will also bring greater flexibility and manageability to these businesses, while at the same time creating cost-saving opportunities.

Going forward, we will continue working to build the processes and IT infrastructure necessary to support further business integration and help generate greater economies of scale throughout the Group. In September 2008, the Bank completed its acquisition of Shinsei Financial. Here too, we will apply the same approach of bringing customer processes under machine control and providing top quality products and services swiftly and securely. By the end of fiscal year 2008, we had already begun work on introducing our expense management, general ledger and non-payment reminder systems.

The Banking Infrastructure Group's ongoing endeavor is to support Shinsei's businesses in providing competitive products and services that assist customers in achieving their ever-diversifying financial goals.

Management Structure

DIRECTORS AND EXECUTIVES

As of June 1, 2009

BOARD OF DIRECTORS

Masamoto Yashiro
Chairman of the Board

Michael J. Boskin*1, *2
Professor,
Stanford University

Emilio Botín*1, *2
Chairman,
Grupo Santander

J. Christopher Flowers*1
Chairman,
J. C. Flowers & Co. LLC

Yukinori Ito*1
President and CEO,
Centennial Economic Advisors (Japan), Inc.,
Former Professor,
Teikyo University

Shigeru Kani*1
Former Director, Administration Department, The Bank of Japan,
Professor,
Yokohama College of Commerce

Fred H. Langhammer*1, *2
Chairman, Global Affairs,
The Estée Lauder Companies, Inc.

Minoru Makihara*1
Senior Corporate Advisor,
Mitsubishi Corporation

Oki Matsumoto*1
CEO,
Monex Group, Inc.

Yasuharu Nagashima*1
Lawyer

Nobuaki Ogawa*1
Lawyer

Hiroyuki Takahashi*1
Former Director,
Japan Corporate Auditors Association

John S. Wadsworth, Jr.*1
Advisory Director,
Morgan Stanley

SENIOR ADVISORS

Takashi Imai
Honorary Chairman,
Nippon Steel Corporation

Juan Rodriguez Inciarte
Director General,
Grupo Santander

Fiscal Year 2008
Board of Directors meetings

Meetings: 10
Attendance: 85%

*1 Outside Directors
*2 Scheduled to retire on June 23, 2009

COMMITTEE MEMBERSHIPS

NOMINATION COMMITTEE
Minoru Makihara (Chairman)
Michael J. Boskin
J. Christopher Flowers
Oki Matsumoto
Masamoto Yashiro

Fiscal Year 2008 meetings
Meetings: 1
Attendance: 80%

AUDIT COMMITTEE
Hiroyuki Takahashi (Chairman)
Yukinori Ito
Shigeru Kani
Yasuharu Nagashima
Nobuaki Ogawa

Fiscal Year 2008 meetings
Meetings: 13
Attendance: 100%

COMPENSATION COMMITTEE
John S. Wadsworth, Jr. (Chairman)
Emilio Botín
J. Christopher Flowers
Fred H. Langhammer
Minoru Makihara

Fiscal Year 2008 meetings
Meetings: 5
Attendance: 81%

STATUTORY EXECUTIVE OFFICERS

Masamoto Yashiro
Representative
Statutory Executive Officer,
President, Chief Executive Officer

Sanjeev Gupta
Senior Managing Executive Officer,
Head of Individual Group

Yukio Nakamura
Statutory Executive Officer,
Executive Head of Institutional
Business Sub-Group

Masazumi Kato
Representative Statutory Executive
Officer, Executive Vice President

Sang-Ho Sohn
Senior Managing Executive Officer,
Head and Chief Executive of
Institutional Group

Shigeru Oishi
Statutory Executive Officer,
Head of Consumer Finance
Sub-Group

Junzo Tomii
Representative Statutory Executive
Officer, Executive Vice President

Norio Funayama
Managing Executive Officer,
Executive Head of Institutional
Business Sub-Group

Michiyuki Okano
Statutory Executive Officer,
Head of Operations Sub-Group, Head
of Retail Services Sub-Group

Michael Cook
Senior Managing Executive Officer,
Head of Risk Management Group,
Chief Risk Officer

Kazuya Fujimoto
Statutory Executive Officer,
Head of Institutional Business
Sub-Group

Yoshikazu Sato
Statutory Executive Officer,
Head of Technology Sub-Group

Dhananjaya Dvivedi
Senior Managing Executive Officer,
Group Chief Information Officer,
Head of Banking Infrastructure Group

Michimasa Honda
Statutory Executive Officer,
Head of Institutional Business
Sub-Group

Takashi Tsuchiya
Statutory Executive Officer,
Head of Advisory Sub-Group

Rahul Gupta
Senior Managing Executive Officer,
Chief Financial Officer

ORGANIZATION

As of June 1, 2009

Customers

- Board of Directors
  - Nomination Committee — Office of Corporate Secretary*1
  - Audit Committee — Office of Audit Committee
  - Compensation Committee — *2
- Chairman of the Board
- Chief Executive Officer
  - Internal Audit Division*3
- Management Committee
  - Corporate Planning Division
  - Office of Corporate Development
  - Human Resources Division*2
  - Group Investor Relations & Corporate Communications Division *4
  - Compliance Division
    - (Retail Compliance Department)
    - (Financial Crime Information Department)
  - Legal Division
  - Credit Assessment Division
  - General Services Division
    - (Head Office Relocation Preparation Department)
  - Institutional Group
    - Institutional Group Management Division
      - (Corporate Customer Service Department)
    - Commercial Finance Division
    - Alternative Investment Division
    - Capital Markets Division
    - Wealth Management Division
    - Institutional Business Sub-Group
      - Corporate Banking Business Division I
      - Corporate Banking Business Division II
      - Corporate Banking Business Division III
      - Corporate Banking Business Division IV
      - Corporate Banking Business Division V
      - Corporate Banking Business Division VI
      - Corporate Banking Business Division VII
      - Corporate Banking Business Division VIII
      - Institutional Banking Business Division
      - Osaka Corporate Banking Business Division I
      - Osaka Corporate Banking Business Division II
      - Financial Institutions Business Division I
      - Financial Institutions Business Division II
      - Public Sector Finance Division
      - Osaka Financial Institutions Business and Public Sector Finance Division
      - (Sapporo, Sendai, Kanazawa, Nagoya, Hiroshima, Takamatsu and Fukuoka)
    - Real Estate Finance Sub-Group
      - Real Estate Finance Division
      - Real Estate Business Division
    - Advisory Sub-Group
      - Corporate Advisory Division
      - Solution Advisory Division
        - (Transaction Development Department)
    - Principal Transactions Sub-Group
      - International Principal Finance Division
      - Private Equity Division
      - Credit Trading Division
      - Real Estate Principal Investment Division
      - Specialty Finance Division
  - Individual Group
    - Consumer Finance Sub-Group
    - Retail Banking Sub-Group
      - Customer Service Division
        - (Customer Service Department)
      - Marketing Division
      - Retail Sales and Distribution Division*5 — Financial Centers*6
      - Channel Planning Division
      - Retail Products Division
        - (Insurance Business Management Department)
      - Loan Products Division
      - Retail Business Division
      - Retail Human Resources Development Division
    - Retail Services Sub-Group
      - Retail Services Division
      - Channel Management Division
        - (Fukuoka Call Center)
      - Retail Technology Division
  - Finance Group *4
    - Financial Controlling Sub-Group
      - Group Business Controlling Division
        - (Expense Control Department)
      - Group Regulatory Accounting and Tax Division
        - (Basel II Project Management Department)
      - Group Financial Accounting Division
      - Office of IFRS
      - Capital Markets and Treasury Product Control Division
    - Treasury and Corporate Sub-Group
      - Group Treasury Division
      - Group Corporate Analytic Division
      - Group J-SOX Program Office
      - Office of CFO
  - Banking Infrastructure Group
    - Control Sub-Group
      - Operations Planning and Administration Division
    - Technology Sub-Group
      - Information Technology Division
      - Technology Support Division
    - Operations Sub-Group
      - Operations Services Division
      - Operation Support Division
      - Centralized Operations Division
  - Risk Management Group
    - Portfolio and Risk Management Division
    - Market Risk Management Division
    - Credit Risk Division
    - Individual Pillar Risk Management Division
    - Risk Management Planning and Policy Division
    - Operational Risk Management Division

*1 Office of Corporate Secretary shall act as the secretariat for the Board of Directors, Nomination Committee and Management Committee.
*2 Human Resources Division shall act as the secretariat for the Compensation Committee.
*3 Internal Audit Division shall report not only to CEO but also to Audit Committee directly.
*4 Group Investor Relations & Corporate Communications Division shall report to Head of Finance Group for Investor Relations matters.
*5 Including Ginza Annex
*6 Head Office, Sapporo, Sendai, Kanazawa, Omiya, Kashiwa, LaLaport, Tokyo, Ikebukuro, Ueno, Kichijoji, Shinjuku, Roppongi Hills, Shibuya (including Omotesando Hills Annex), Hiroo, Meguro, Futakotamagawa, Hachioji, Machida, Yokohama, Fujisawa, Nagoya, Kyoto, Osaka, Umeda (including Senri Chuo Annex), Namba, Kobe, Hiroshima, Takamatsu, Fukuoka

CORPORATE GOVERNANCE

Shinsei Bank, adopting a "Company with Committees" (*iinkai-setchi-gaisha*) board model, has implemented a system of prompt decision-making, as well as transparent and objective management, to meet various types of stakeholders' expectations. In order to achieve this, we have clearly separated the roles and responsibilities between the Board of Directors and management. While the functions of basic policy decision-making for long-term management strategy and business execution oversight are overseen by the Board of Directors, daily business operations are under the control of management.

Shinsei Bank has adopted the following specific approaches to enhance corporate governance.

Committees Board Model/Internal Control

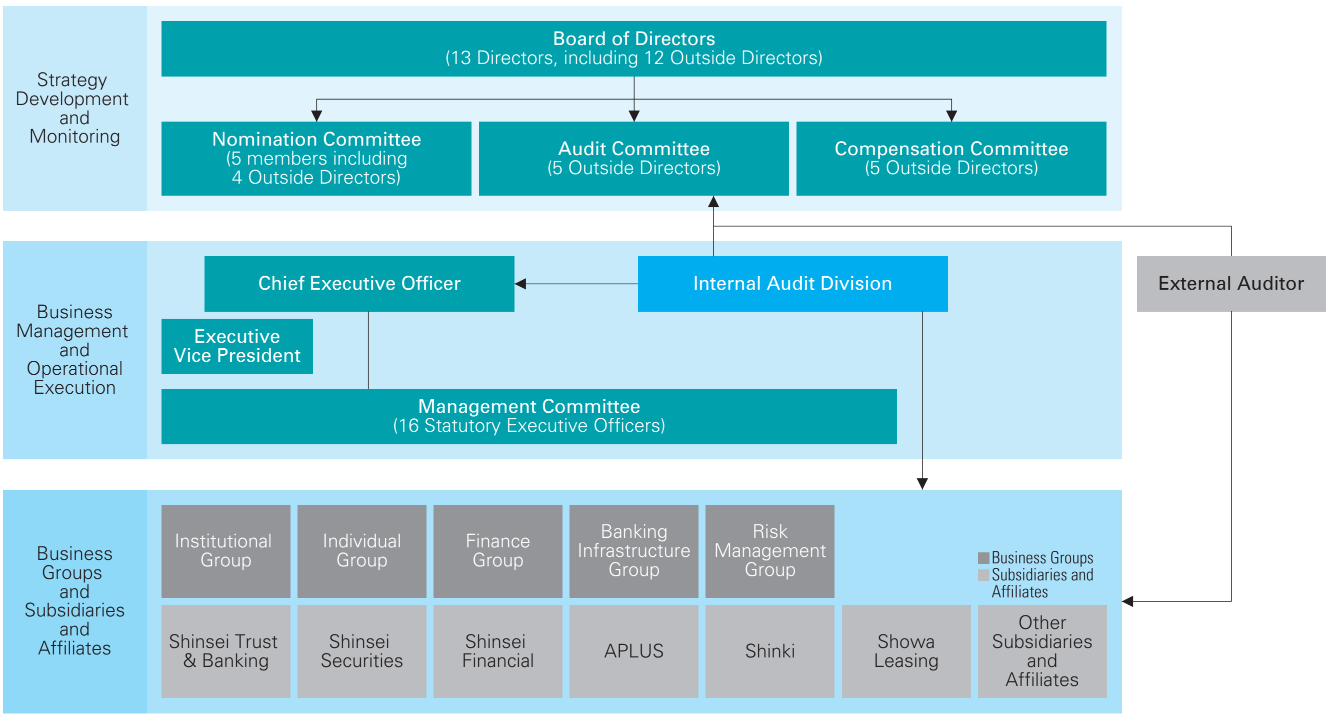
Company with Committees

In order to ensure a system that enables corporate governance to function more effectively, the Bank adopted a "Company with Committees" (*iinkai-setchi-gaisha*) board model as set out in the Corporation Act. As a Company with Committees, daily operational functions are delegated to management (statutory executive officers (*shikkouyaku*)), while the Board of Directors prepares mid- and long-term basic policies and supervises business execution. In addition, we established Nomination, Audit and Compensation Committees, which report to the Board of Directors pursuant to the Corporation Act. This system enables the Bank to ensure transparency, independence and interactive checking in its basic management structure. Delegating a wide scope of business execution authority to statutory executive officers has ensured prompt decision-making while also strengthening the Board of Directors' business monitoring function. We believe that this board model best serves the interests of our stakeholders.

Board of Directors

The Board of Directors is responsible for determining long-term management strategy, ensuring that management is working to maximize shareholder returns and evaluating and supervising management decisions. The Board is composed of one director who also holds a position as a statutory executive officer and 12 outside directors with extensive experience in business, financial, academic and

Corporate Governance System Chart (as of June 1, 2009)



legal fields both in Japan and abroad. These 12 outside directors provide independent and objective opinions to management at the Board of Directors meetings and play an important role in corporate governance. Established under the Board of Directors, the following three statutory committees—composed primarily of outside directors—act to improve the soundness, transparency and appropriateness of management. The Nomination Committee identifies and reviews Director candidates. The Audit Committee monitors management's business execution. The Compensation Committee determines remuneration for directors and statutory executive officers.

Statutory Executive Officers/ Management Committee and Other Committees

The statutory executive officers, appointed and monitored by the Board of Directors, are responsible for running the Bank and implementing its business strategy based on the policies set forth by the Board of Directors. They include experienced finance and risk management specialists drawn from leading global financial services companies who review and discuss the key issues addressed by the Management Committee, which serves as the decision making body for the CEO. We are committed to attracting, partnering with and retaining top financial professionals, regardless of nationality or gender. As of June 1, 2009, five out of the 16 statutory executive officers were expatriates.

With the Bank's expanding specialized offerings, we have established Group-wide committees to enable a swift and appropriate response. Shinsei Bank's primary committees include ALM, Compliance, Risk Policy, Transaction Approval, Credit, New Business/Product, SME Loan, IT, Basel II Steering and J-SOX Program Steering, and Management Development committees, and are chaired by the CEO, statutory executive officers or group heads.

Transactions with Directors and Major Shareholders

In January 2008, a group of investors led by J.C. Flowers & Co. LLC and affiliates completed a tender offer for Shinsei Bank. In February 2008, the Bank increased its capital through a third-party allotment to the same group of investors. As a result, this group of investors, with which Mr. Flowers is influential, became Shinsei Bank's largest shareholder. In accordance with the Bank Rule, the Bank established a process for obtaining approval from the Board of Directors for transactions with parties related to the Bank that may involve a conflict of interest. Furthermore, in order to ensure the Bank's independence from major shareholders, as required by the Banking Law, the Bank established the Bank Rule requiring the Board of Directors to judge transactions with major shareholders in accordance with a set of guidelines. The Bank prepared and implemented this system to protect the interests of stakeholders based on objective judgment under the new shareholder structure.

Ensuring Internal Control

To enable appropriate corporate governance, it is necessary to prepare a system that ensures proper governance of internal audit and legal/compliance functions and a structure for monitoring business execution and decision-making centered on the Board of Directors. Putting in place the internal control system required by the Corporation Act, and ensuring internal control so that financial statements comply with the accuracy requirements of the Financial Instruments and Exchange Law are also important elements of corporate governance. Even though internal control is the responsibility of management, the overall internal control system takes measures to ensure specific internal control in each of the groups that carry out actual operations. Specifically, our "Internal Control Rules" and other related rules established by the Board of Directors stipulate that statutory executive officers are to establish and operate internal control systems for the operations they manage, and that all statutory executive officers and employees are obliged to observe these systems.

We specify in the Charter of Ethics and Internal Control Rules that we will take a firm and resolute stand against anti-social organizations.

We have completed preparations to comply with J-SOX, implemented from the end of fiscal year 2008.

Legal and Compliance Activities

The Compliance Division and Legal Division work closely together and play a central role in our corporate governance.

Compliance Systems Organization

We have, with a strong belief that thorough compliance must be one of the most important management missions, established a robust compliance system to help enable sound and proper management that earns public trust. The Compliance Committee, Compliance Division and individual compliance managers within various business and support units constitute the main elements of our compliance organization. The Compliance Committee, with our CEO as its chairman, examines and discusses important compliance matters. The Compliance Division plans various measures concerning compliance risk and implements these measures through central management. Every division, department or branch in the Bank also has a compliance manager to act as the point of contact for compliance-related matters. These managers' duties also include periodical reporting to the Compliance Division on compliance-related issues. This enables the Compliance Division to conduct Bank-wide monitoring of how various measures are being implemented as well as to provide centralized compliance guidance.

Compliance Activities

We implement an annual compliance program that outlines our compliance-related plans, including compliance enhancement activities such as creating and updating internal rules. We place special focus on training programs for compliance awareness, including periodic training on important subjects, and are working to increase the effectiveness of this training by introducing active e-learning courses alongside classroom training.

Legal Supervision

Banks are required to comply with a wide variety of laws and regulations in their day-to-day business operations. Violations may severely damage not only our credibility and reputation as a financial institution, but that of the overall banking system itself. In terms of individual transactions, we may face unexpected claims for damages if our contracts are unreasonable or we act inadvisably during the process of negotiation leading up to contract execution. Prevention and proper management of these legal risks are now the most important mandate for a bank's business conduct. The Legal Division is in charge of legal affairs, including compliance with corporate and transactional laws, legal documentation and litigation supervision. The Legal Division, working with the Compliance Division, also supports our overall compliance systems.

Internal Audit

The importance of risk management is becoming increasingly acute with the increased diversification and complexity of risks relating to the Bank's operations. The role of the internal audit is to independently assess the effectiveness of risk management measures and internal controls. This, in turn, helps maintain and enhance our corporate governance.

The Internal Audit Division (IAD) of the Bank reports directly to the CEO and also to the Audit Committee of the Board of Directors. IAD supports the CEO in his responsibility for controlling business execution, and in particular for establishing an effective system of internal controls. IAD provides independent and objective assessments of the effectiveness of risk management, control and governance processes; the reliability of information and information technology systems; and compliance with statutory, legal and regulatory requirements as well as internal policy and procedure requirements of the Bank; consequently, IAD provides solutions to management. IAD also maintains a close relationship with the Audit Committee and provides them with internal audit-related information.

IAD is independent from all the organizations subject to internal audits, and from day-to-day operational activities and control processes including regular preventive and detective controls.

IAD adopts a risk-based audit approach and conducts a comprehensive risk assessment based on macro-risk assessment—to capture high-level risks across the Bank—and micro-risk assessment to assess the risks inherent in each business or process audited. IAD prioritizes the allocation of audit resources to businesses or processes with higher risk profiles.

It is important to gather relevant information about the business to improve effectiveness and efficiency of internal audit activities. IAD has been enhancing off-site monitoring activities by attending key management meetings, reviewing internal control documents and holding regular meetings with senior management.

Comprising the Business Audit Team, the IT Audit Team and the Quality Control and Planning Team, IAD takes the initiative in developing our internal auditors' expertise, and in particular, strongly encourages them to obtain professional certifications such as Certified Internal Auditor and Certified Information Systems Auditor. IAD has also been enhancing its infrastructure in addition to developing new audit methodologies.

An external consulting firm conducts a quality review on IAD's internal audit activities in order to objectively identify opportunities for improvement periodically. IAD also involves Group subsidiaries' internal audit divisions in its drive for continuous improvement.

RISK MANAGEMENT

Overview

The financial market and global economic situation continue to present many challenges for all financial institutions. From its origins two years ago, few would have imagined that the subprime loan crisis would have extended its influence not only to the whole global financial system, but also that the dislocation in the credit markets would be so severe and so extended, that it would deeply impact the global economy. In this context of illiquid credit markets and severe recession, Shinsei Bank has placed risk management at the forefront of its strategy.

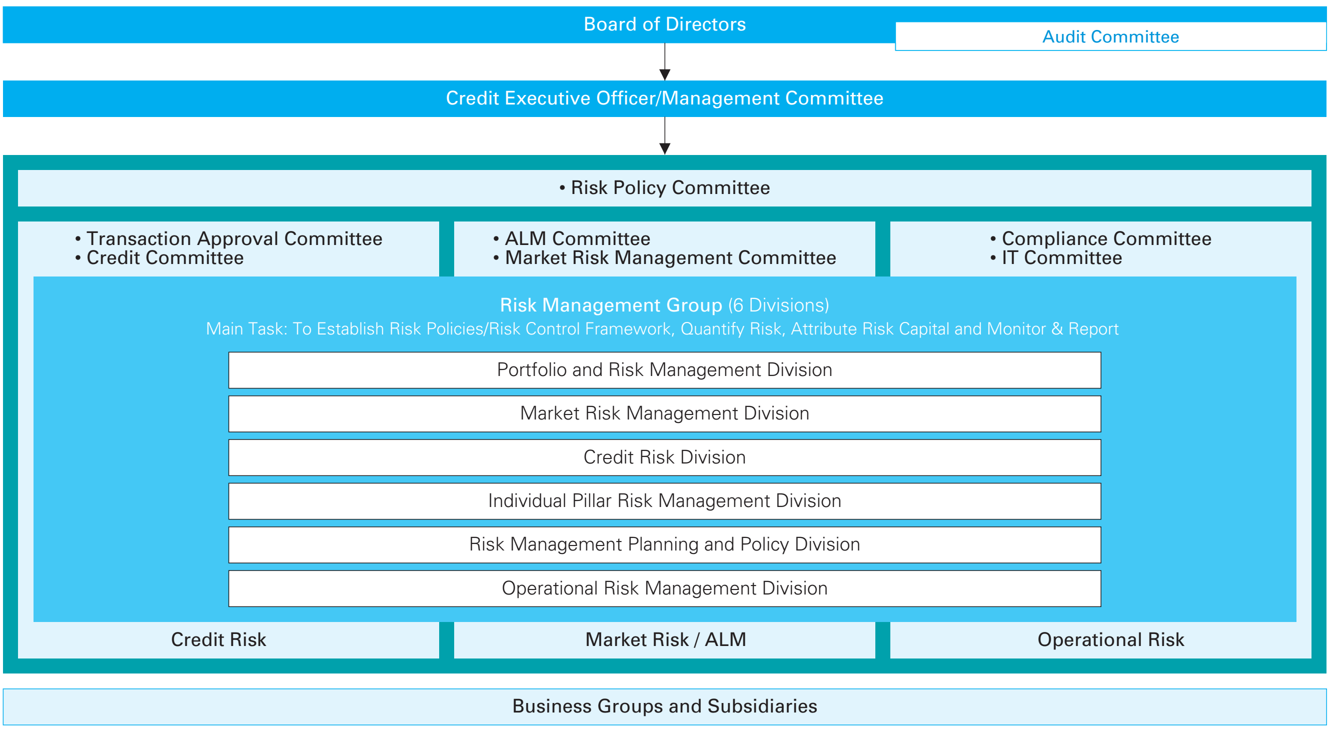
The Bank has taken several measures to reinforce risk management, including adopting the strongest possible corporate governance structure to create a fully independent and empowered risk management function. The new chief risk officer was appointed by the Board of Directors in January 2009, bringing international best practices to Shinsei Bank. Several important changes have already been implemented to strengthen the way that credit and product risks are analyzed and approved. The Risk Management Group has devised a strategic plan to overhaul the credit committee processes, the credit rating process, undertake more proactive portfolio monitoring, encourage better discipline on the pricing of risk and distribution of assets, and reinforce risk systems. The Risk Management Group has also placed a new emphasis on the supervision of consumer finance risk, now that it is a more important part of the overall business mix following the acquisition of Shinsei Financial.

A newly revised and comprehensive credit risk policy is being implemented. The focus of the Bank's risk appetite is now mainly domestic and almost all of the international product programs were terminated in January 2009. These mainly structured credit asset classes are now closely monitored and managed in a run off mode.

Although significant credit costs were incurred in the last 12 months, the difficult market conditions will continue to challenge earnings through further mark-down of asset values and due to a rising trend in obligor defaults. Also, despite the fact that Shinsei Bank is now concentrating most of its new business domestically, the legacy of the international product programs (in particular Asset Backed Investments Program), may incur additional credit costs and mark-to-market adjustments in the fiscal year ending March 31, 2010. Furthermore Shinsei Bank has some short term downside risk associated with a decline in domestic real estate values. However with a very proactive management of existing exposures and a greater discipline on new risk taking, future credit costs will be much less and on a declining trend.

Under the new chief risk officer, the Risk Management Group at Shinsei Bank aims to have a stronger influence over the businesses by managing jointly the allocation of risk capital and by formalizing the link between business strategy and risk appetite in Risk Policy Committees, which will engage

Risk Management System Chart (as of June 1, 2009)



the top management of the Bank. The chief risk officer is also fully involved in the budget planning process.

Given the scarcity and cost of capital for any bank today, it is important to optimize the risk return equation. Using the concepts associated with the calculation of Basel II regulatory capital and the methods to calculate risk capital, also known as economic capital, more priority will be placed on risk pricing to ensure that an adequate return is being generated on the risks being taken. In normal years, the expected loss on the portfolio would be less than the annual earnings, and the excess would contribute towards reserves to cover the unexpected losses in a stress scenario. The aim now is to generate a better return to contribute to the retained earnings that in effect provide a cushion for the unexpected loss on the portfolio and protect the Bank from insolvency.

There has been a lot of discussion in the media about stress testing and regulatory capital adequacy. Stress testing is when a bank is modeling the level of losses it might incur under certain severe assumptions. The results of the stress tests imply how much capital the Bank should then be holding to cover its risks. Shinsei Bank also uses stress testing as a tool to monitor its market and liquidity risks and is developing more comprehensive credit stress testing in line with the Basel II regulatory capital framework. The calculation of risk capital defines that level of unexpected loss at a given confidence interval. As an example, if Shinsei wants to maintain a single A credit rating, it implies that historically there would be just a 0.03% chance to default in a 1 year time period, but to achieve that it must have sufficient capital to cover unexpected losses at a confidence level of 99.97%.

It will take time for the full results of the new risk management initiatives to be seen, but the changes should allow Shinsei Bank to emerge from the banking crisis more quickly with a stronger balance sheet and reduce future earnings volatility through sound risk management policies.

It is now the aim of the Risk Management Group to better serve the business and shareholders by having a more predictive, forward looking perspective in its risk assessments, ratings, policies and decisions and anticipate better changes in market conditions.

Governance Structure for Risk Management

Since January 2009, Shinsei Bank has adopted the best possible governance structure for its Risk Management Group. To ensure independence and objectivity, the chief risk officer is now appointed and can only be terminated by the Board of Directors.

Although the chief risk officer is accountable and reports to the chief executive officer on a day to day basis, he has also been granted a power of veto on risk related matters. This is an important and significant change, which signifies that Shinsei Bank is very serious about having a strong and independent risk management. The formalization of the chief risk officer veto power is still only found in the best managed financial institutions.

Oversight of the chief risk officer and risk management function is also achieved via the Audit Committee and ultimately the Board of Directors.

Comprehensive Risk Management

Basic Concept of Risk Management Systems

In order to run highly-profitable operations, a financial institution must understand the basic challenges of risk management, namely, how to take and how to face risks.

For this reason, it is necessary to monitor whether risks are taken in line with Bank-wide policies as well as individual operational policies, whether risks remain within appropriate limits and whether they are adequately controlled by the respective sections in charge.

Financial institutions are exposed to various risks, including credit risk, market risk, liquidity risk, operational risk, systems risk, legal risk and compliance risk.

To Achieve Comprehensive Risk Management

Shinsei Bank sets forth its “Shinsei Bank Risk Management Policy” as a basic management policy in order to recognize risks and implement proactive controls based on an understanding of the total risks faced by the Bank as a whole. Under this Policy, risks are categorized as inherent within a financial institution’s operations, and risk management is the basic principle for understanding the risks to which Shinsei Bank is exposed. Furthermore, risk management is the principle underlying the policies and procedures under the “Shinsei Bank Risk Management Policy,” the highest-level bank rule.

Comprehensive risk management means detailed monitoring of each risk involved in individual operations, as well as the understanding of total bank-wide risks, and quantifying risks to the greatest extent possible. Estimating “Risk Capital,” which is an integrated control approach, requires measurements for each risk category, namely (1) credit risk, (2) structured credit and other investment risk, (3) market risk, (4) interest rate risk, (5) liquidity risk, and (6) operational risk. In this way, our management capabilities and risk acquisition activities are controlled in an integrated manner by monitoring the Bank-wide risk volume and Group-specific capital attribution status.

As at March 31, 2009, the capital resource (Tier I) of Shinsei Bank is ¥580 billion whereas total risk capital is ¥714 billion. This is due to some factors including the impact of increasing risk volume of the Shinsei Bank Group by newly added assets of Shinsei Financial acquired in fiscal year 2008. We recognize the reinforcement of capital adequacy as a business challenge, and are currently endeavoring to control risk volume appropriately.

Shinsei Bank's senior management has delegated certain risk management authority to specific committees including the "Credit Committee," "ALM Committee" and "Market Risk Management Committee." Recently, the Bank has reviewed the structure of committees and reorganized them to a more appropriate framework. In addition to the existing "ALM Committee" and "Market Risk Management Committee," a "Risk Policy Committee" (RPC) and "Transaction Approval Committee"(TAC) were newly established. The Risk Policy Committee involves the top management of the Bank (including the CEO, CFO and CRO), and reviews business strategy alongside risk appetite. Its decisions help define and calibrate appropriate and optimal risk taking for the Group.

Categories of Risk Capital

Risk Capital	Unexpected Loss calculated by subtracting expected loss from estimated maximum loss of which time horizon is one year.
Credit Risk	Measured by subtracting expected loss from Credit Value at Risk (Credit VaR). Credit VaR is estimated maximum loss calculated by a simulation utilizing data including probability of default, exposure at default, loss given default, etc.
Structured Credit and Other Investment Risk	Measured by the most appropriate combination chosen for each investment from some methods such as default loss distribution, value range distribution, sensitivity to other factors, etc.
Market Risk	Measured by calculating estimated maximum loss from market risk based on Value at Risk method (VaR method), of which time horizon is one year.
Interest Rate Risk	Sum of Japanese yen interest rate risk measured by Value at Risk method (VaR method) and other currencies interest rate risk measured by bpv method.
Liquidity Risk	Measured by estimating liquidity gap under a stress scenario, and additional funding cost in such a case.
Operational Risk	Estimated maximum loss calculated by a simulation based on frequency and severity distributions which will be derived from actual historical loss data and scenario loss data.
Total Risk Capital	Calculated by subtracting effect of correlation across risk categories from simple sum of Risk Capital for each risk category.

Institutional Credit Risk Management

Credit risk is defined as the risk of loss due to a counterpart defaulting on contractual debt obligations.

Our model for credit risk management focuses on securing adequate return on risk, avoiding excessive concentration in particular sectors or to particular obligors, and managing the credit portfolio with an awareness of potential losses under a worst-case scenario.

To achieve these goals, Shinsei Bank clarifies basic policies of credit operations and specific guidelines for credit risk management in the "Shinsei Bank Core Credit Policies," "Credit Procedures" and other procedures.

Credit risk management processes are roughly classified into credit risk management for individual transactions and portfolio-based credit risk management, as follows.

Credit Risk Management for Individual Transactions

(1) ORGANIZATION/SYSTEMS

There are two main categories of decision—a credit risk for an appropriate amount and maximum duration of an obligor or counterparty risk; and a deal risk on an appropriate type and structure of a transaction. In general the decisions are taken jointly by the business stakeholder and the risk delegation holder. The latter is independent of the business line, to provide objectivity and impartiality and belonging to the Risk Management function, has the power of veto on any risk decision.

Credit approval authorities are only awarded to the most senior and experienced business heads, group heads, subgroup heads, general manager, to be exercised jointly with the chief risk officer, chief credit officer or senior credit officers, depending on the amount and type of risk. Naturally the business has the right to appeal an unfavorable credit decision, but the final authority and decision will rest with the chief risk officer, who may choose to exercise his delegation jointly with the chief executive officer.

Transactions can be very diverse and complex in nature, and hence Shinsei Bank has adopted a specific approval process for dealing with them. Recognizing that risk can emerge from not only credit, market or operational aspects, on occasion, Finance, Compliance, Legal or other specialized functions, will be invited to participate in the decision process, under the form of a Transaction Approval Committee. This allows for the thorough evaluation of reputation risk, compliance risk, suitability risk, legal risk or tax/regulatory aspects to ensure that the Bank and its customers avoid inappropriate deals. It is possible for any member of a Transaction Approval Committee to express an objection, although the final decision rests with the business stakeholder and the risk delegation holder, with the latter having the power to veto.

(2) OBLIGOR RATING SYSTEMS

Obligor rating systems, which are Shinsei Bank's internal rating systems, are outlined as follows.

CHARACTERISTICS OF SHINSEI BANK'S OBLIGOR RATING SYSTEMS

- Increasing model accuracy and reflecting appropriate qualitative factors
- Ensuring conformity with external ratings agencies
- Properly reflecting obligors' consolidated-basis accounting systems
- Ensuring conformity with rating systems among industry classifications

More specifically, obligor ratings are determined by applying adjustments with qualitative factors to the model ratings calculated by our estimation models, which are created using data from external rating agencies. Obligor ratings shall be discussed at the "Credit Rating Review Committee" and determined with transaction approval in order to ensure objectivity and transparency. Moreover, we ensure conformity of obligor ratings with obligor categories based on the regulatory self-assessment requirements.

Obligor ratings are used in the standards of credit approval authority procedures and portfolio controls, and are the foundation for credit risk management.

Furthermore, we also apply a facility rating system based on expected losses that allows for improvement in the credit status, such as through collateral and/or covenants, from the perspective of obligor ratings and comprehension of the credit status of individual transactions.

Portfolio-Based Credit Risk Management

(1) MONITORING ANALYSIS SYSTEM

Controls must be carried out in such a way that risks are diversified in terms of industries as well as ratings. This is done on a portfolio basis, which is an aggregation of transactions, and operations of individual transactions must be conducted based on appropriate risk analyses. At Shinsei Bank, the Portfolio and Risk Management Division undertakes risk analyses of portfolios, and monitors the segment-specific risk diversification status including industry classifications, ratings, specific customers/groups and also rating fluctuations related to customers within the portfolios. The Division uses this information to provide reports to senior management and the chief risk officer on a monthly as well as ad hoc basis.

(2) QUANTITATIVE MEASUREMENT OF CREDIT RISK

Quantitative measurement of credit risk means measuring and assessing the likelihood of losses that may be incurred from changes in a customer's creditworthiness. The probability of default, an assumption based on past experiences and future outlook, and expected loss amounts based on collection ratios, are generally called "expected losses."

Losses that could be incurred in the worst case scenario and cannot be estimated based on past experiences are generally called "unexpected losses." It is generally considered that risk capital can be quantified by measuring "expected losses" and "unexpected losses."

Shinsei Bank ensures adequate return levels against risks involved in each transaction by measuring expected losses and unexpected losses and reflecting them in the interest rate margin on loans. Moreover, changes in Risk Capital and profitability against risks are analyzed to achieve sound portfolio operations and asset allocation.

(3) CONCENTRATION GUIDELINES

Our concentration management framework consists of industry concentration guidelines, obligor group concentration guidelines, as well as effective review and countermeasures for matters outside the scope of the guidelines. These procedures are designed to insulate our credit portfolio against systemic shock or other extraordinary events.

Credit Risks Involved in Market-Related Transactions

Credit risks involved in market transactions, such as derivative transactions, are controlled based on fair value and estimations of future value fluctuations. The volume of risks associated with market transactions changes according to fluctuations in market rates after the transaction is closed and Shinsei Bank undertakes strict controls based on future value fluctuation forecasts.

Self-Assessments

As a result of introducing the "Prompt Corrective Action" system, financial institutions conduct self-assessment of their assets, such as loans, in order to adequately write off or set aside reserves.

Shinsei Bank has established a self-assessment system wherein the Credit Assessment Division, which is independent from the business promotion and credit analysis sections, is the section ultimately responsible for assessment.

More specifically, the criteria and procedures for self-assessment adhere to the Financial Services Agency's "Inspection Manual for Deposit-Taking Institutions." Accordingly, primary assessments and final assessments are conducted by the credit analysis section and the Credit Assessment Division, respectively. For some obligors, the business promotion sections and the credit analysis section carry out the primary assessments and secondary assessments, respectively.

Obligor categories and categorizations are reviewed in a timely manner according to changes in the obligors' financial fundamentals so as to mitigate the emergence of problem loans and to strengthen and update systems to ensure the timely and accurate management of troubled loans.

Measures to Meet Basel II Requirements

In order to comply with the credit risk regulations under Basel II, which came into effect at the end of March 2007, Shinsei Bank has adopted the F-IRB (The Foundation Internal Ratings-Based) Approach. This framework ensures strict internal controls for our internal rating systems, the basis of credit risk management, by the execution of the design and operations of internal rating systems and parameter estimations such as probability of default. The results of the internal rating systems are reflected not only in credit risk management, but also in calculations of capital levels required under the regulations.

Individual Credit Risk Management

Given the increasing importance of consumer finance for Shinsei Bank, following the acquisition of Shinsei Financial, the risk oversight has been reinforced. In March 2009, we created an Individual Pillar Risk Management Division to follow both the retail banking and consumer finance activities.

The Individual Pillar Risk Management Division was developed through close collaboration between the business groups and the Risk Management Group to ensure the cost of risk is closely monitored and controlled. The objective is to achieve a stable cost of risk throughout the cycle, which typically for this sector lies within a range of 5% to 6%. This is achieved by careful and continuous re-calibration of the credit scoring models. The consumer finance business model has a marked sensitivity to credit costs and typically, depending on the cost structure, each 1% increase in cost of risk will reduce the net earnings by 20%-30%.

It is necessary to collaborate closely with the business management whenever an adjustment to the score is made, because it has a significant impact on business volume. Hence a credit tightening has to be accompanied by an operating expense reduction, otherwise profitability suffers from the deterioration of cost income ratio which may exceed the improvements in cost of risk.

Collection efficiency is also an important contributor to the bottom line, and the Individual Pillar Risk Management Division will continue to ensure that best practices are leveraged across all of the consumer finance subsidiaries within the Shinsei Bank Group.

It is fully expected that all consumer finance entities in Japan will continue to face very challenging conditions due to weak consumer demand, deteriorating risk and continued grey zone interest claims. Hence risk control will remain a key and important focus.

Market Risk Management

Market risk, which is the risk associated with changes in the value of financial instruments from fluctuations in bond prices, exchange rates, interest rates, stock prices, credit spreads and other market-determined price mechanisms, is inherent in all assets and liabilities, and in off-balance sheet transactions as well.

Market Risk Management Policy

We manage market risk by segregating the overall balance sheet into a trading book and a banking book. The ALM Committee, chaired by our CEO, is the senior review and decision-making body for the management of all market risks related to asset/liability management.

The actual risk limits for asset/liability management as well as trading, such as the value-at-risk (VaR) method, are approved by the ALM Committee. The VaR method is a procedure for estimating the probability of losses exceeding a specified amount based on a statistical analysis of historical market price trends, correlations and volatilities.

The Market Risk Management Committee serves as an arm of the ALM Committee and is chaired by the head of the Risk Management Group with senior representatives from related divisions. The Committee meets weekly to review detailed market risk and liquidity risk reports from the Market Risk Management Division, which is responsible for the objective and timely recognition, monitoring and reporting of market risk in both our trading and banking operations. In addition to reporting risk information to management, administrative divisions and front office units, the Market Risk Management Division carries out regular risk analyses and makes recommendations.

Trading Book

Methodology: We use the VaR method in our trading operations. Based on FSA approval, we use internal models for our General Market Risk VaR calculations for Basel II purposes. The VaR uses a 99% confidence interval, 10 day horizon period and 250 observation days. See the table below for VaR data.

The validity of the VaR model is verified through back testing, which examines how frequently actual daily profit or loss exceeds daily VaR for a one-day holding period. The back-testing results for fiscal year 2008 show that there were two days in which the loss amount exceeded VaR on a consolidated basis. We conduct stress tests using approximately 40 scenarios. Stress tests are conducted on a weekly basis and reported to senior management at the Market Risk Management Committee meetings.

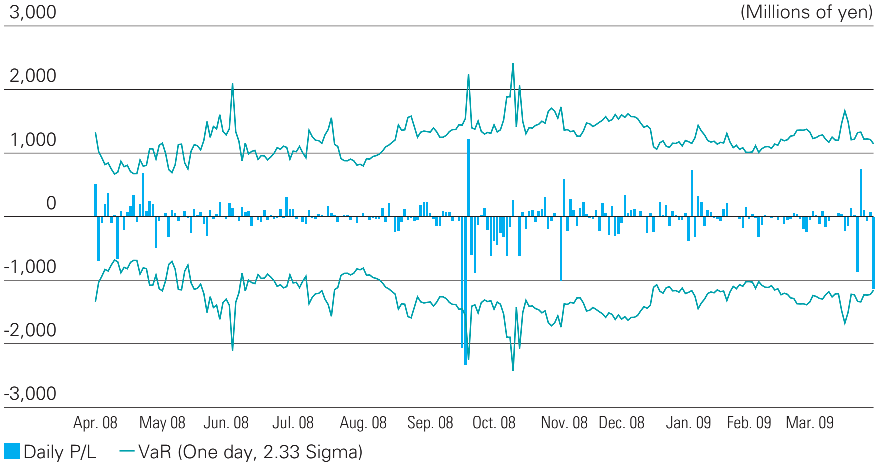
Our trading activity is carried out mainly on behalf of customers.

Actual Daily VaR

<CONSOLIDATED BASIS> (1-DAY HOLDING PERIOD, 2.33 STANDARD DEVIATIONS)

	Millions of yen					
	2008			**2009**		
Fiscal years ended March 31	Average	Maximum	Minimum	Average	Maximum	Minimum
	850	1,622	480	**1,233**	**2,420**	**675**

VaR and Daily Profit or Loss (Back-Testing) (Fiscal years ended March 31, 2009)



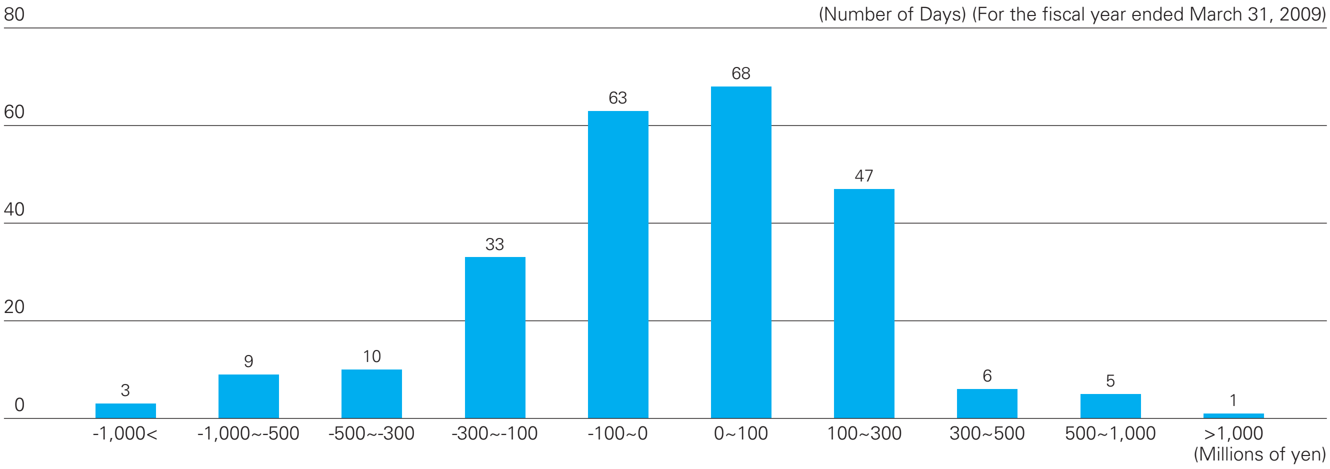
BACK-TESTING ON THE VaR MODEL APPLIED TO THE TRADING DIVISION'S TRANSACTIONS

Back-testing involves comparing the actual losses to estimated VaR to confirm the reliability of the VaR method.

ASSUMPTIONS OF SHINSEI'S VaR MODEL

Method:	A historical simulation method except FX-related risks (variance-covariance method)
Confidence interval:	2.33 standard deviations (99% confidence interval)
Holding period:	One day
Days of observation:	250
Coverage:	Trading divisions

Histogram of Daily Trading-Related Revenue (Excluding Customer Margin)



<NON-CONSOLIDATED BASIS> (1-DAY HOLDING PERIOD, 2.33 STANDARD DEVIATIONS)

	Millions of yen					
	2008			**2009**		
Fiscal years ended March 31	Average	Maximum	Minimum	Average	Maximum	Minimum
	743	1,388	383	**1,032**	**2,041**	**595**

Banking Book

Methodology: In our banking book, we use the basis point value (bpv) method and net interest income volatility as principal risk indicators. The bpv method measures the risk of changes in fair market value resulting from fluctuations in interest rates. Net interest income volatility measures the risk of changes in net interest income during a specified period, usually one year, due to fluctuations in interest rates.

BPV METHOD

The bpv method measures the risk of changes in fair market value due to fluctuations in interest rates. For example, 10 bpv indicates the change in fair market value when interest rates move 10 basis points, or 0.1%. The table below sets forth the impact on the fair market value of yen-denominated on-balance sheet and off-balance sheet items when interest rates change by 10 basis points.

Impact of a 10 Basis Point Movement on Yen-Denominated Balance Sheet Fair Market Value (Non-Consolidated)

	Billions of yen					
	Three months or less	Six months or less	Over six months to one year	Over one year to three years	Over three years	Total
On-balance sheet	0.0	0.3	0.4	0.3	-0.8	0.3
Off-balance sheet	-0.0	-0.1	0.1	0.0	1.3	1.3
Total	-0.0	0.3	0.5	0.3	0.5	1.6

Note: Positive figures indicate where an increase in interest rates will result in an increase in fair market value.
Negative figures indicate where an increase in interest rates will result in a decrease in fair market value.

Liquidity Risk

Our ALM Committee is the senior review and decision-making body for the management of liquidity risk. The ALM Committee manages liquidity risk by establishing the short-term liquidity gap structure limits and minimum liquidity reserve levels.

Our Liquidity Management Policy, reviewed and approved periodically by the ALM Committee, stipulates the guidelines and norms for appropriate liquidity risk management.

To quantify liquidity risk, we have developed three liquidity forecast models:

- Business-as-usual model: This model forecasts the liquidity situation on an ongoing basis. The output of this model is an estimate of the funds we need to raise under normal circumstances.
- Stress/event model: This is a liquidity forecast under extraordinary severe circumstances. The output of this methodology is the outflow of funds under extraordinary circumstances.
- Contractual maturity model: This is a liquidity forecast on the assumption that assets and liabilities will be liquidated at contracted maturity. The model indicates how much we need to raise based on our actual contractual obligations.

The output of these models is carefully analyzed and presented monthly to the ALM Committee together with a recommendation on the liquidity gap structure and minimum reserve level, which is determined as follows:

- The first requirement or test is that we should be able to survive in a crisis or emergency situation; based on the assumptions relating to inflow and outflow in a stress situation, the net cumulative outflow over a specified period should not exceed available reserves.
- If available reserves are insufficient to meet the test, then action to remedy the situation, such as increasing reserves or changing our liability profile, must be taken.
- If available reserves are sufficient to meet the test, then minimum liquidity level reserves may be reduced, but only in such a way that the first stress test (emergency survival test) is still met and the liquidity gap at various times is within approved gap limits.

Asset Liability Management Methodology

Interest Rate Risk

We take an integrated approach to managing interest rate risk, incorporating both on-balance sheet transactions, such as lending activities, and off-balance sheet transactions, such as swaps. We analyze and manage risk both in terms of fair market value and profit or loss for a given accounting period.

We set limits for fair market value risk according to the bpv method, whereby risk arising from interest rate fluctuation is restricted to a predetermined proportion of our shareholders' equity.

For profit or loss within a specific period, risk limits are set based on net interest income. Our future balance sheet is estimated by constructing a hypothetical model that includes expected rollover of lending and deposits, together with information from our current balance sheet and operational plans.

Net interest income simulations are carried out using various statistically generated scenarios for market interest rate fluctuations. Based on these calculations, fluctuations of net interest income over a year are restricted to a predetermined range.

Operational Risk Management

1. Management of Operational Risk

Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. Operational risk requires organization-wide management, because it is inherent in any business activity and covers extensive risk areas.

To comprehensively manage operational risk, an Operational Risk Management Policy has been established to clarify the definitions of risk, our basic policy and system for risk management and a framework for identifying, evaluating, monitoring, reporting and controlling/mitigating risk.

The Operational Risk Management Division, which is responsible for Group-wide operational risk management, evaluates, analyzes and reports on the overall operational risks. Specific management divisions have been designated for respective risk areas comprising operational risk, such as operational and administrative risk and systems risk. They are implementing various controls, including the formulation of cross-organizational measures, standards and procedures for managing risk according to the risk characteristics of each area. The Operational Risk Management Division and specific management divisions hold monthly meetings to share information on risk management issues and measures and to discuss how to manage the common elements across the risk areas, thereby ensuring the effective management of operational risk.

Regarding measurement of operational risk, we have adopted the standardized approach for regulatory capital under Basel II. On the other hand, we have also quantified operational Risk Capital for internal use based on our internal model, by utilizing risk scenarios which reflect risk perception of business lines as well as historical losses. This quantification result has been used as part of the overall Risk Capital system.

2. Management of Operational and Administrative Risk and Systems Risk

Operational and administrative risk refers to the risk of incurring losses resulting from executives or employees' failure to perform accurate clerical work or from their errors or misconduct. Although we have expanded our retail banking business and developed our Institutional Banking business, we realize that appropriately addressing such operational risk is of crucial importance in order to offer reliable services to our customers.

As measures for such risk, the Operational Planning and Administration Division, responsible for control over the overall operational errors and losses, have established various guidelines such as an "Operations Guideline" and have also implemented operational flow improvement and supervision/training to improve our operational levels. When errors do occur, we try to prevent recurrences by compiling a database of such cases and analyzing the causes. Our extensive automation/computerization and customer self-service have succeeded in minimizing the occurrence of such mistakes/errors.

We believe that the following three factors are significant for our information system strategy: security/reliability, flexibility and scalability. In particular, we have kept our information technology infrastructure robust, secure and reliable in order to ensure the security of customers' transactions. We have also established a flexible system that enables us to provide new products/services to meet customers' constantly changing needs. In addition, we have tried to ensure scalability to respond to possible increases in the number of customers and transactions in the future.

We have set up a special team tasked with minimizing systems risk. We have also improved our risk management in terms of continuity of business planning, disaster recovery planning and safeguards against personal information leakage and unauthorized access.

With regard to continuity of business planning, we have undertaken a review by conducting regular tests in light of the growing social importance of banks' online systems.

In March 2005, we extended the scope of ISMS certification, which we received in March 2004, from ITD to the entire Banking Infrastructure Group and Retail Services Sub-Group. Furthermore, we have received certification to migrate to ISO/IEC27001, which became the international and domestic information security management system standard in March 2007, and have strived to enhance our approaches to information security measures.

We provide regular status reports to management and continue to make Bank-wide efforts to manage and minimize operational and administrative risk and systems risk.

HUMAN RESOURCES AND CORPORATE SOCIAL RESPONSIBILITY

Attracting and Retaining Top-Class Talent

Attracting and developing high-caliber people, capable of delivering the value-added services and solutions that our customers demand, is essential to succeed in the highly competitive financial services market. At Shinsei, we believe that giving individual employees opportunities to grow, and creating an environment that enables our diverse workforce to fully demonstrate their capabilities are key drivers of corporate growth.

We have continued to expand the provision of training programs that deepen our staff's specialist knowledge and skills, and encourage employees to use our internal job posting program to take charge of their career development. The proportion of female managers at Shinsei is among the highest in our industry, approximately 24% of all titled managers as at the end of March 2009. In response to the findings of our latest employee survey, we have launched initiatives to enhance communication between senior management and employees, and improved our performance evaluation process to make it fairer and more transparent. Our efforts have garnered positive external recognition, including a top place ranking in the "Human Resources Development and Evaluation" category of the *Nihon Keizai Shimbun*'s survey on "Employee-Friendly Companies" (published in September 2008).

At the end of fiscal year 2008, we established the Management Development Committee to decide on important HR-related issues and ensure HR policy is implemented appropriately. Given our difficult financial conditions, the Bank is striving to optimize our human capital and reduce personnel costs as we restructure our business, organization and operations. Alongside these efforts, the Committee will lead initiatives to implement HR practices aimed at motivating employees to improve business performance, as we seek to continuously grow corporate value.

Contributing to Society through Philanthropic Initiatives

Reflecting our determination to go back to basics in fiscal year 2008, the Bank has reviewed its philanthropic initiatives and clarified our corporate responsibilities as a financial institution. As a result, we decided to realign the focus of our philanthropy activities from the second half of fiscal year 2008 onwards. In previous years, providing financial assistance to non-profit organizations has comprised a sizable part of our social contribution. Going forward, however, we will concentrate on seeking out opportunities to share the Bank's technical expertise and knowledge, and support activities that offer Bank and Group company employees the chance to volunteer their time, energy and skills.

Employee-driven Activities Contribute to Local Communities

In July 2008, the Bank established the Shinsei Community Steering Committee, an employee-led organization that promotes active participation in volunteer activities by Shinsei Bank Group employees. The Steering Committee represents a broad cross-section of employees from divisions across the Bank who propose and organize a variety of activities that contribute to local communities.

The Steering Committee has placed priority on tackling environmental issues through its activities. In fall 2008, a total of 216 Bank and Group company employees and their families picked up litter on a walk around the Japanese imperial palace grounds. In spring 2009, new recruits and other employees from the Bank and Group companies took part in a clean-up and survey of the Arakawa riverbank. The Steering Committee organized the event in collaboration with Arakawa Clean Aid Forum, a non-profit organization that works to protect the natural environment of this area. Other activities have included a Christmas Charity Project where staff from the head office and branches nationwide donated gifts to children's homes in their local communities.

New recruits taking part in a clean-up of the Arakawa riverbank

Sharing our Skills to Help Society

Shinsei is working with the Indian Institute of Technology Kanpur (IIT Kanpur) to make the Bank's unique information technology methods freely available—a first for a financial institution. Designed and built by a team of Indian engineers and companies, Shinsei's unique IT system powers a retail banking platform that continues to set the standard in Japan. IIT Kanpur is creating course material based on the Bank's IT methodology and will make this freely accessible through Creative Commons, a non-profit organization that works to expand the pool of public intellectual property. Through this initiative, our key stakeholders, our regulators and customers, will be able to better understand the capability we offer. At the same time, by making our methods easy to understand, we help expand the pool of engineers and technicians proficient in them. With IIT Kanpur's support, this is a valuable opportunity to contribute to building the knowledge base and to deepen our relationship with the Indian engineering community, which played a key role in the birth of Shinsei Bank and continues to contribute to its success.

As a responsible consumer credit provider, our subsidiary Shinsei Financial has developed a financial literacy program for high school students. The program aims to prevent young people from becoming NEETs (people Not in Employment, Education or Training)—a growing social problem in Japan. Called MoneyConnection® and run in collaboration with the non-profit organization Sodateage.net, the program has reached approximately 20,000 students nationwide as of April 30, 2009. Shinsei Financial employee volunteers take part in the program by acting as facilitators in classroom-based workshops. From the end of 2008, Shinsei Bank employees have also participated in the program, as the Bank looks to expand its community contribution in partnership with other Group companies.

Our Commitment to Environmental Sustainability

We are working harder than ever at Shinsei to minimize the environmental impact of our offices and work style. When opening new branches, we take care to consider the environment in our choices of everything from construction materials and methods, to interior fixtures and fittings. For example, we use low-emissivity (Low-E) pair glass, which helps maintain comfortable indoor working temperatures, and enables us to reduce electricity consumption and lighten our carbon footprint. We also use power-saving LED lighting, state-of-the-art energy-efficient air conditioning systems, and ultra-low flush toilets. As we prepare to move to a new headquarters building in 2010, we are investigating how we can make this an opportunity to reach a new level in environmentally-sound office design.

In order to raise our employees' awareness of environmental issues, in September 2008 we launched an internal website providing a host of environment-related information. In addition to real-time data on CO_2 emissions from our headquarters and Meguro Production Center, the site also contains "green" hints and tips on how to save energy, reduce CO_2 emissions, recycle waste to conserve resources, and help protect the Earth in other ways, both at the workplace and in the home.

Shinsei Bank Selected for Inclusion in First Dow Jones Sustainability Asia Pacific Index

Dow Jones Sustainability Indexes
Member 2008/09

Shinsei Bank has been selected for inclusion in the first Dow Jones Sustainability Asia Pacific Index (DJSI Asia Pacific), as of March 31, 2009. Jointly managed by Dow Jones Indexes and sustainability investment specialist Sustainable Asset Management (SAM), the DJSI Asia Pacific tracks the 20% most sustainable companies out of the 600 largest stocks in the region by free float market capitalization. As socially responsible investment attracts growing global attention, we believe that our inclusion in this authoritative index is an important achievement for Shinsei.

SUMMARY OF MAJOR EVENTS

2000	March	Launched as an innovative Japanese bank under new management and new ownership
	June	Changed name from The Long-Term Credit Bank of Japan, Limited (LTCB), to Shinsei Bank, Limited
2001	May	Commenced operations of Shinsei Securities Co., Ltd.
2003	April	Commenced operations of Shinsei Investment Management Co., Ltd.
2004	February	Listed the Bank's common shares on the First Section of the Tokyo Stock Exchange
	April	Converted the Bank's long-term credit bank charter to an ordinary bank charter
	May	Achieved one million retail accounts
	June	Converted to a Company with Committees board model
	September	Acquired a controlling interest in APLUS Co., Ltd.
2005	March	Acquired a controlling interest in Showa Leasing Co., Ltd.
	May	Commenced operations of Shinsei International Limited
2006	February	Issued USD-denominated preferred securities and EUR-denominated subordinated notes outside Japan
	July	Commenced resolution of public funds
	November	Partially cancelled Shinsei Bank common shares held as treasury stock
	December	Issued GBP-denominated perpetual subordinated notes
2007	April	Achieved two million retail accounts
	June	Launched new *Shinsei Platinum Services*
	August	Acquired and cancelled Series 3 Class-B preferred shares
	December	Acquired a controlling interest in SHINKI Co., Ltd.
2008	January	Reached a mutual agreement with Seven Bank, Ltd. to share sales channels and develop products and services together
	February	Completed a tender offer bid for the Bank's common shares and a third-party allotment of new common shares of the Bank to the investor group led by J.C. Flowers & Co. LLC and affiliates
		Concluded an Operational Alliance Agreement with Towa Bank, Ltd.
	March	Acquired and cancelled Series 2 Class-A Preferred Shares pursuant to a request by shareholder
	April	Launched *Shinsei MobileDirect* mobile banking service
	June	Launched Shinsei Bank *SmartCard Loan* service
	September	Opened first joint ATM corner with Seven Bank, Ltd.
		Acquired GE Consumer Finance Co., Ltd. (Changed company name to Shinsei Financial Co., Ltd. on April 1, 2009)
2009	January	Launched *Shinsei Step Up Program*
	March	Concluded tender offer for the shares of common stock of SHINKI Co., Ltd.
		Issued JPY-denominated Tier I Preferred Securities
		Partially repurchased and cancelled USD Preferred Securities
		Received "Best Retail Bank in Japan" award from *The Asian Banker*

Data Section

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated and non-consolidated financial statements prepared in accordance with accounting principles generally accepted in Japan ("Japanese GAAP") for banks, including the notes to those financial statements, included elsewhere in this annual report. Except as otherwise indicated, the financial information in the following discussion is based on our consolidated financial statements.

The discussion below contains forward-looking statements regarding the intent, belief or current expectations of management with respect to our financial condition and future results of operations. In many cases, but not all, we use such words as "anticipate," "believe," "estimate," "expect," "intend," "plan," "probability," "risk" and similar expressions in relation to us or our management to identify forward-looking statements. These statements reflect our current views with respect to future events and are subject to risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those we currently anticipate or target. We do not intend to update these forward-looking statements.

In this section, except where the context indicates otherwise, "we" or "our" means Shinsei Bank, Limited and its subsidiaries and affiliates accounted for by the equity-method, and "Shinsei" or "the Bank" refers to Shinsei Bank, Limited alone.

Financial and operational data that are stated in multiples of ¥0.1 billion have been truncated. All percentages have been rounded to the nearest 0.1%.

"Fiscal year 2008" refers to our fiscal year ended March 31, 2009, and other fiscal years are referred to in a similar manner.

OVERVIEW

Shinsei Bank, Limited is a leading diversified financial institution in Japan bringing innovative banking practices to the Japanese market. In June 2008 we reorganized our business around two business groups: an Institutional Group and an Individual Group. Our groups cover a broad range of products and customer segments which provide us with diversified revenues. We believe our unique history and business strategy have made us more global than local financial institutions in Japan and more local than foreign financial institutions having a presence in Japan.

Our focus is to grow sustainable revenues by offering innovative products and solutions to meet the needs of our customers. The scope and synergies of our innovative, customer-focused, two-group business model consists of:

- The Individual Group, which consists of retail banking and our consumer finance subsidiaries. Shinsei's Individual Group brings innovative financial solutions to more than 6 million active customers in Japan. We continue to expand our product range and enhance consultative services for retail customers to better serve the needs of our customers, including mass-affluent and high net worth individuals. With the acquisition of GE Consumer Finance Co., Ltd. (GECF) in September 2008, we have achieved critical mass in terms of customer base, brand and distribution, to take a leading position in consumer finance. This enables us to provide our customers with best-in-class financial products and services for every stage of their lives, serving them seamlessly as they move from loans to asset accumulation (GECF changed its company name to Shinsei Financial Co., Ltd. (Shinsei Financial) on April 1, 2009, and is hereinafter referred to as Shinsei Financial).
- The Institutional Group, which consists of our Institutional Bank and Showa Leasing Co., Ltd. (Showa Leasing). The Institutional Bank is organized around product specialists and relationship managers working closely together to leverage our long-standing customer relationships and to increase the number of products per customer. We serve mid-market companies, financial institutions, the public sector, financial sponsors and other institutional customers. Showa Leasing provides commercial finance to small- and medium-sized businesses.

FISCAL YEAR 2008

We reported a consolidated net loss of ¥143.0 billion in fiscal year 2008, as compared to net income of ¥60.1 billion in the previous fiscal year.

During fiscal year 2008, the ongoing credit crisis began to impact the real economy and the day to day lives of our individual customers in Japan. Responding to this changed environment, we took a number of steps to place our Individual Group on a strong footing for future profit growth. Our acquisition of Shinsei Financial in September 2008 solidified our position within the consumer finance market and enabled us to achieve critical mass in terms of customer base, brand and distribution, to take a leading position in this increasingly challenging market. We are now working to realign our operations for optimal deployment of management resources; APLUS Co., Ltd. (APLUS) will concentrate on installment sales credit, credit cards and the collection/guarantee business while Shinsei Financial and SHINKI Co., Ltd. (Shinki) will focus on unsecured personal loans, funded primarily through low-cost deposits from our retail bank.

Retail banking returned to profitability during the period due to strict expense management and a focus upon generating additional retail deposits. We introduced the *Shinsei Step Up* Program to provide three different classes of services to our customers, and now have more than 2.4 million retail depositors. Our retail deposit campaigns have resulted in retail deposit growth of approximately ¥1 trillion to a balance of more than ¥5 trillion during the fiscal year ended March 31, 2009.

Overall Individual Group results, however, were impacted due to the ongoing challenges within our consumer finance businesses. We took a ¥30.9 billion charge resulting from the accelerated amortization of APLUS goodwill and made ¥15.0 billion in additional provisions for grey zone claims within APLUS and Shinki. We have also taken ¥15.7 billion in restructuring charges during the fiscal year to consolidate our consumer finance operations to better position these businesses for the future. These charges are expected to lead to significant streamlining of our consumer finance businesses, and as a result, we expect the Individual Group to make a solid contribution to profits going forward.

Our Institutional Group business was significantly impacted by the turmoil in the global capital markets. Responding to the new environment, we have been quick to recognize that previously profitable proprietary investment strategies are no longer sustainable, and we have moved swiftly and decisively to redeploy our management resources. We have focused on shrinking our overseas assets and have taken impairments, mark-downs and credit reserves against our overseas holdings, which resulted in a loss in our Institutional Group for the fiscal year. Our Institutional Group business was primarily impacted by a consolidated loss of ¥29.4 billion related to the bankruptcy of Lehman Brothers Holdings Inc. (Lehman Brothers), as well as ¥50.7 billion in impairments of our collateralized loan obligations (CLO) portfolio, ¥44.9 billion of losses related to our holdings of European investments, asset-backed investments and asset-backed securities, and ¥11.6 billion of impairments within our capital markets area. Our capital markets and principal investments businesses have also been impacted by declines in client driven business, resulting in lower revenues within these areas.

We are going back to basics within our Institutional Group, focusing on the domestic market and the businesses we know best, to provide trusted solutions to our valued and long-standing customer base. However, the global economic slowdown also impacted our domestic businesses during the second half of fiscal year 2008. The decline in domestic valuations has lead to Shinsei taking a ¥18.9 billion reserve against our non-recourse lending business and ¥11.5 billion of impairments of Japanese equities. As we rebuild our domestic businesses, we have become more discerning in our management of our domestic portfolio and continue to monitor the market closely while working to maintain strong and proactive relationships with our Japanese customers.

During fiscal year 2008, we booked gains on the purchase of our preferred securities and subordinated debt of ¥74.1 billion, as well as gains from the sale of our Meguro Production Center of ¥7.2 billion, net of future restoration and other costs, and gains from the sale of Showa Auto Rental & Leasing Co., Ltd. (Showa Auto Rental & Leasing) of ¥8.2 billion. In fiscal year 2007, we recorded a gain on the sale of our headquarters building of ¥61.7 billion and a gain on the sale of Life Housing Loan Co., Ltd. of ¥20.3 billion.

Consolidated cash basis net loss in fiscal year 2008 was ¥97.0 billion. Cash basis net income is calculated by excluding amortization of goodwill and other intangible assets, net of tax benefit, from net income under Japanese GAAP.

BANKRUPTCY OF LEHMAN BROTHERS HOLDINGS INC.

On September 15, 2008, Lehman Brothers filed for bankruptcy protection in New York. In fiscal year 2008, we have recognized ¥29.4 billion in related losses on a consolidated basis. Included in these losses are credit costs of ¥20.6 billion related to our loan to a Japanese domestic subsidiary of Lehman Brothers, and ¥8.7 billion of losses on bonds and related swaps. The settlement of claims against Lehman Brothers is being administered by a bankruptcy trustee. We are working to recover our claims against Lehman Brothers both in the United States and in Japan.

EUROPEAN INVESTMENTS, ASSET-BACKED INVESTMENTS AND ASSET-BACKED SECURITIES

Our financial results for fiscal year 2008 were impacted by the rapidly deteriorating economy and credit cycle within Europe. During fiscal year 2008, we marked-down or took losses on ¥27.9 billion of European investments and asset-backed securities and incurred credit costs of ¥16.9 billion on European investments and asset-backed investments.

U.S. RESIDENTIAL MORTGAGE PORTFOLIO

Our exposures to the U.S. residential mortgage market have been reduced from the previous fiscal year. As of March 31, 2009, our net exposure to the U.S. residential mortgage market amounted to US$123.4 million, or approximately 0.1% of our total assets of approximately US$121.6 billion as of March 31, 2009. Total mark-downs and reserves related to U.S. residential mortgages recorded in fiscal year 2008 amounted to ¥3.3 billion. A full breakdown of our exposures, net mark-downs and reserves related to the U.S. residential mortgage market may be found in Table 40.

GREY ZONE AND CREDIT RESERVES —SHINSEI FINANCIAL, APLUS AND SHINKI

The purchase agreement for the acquisition of Shinsei Financial included a provision for ¥225.4 billion for grey zone claims and also includes an indemnity from GE that provides protection for potential losses beyond ¥203.9 billion from the majority of the legacy accounts with grey zone interest exposure. For the six month period ended March 31, 2009, Shinsei Financial made grey zone refunds of ¥61.8 billion. As of March 31, 2009, Shinsei Financial's grey zone reserve balance amounted to ¥161.0 billion.

During fiscal year 2008, APLUS recorded additional grey zone provisions for losses on interest repayments of ¥8.7 billion in connection with ¥6.3 billion of grey zone refunds recorded during fiscal year 2008. As of March 31, 2009, APLUS' grey zone reserve balance amounted to ¥11.0 billion.

During fiscal year 2008, Shinki made grey zone refunds of ¥15.2 billion and recorded additional provisions of ¥6.3 billion. As of March 31, 2009, Shinki's grey zone reserve balance amounted to ¥21.7 billion.

RESTRUCTURING EXPENSES

We initiated a major effort to right size our organization and decrease expenses across our business lines in fiscal year 2008. These efforts included offering a voluntary early retirement program to employees, terminating unprofitable business lines, and optimizing our network of manned and unmanned branches across our consumer finance subsidiaries. We booked approximately ¥20.3 billion in restructuring expenses during fiscal year 2008. We expect to continue to reduce expenses across our business lines in the coming fiscal year.

GAIN ON REPURCHASE OF PREFERRED AND SUBORDINATED SECURITIES

During fiscal year 2008, we booked a gain of ¥74.1 billion on the repurchase of our preferred and subordinated securities, comprised of a gain of ¥18.5 billion on the repurchase of preferred securities and cancellation of associated swaps, and a gain of ¥55.5 billion on the repurchase of subordinated securities and cancellation of associated swaps.

SIGNIFICANT EVENTS

ACQUISITION OF SHINSEI FINANCIAL

On September 22, 2008, we acquired GE Consumer Finance (Shinsei Financial) and its subsidiaries for an all cash consideration from GE Japan Holdings Corporation. The acquisition was made in line with our business strategy to strengthen our Individual Group and pursue further synergies between our retail banking and consumer finance operations.

Under Japanese GAAP, Shinsei Financial's results of operations have been incorporated within our consolidated statements of operations for the period from October 1, 2008 to March 31, 2009. Please refer to the Notes to the Consolidated Financial Statements for additional information.

ACCELERATED AMORTIZATION OF GOODWILL AND IMPAIRMENT OF INVESTMENT RELATED TO APLUS

Regulatory changes relating to consumer loan interest rates approved by the Japanese Diet on December 13, 2006 and announced on December 20, 2006 have had a significant impact on the consumer finance industry. Following these changes, and in accordance with our accounting policies regarding amortization of goodwill, we evaluate the need to accelerate amortization of goodwill related to APLUS and, on a non-consolidated basis, the need to impair our investment in APLUS. We retained PwC Advisory Co., Ltd. to provide independent valuation services for this assessment.

On a non-consolidated basis, our investment in APLUS consists of preferred shares and common shares. For securities without readily available market prices such as preferred shares, a fair value must be calculated and compared against the book value to assess the need for recording impairment. Based upon our analysis, an impairment of ¥30.9 billion was recorded for our preferred share investment in APLUS. No impairment was recorded for our investment in APLUS common shares. This impairment of our investment in APLUS impacts Shinsei's non-consolidated financial results.

On a consolidated basis, when the book value of our underlying investment becomes less than the sum of the net assets of the subsidiary and the unamortized balance of goodwill as a result of the impairment recognized for the investment, accelerated amortization of goodwill is also recognized by the amount of the difference of these two. Based upon the impairment of our preferred share investment in APLUS on a non-consolidated basis, we accelerated our amortization of APLUS goodwill by ¥30.9 billion on a consolidated basis. The accelerated amortization of goodwill impacts our consolidated financial results. Please refer to the Notes to the Consolidated Financial Statements for additional information.

MEASURES TO STRENGTHEN SHINSEI BANK'S TIER I CAPITAL

In order to strengthen our Tier I Capital, we implemented two measures during fiscal year 2008. We issued Tier I preferred securities of ¥39.1 billion to institutional investors in Japan. These investors invested a portion of the proceeds they received from APLUS after it acquired and canceled a portion of its Class-D preferred shares from these investors. The effect of this transaction was to reduce our Tier II capital and increase our Tier I capital by a corresponding amount as Class-D preferred shares of APLUS were included in our Tier II capital. In addition, we issued Tier I preferred securities of ¥9.1 billion to a select group of institutional and corporate investors in Japan. Both measures were implemented in March 2009.

TENDER OFFER FOR SHINKI'S SHARES

Shinsei and Shinsei Financial successfully concluded a tender offer for the shares of common stock of Shinki on March 18, 2009. Shinsei, Shinsei Financial and Shinki also concluded a planned capital reorganization related to the joint tender offer. The tender offer provided an opportunity for the shareholders of Shinki to sell their common stock. Since the Shinsei and Shinsei Financial shareholding ratio in Shinki reached 96.8%, Shinsei and Shinsei Financial anticipate completing the acquisition of a 100% interest in Shinki. The stock of Shinki is planned to be de-listed on July 5, 2009.

SETTLEMENT OF LAWSUITS BETWEEN SHINSEI BANK AND THE DEPOSIT INSURANCE CORPORATION OF JAPAN

We entered into an in-court settlement with the Deposit Insurance Corporation of Japan ("DIC") of three lawsuits between Shinsei and DIC on March 10, 2009 at the Tokyo District Court in which Shinsei previously sought indemnity from DIC based on the Share Purchase Agreement dated February 9, 2000, among DIC, New LTCB Partners C.V. and the former Long-Term Credit Bank of Japan, Ltd. ("Share Purchase Agreement"). The amount of claims at the time of the settlement was approximately ¥15.0 billion. Among the three lawsuits is a lawsuit we brought against DIC under the Share Purchase Agreement seeking indemnity of approximately ¥13.4 billion with respect to losses arising out of litigation with the bankrupt EIE International Corporation and its related parties. Under the settlement, DIC paid ¥11.0 billion to us in March 2009. The settlement concluded all the lawsuits pending between Shinsei and DIC.

SALE OF SHOWA AUTO RENTAL & LEASING

After a business review of our leasing operations, we concluded that we lacked sufficient scale in our auto rental and leasing business to remain competitive over the long term. As a result, on September 30, 2008, we concluded the sale of Showa Auto Rental & Leasing, a subsidiary of Showa Leasing. After deducting our book value in Showa Auto Rental & Leasing and net costs of the transaction, our gain was ¥8.2 billion.

SALE OF MEGURO BUILDING

Our Meguro Production Center has outgrown the 30-year-old building in Meguro, Tokyo in which it is housed. A central Tokyo location for these operations is no longer necessary, given advances in technology, and repositioning them is more prudent from the point of view of continuity-of-business planning. As a result, on May 14, 2008, we sold the Meguro building with the land for ¥19.2 billion. The Bank has entered into a lease contract with the purchaser, an affiliate of the Lone Star Real Estate Fund, which allows us to remain in the building until March 2011.

Chowa Tatemono Co., Ltd. (Chowa Tatemono), a consolidated subsidiary within the Shinsei Bank Group, owned the Meguro property. As a result of this transaction, Chowa Tatemono recorded a gain of ¥5.3 billion, net of taxes, while Shinsei recorded a net gain of ¥5.6 billion, net of taxes on a consolidated basis in fiscal year 2008.

SELECTED FINANCIAL DATA (CONSOLIDATED)

Shinsei Bank, Limited and Consolidated Subsidiaries
As of or for the fiscal years ended March 31, 2009, 2008, 2007, 2006 and 2005

	Billions of yen (except per share data and percentages)				
	2009	2008	2007	2006	2005
Statements of operations data:					
Net interest income	**¥ 202.9**	¥ 137.7	¥ 95.4	¥ 82.2	¥ 66.8
Net fees and commissions	**26.5**	40.8	46.4	45.4	32.4
Net trading income (loss)	**(4.6)**	9.0	17.8	27.5	23.9
Net other business income (loss)	**(41.7)**	74.9	96.6	118.0	54.5
Total revenue	**183.1**	262.6	256.3	273.4	177.8
General and administrative expenses	**182.0**	158.7	150.2	136.5	97.3
Amortization of goodwill and other intangible assets	**17.5**	12.5	20.8	29.4	8.8
Total general and administrative expenses	**199.5**	171.2	171.0	166.0	106.1
Net credit costs (recoveries)	**129.0**	73.5	51.9	30.1	(0.9)
Other gains (losses), net	**26.4**	74.7	(99.1)	(3.4)	(7.0)
Income (loss) before income taxes and minority interests	**(119.0)**	92.5	(65.7)	73.7	65.5
Current income tax	**3.4**	4.9	3.2	3.7	1.4
Deferred income tax (benefit)	**7.0**	9.5	(24.6)	(11.4)	(3.4)
Minority interests in net income of subsidiaries	**13.5**	18.0	16.6	5.2	0.1
Net income (loss)	**¥ (143.0)**	¥ 60.1	¥ (60.9)	¥ 76.0	¥ 67.4
Balance sheet data:					
Trading assets	**¥ 375.1**	¥ 315.2	¥ 303.3	¥ 193.5	¥ 168.5
Securities	**2,174.1**	1,980.2	1,854.6	1,494.4	1,478.2
Loans and bills discounted	**5,876.9**	5,622.2	5,146.3	4,087.5	3,430.4
Customers' liabilities for acceptances and guarantees	**675.2**	701.7	754.4	813.4	1,058.1
Reserve for credit losses	**(192.5)**	(145.9)	(147.2)	(144.8)	(149.7)
Total assets[1]	**11,949.1**	11,525.7	10,837.6	9,405.0	8,576.3
Deposits, including negotiable certificates of deposit	**6,272.1**	5,806.6	5,420.9	4,071.7	3,452.8
Debentures	**675.5**	662.4	703.2	1,018.9	1,242.6
Trading liabilities	**307.5**	205.0	99.2	149.9	69.1
Borrowed money	**1,012.3**	1,127.2	1,122.6	1,205.7	1,160.2
Acceptances and guarantees	**675.2**	701.7	754.4	813.4	1,058.1
Total liabilities	**11,181.7**	10,560.5	9,904.4	8,287.8	7,735.7
Capital stock	**476.2**	476.2	451.2	451.2	451.2
Total equity[1]	**767.4**	965.2	933.2	—	—
Total liabilities and equity	**¥ 11,949.1**	¥ 11,525.7	¥ 10,837.6	¥ 9,405.0	¥ 8,576.3
Per share data:					
Common equity[1,2]	**¥ 284.95**	¥ 364.35	¥ 308.60	¥ 380.20	¥ 329.65
Fully diluted equity[1,2,3]	**284.95**	364.35	355.09	421.62	390.06
Basic net income (loss)	**(72.85)**	38.98	(45.92)	53.16	46.78
Diluted net income	**—**	32.44	—	37.75	34.98
Capital adequacy data:					
Total capital adequacy ratio	**8.4%**	11.7%	13.1%	15.5%	11.8%
Tier I capital ratio	**6.0%**	7.4%	8.1%	10.3%	7.0%
Average balance data:					
Securities	**¥ 2,535.1**	¥ 2,058.7	¥ 1,750.5	¥ 1,721.4	¥ 1,509.4
Loans and bills discounted	**5,910.3**	5,390.3	4,613.4	3,730.7	3,099.9
Total assets	**11,737.4**	11,181.7	10,121.3	8,990.6	7,460.0
Interest-bearing liabilities	**9,303.7**	9,065.8	7,821.8	6,418.3	5,216.0
Total liabilities	**10,871.1**	10,232.4	9,096.1	8,011.8	—
Total equity	**866.3**	949.2	894.2	—	—
Other data:					
Return on assets	**(1.2)%**	0.5%	(0.6)%	0.8%	0.9%
Return on equity (fully diluted)[1,2]	**(22.4)%**	8.8%	(8.1)%	9.3%	8.9%
Ratio of deposits, including negotiable certificates of deposit, to total liabilities	**56.1%**	55.0%	54.7%	49.1%	44.6%
Expense-to-revenue ratio[4]	**99.4%**	60.4%	58.6%	50.0%	54.7%
Non-performing claims, non-consolidated	**¥ 145.8**	¥ 53.1	¥ 27.9	¥ 42.5	¥ 51.7
Ratio of non-performing claims to total claims, non-consolidated	**2.5%**	1.0%	0.5%	1.0%	1.4%
Net deferred tax assets	**¥ 20.5**	¥ 23.9	¥ 37.3	¥ 16.3	¥ 4.3
Net deferred tax assets as a percentage of Tier I capital	**3.5%**	3.5%	6.0%	2.2%	0.9%

Notes: (1) As required by an accounting standard published by the Accounting Standards Board of Japan (ASBJ), certain items which were previously presented outside of shareholders' equity are now presented as components of equity. Such items include stock acquisition rights, minority interests and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ended on or after May 1, 2006. Reclassification of the prior period amount is not permitted under Japanese GAAP.
(2) Stock acquisition rights and minority interests in subsidiaries are excluded from equity in calculating per share data.
(3) Fully diluted equity per share is calculated by dividing equity at the end of the periods presented by the number of common shares that would have been outstanding had all securities convertible into or exercisable for common shares been converted or exercised with an applicable conversion or exercise price within the predetermined range at the end of the period.
(4) The expense-to-revenue ratio is calculated by dividing general and administrative expenses for the periods presented by the total revenue for such period.

RESULTS OF OPERATIONS (CONSOLIDATED)

FISCAL YEAR ENDED MARCH 31, 2009 COMPARED WITH FISCAL YEAR ENDED MARCH 31, 2008 (CONSOLIDATED)

Total revenue for fiscal year 2008 was ¥183.1 billion, or 30.3% lower than for the previous fiscal year. Net interest income revenues rose to ¥202.9 billion in fiscal year 2008 from ¥137.7 billion in fiscal year 2007. This increase was primarily driven by the ¥65.3 billion in net interest income from Shinsei Financial which was acquired on September 22, 2008. Non-interest income decreased to a loss of ¥19.8 billion versus non-interest income of ¥124.9 billion in the previous fiscal year. Our non-interest income was impacted by a decline of ¥14.3 billion of net fees and commissions revenues. In addition, we incurred a net trading loss of ¥4.6 billion and a net other business loss of ¥41.7 billion compared to net other business income of ¥74.9 billion in the previous fiscal year. Included in the net trading loss and net other business loss are ¥50.7 billion in impairments of our CLO portfolio, ¥27.9 billion of losses related to our holdings of European investments and asset-backed securities, ¥11.6 billion of impairments within our capital markets area, ¥11.5 billion of impairments of Japanese equities, ¥8.7 billion in losses incurred upon the bankruptcy of Lehman Brothers, and ¥7.0 billion of losses on other asset-backed investments.

General and administrative expenses (excluding amortization of goodwill and other intangible assets) were ¥182.0 billion in fiscal year 2008, an increase of ¥23.2 billion compared to the previous fiscal year. This increase occurred as a result of the consolidation of expenses of Shinki from the second half of fiscal year 2007 and the inclusion of Shinsei Financial's expenses from October 1, 2008. Excluding Shinki and Shinsei Financial's expenses, our expenses declined to ¥145.2 billion, a decrease of ¥8.0 billion from the prior period. Due to the mark-downs and impairments which resulted in lower revenue in the current period, our expense-to-revenue ratio was 99.4% for fiscal year 2008 as compared to an expense-to-revenue ratio of 60.4% in fiscal year 2007.

Net credit costs of ¥129.0 billion for fiscal year 2008 were ¥55.4 billion higher compared to the previous fiscal year. The increase was driven primarily by ¥20.6 billion in credit costs related to a loan to a Lehman Brothers subsidiary, ¥18.9 billion of provisions for real estate finance, ¥15.7 billion in credit costs associated with our holdings of European asset-backed investments and ¥14.9 billion of credit costs within Shinsei Financial. Excluding Shinsei Financial, net credit costs within our consumer finance subsidiaries improved to ¥34.4 billion from ¥43.6 billion in the prior period.

Amortization of goodwill and other intangible assets associated with the acquisition of consumer and commercial finance companies was ¥17.5 billion in fiscal year 2008 as compared with ¥12.5 billion in the previous fiscal year. The higher amounts reflect the amortization of goodwill and other intangible assets associated with our acquisition of Shinsei Financial.

Other gains of ¥26.4 billion largely included a ¥74.1 billion gain on the purchase of our preferred and subordinated securities, a ¥7.2 billion gain on the sale of the Bank's Meguro Production Center, net of restoration and future relocation costs and a gain of ¥8.2 billion on the sale of Showa Auto Rental & Leasing, offset by a ¥30.9 billion accelerated amortization charge for goodwill in APLUS resulting from the impairment of our preferred shares investment on a non-consolidated basis, restructuring expenses of ¥20.3 billion and grey zone expenses of ¥15.0 billion at APLUS and Shinki. The fiscal year 2007 results include a gain of ¥61.7 billion on the sale of our headquarters building and a gain from the sale of Life Housing Loan Co., Ltd. of ¥20.3 billion, net of consolidation adjustments. In addition, the tax impact of these gains has been reflected in income taxes (benefit).

Current and deferred income taxes reflected a net expense of ¥10.4 billion compared to a net expense of ¥14.4 billion in the previous fiscal year.

Minority interests in net income of subsidiaries for fiscal year 2008 amounting to ¥13.5 billion largely reflected dividends paid on perpetual preferred securities and minority interests relating to APLUS' preferred shareholders as well as minority interests in other subsidiaries. Lower minority interests reflect the decline in net income generated within our subsidiaries during the current period.

As a result, the Bank recognized a consolidated net loss of ¥143.0 billion for fiscal year 2008, a decrease of ¥203.1 billion as compared to the previous fiscal year.

Shinsei's non-performing loans (NPLs) balance under the Financial Revitalization Law totaled ¥145.8 billion as of March 31, 2009. NPLs were 2.51% of total claims outstanding at March 31, 2009 on a non-consolidated basis.

Our Tier I capital ratio was 6.02% and total capital adequacy ratio was 8.35% as of March 31, 2009, on a Basel II basis.

SUPPLEMENTAL FINANCIAL DATA AND RECONCILIATIONS TO JAPANESE GAAP MEASURES

Shinsei Bank, Limited and Consolidated Subsidiaries

For the fiscal year ended March 31, 2009	Billions of yen (except per share data and percentages)
Amortization of goodwill and other intangible assets	
Amortization of other intangible assets	¥ 5.8
Associated deferred tax liability	(2.3)
Amortization of goodwill	11.6
Accelerated amortization of goodwill	30.9
Total amortization of goodwill and other intangible assets, net of tax benefit	¥ 46.0
Reconciliation of net loss to cash basis net loss	
Net loss	¥ (143.0)
Amortization of goodwill and other intangible assets, net of tax benefit	46.0
Cash basis net loss	¥ (97.0)
Reconciliation of basic net loss per share to cash basis basic net loss per share	
Basic net loss per share	¥ (72.85)
Effect of amortization of goodwill and other intangible assets, net of tax benefit	23.45
Cash basis basic net loss per share	¥ (49.39)
Reconciliation of return on assets to cash basis return on assets	
Return on assets	(1.2%)
Effect of amortization of goodwill and other intangible assets, net of tax benefit	0.4%
Cash basis return on assets	(0.8%)
Reconciliation of return on equity to cash basis return on equity	
Return on equity (fully diluted)	(22.4%)
Effect of amortization of goodwill and other intangible assets, net of tax benefit	7.2%
Cash basis return on equity (fully diluted)	(15.2%)
Reconciliation of return on equity to return on tangible equity	
Return on equity (fully diluted)	(22.4%)
Effect of goodwill and other intangible assets[1]	2.2%
Return on tangible equity (fully diluted)	(20.2%)

Note: (1) Net loss excludes amortization of goodwill and other intangible assets, net of tax benefit. Average equity excludes goodwill and other intangible assets, net of associated deferred tax liability.

TABLE 1. INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES (CONSOLIDATED)

Billions of yen (except percentages)

	2009			2008[1]		
Fiscal years ended March 31	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Interest-earning assets:						
Loans and bills discounted	¥ 5,910.3	¥ 256.1	4.33%	¥ 5,390.3	¥ 186.7	3.46%
Leased receivables and leased investment assets/ installment receivables	689.0	49.2	7.15	765.6	52.1	6.81
Securities	2,535.1	37.9	1.50	2,058.7	42.7	2.08
Other interest-earning assets[2]	963.0	9.2	n.m.[4]	988.2	12.6	n.m.[4]
Total revenue on interest-earning assets	¥ 10,097.5	¥ 352.7	3.49%	¥ 9,202.9	¥ 294.3	3.20%
Interest-bearing liabilities:						
Deposits, including negotiable certificates of deposit	¥ 6,195.6	¥ 52.2	0.84%	¥ 5,734.4	¥ 47.9	0.84%
Debentures	706.3	5.0	0.71	679.5	3.3	0.50
Borrowed money	1,135.9	17.0	1.50	1,131.7	15.2	1.35
Subordinated debt	107.9	1.4	1.33	108.0	1.3	1.24
Other borrowed money	1,028.0	15.5	1.51	1,023.7	13.9	1.36
Corporate bonds	351.6	11.5	3.27	425.6	15.2	3.59
Subordinated bonds	272.4	10.1	3.71	343.4	13.9	4.07
Other corporate bonds	79.2	1.3	1.76	82.1	1.3	1.59
Other interest-bearing liabilities[2]	914.0	14.5	n.m.[4]	1,094.5	22.5	n.m.[4]
Total expense on interest-bearing liabilities	¥ 9,303.7	¥ 100.4	1.08	¥ 9,065.8	¥ 104.3	1.15%
Non-interest-bearing sources of funds:						
Non-interest-bearing (assets) liabilities, net	¥ 154.7	¥ —	—	¥ (543.1)	¥ —	—
Total equity excluding minority interest in subsidiaries[3]	639.1	—	—	680.2	—	—
Total interest-bearing liabilities and non-interest-bearing sources of funds	¥ 10,097.5	¥ —	—	¥ 9,202.9	¥ —	—
Net interest margin	—	—	2.41%	—	—	2.05%
Impact of non-interest-bearing sources	—	—	0.08	—	—	0.02
Net revenue on interest-earning assets/ yield on interest-earning assets	—	252.2	2.50%	—	189.9	2.06%
Reconciliation of total revenue on interest-earning assets to total interest income						
Total revenue on interest-earning assets	¥ 10,097.5	¥ 352.7	3.49%	¥ 9,202.9	¥ 294.3	3.20%
Less: Income on leased receivables and leased investment assets/installment receivables	689.0	49.2	7.15	765.6	52.1	6.81
Total interest income	¥ 9,408.5	¥ 303.4	3.22%	¥ 8,437.3	¥ 242.1	2.87%
Total interest expenses	—	100.4	—	—	104.3	—
Net interest income	¥ —	¥ 202.9	—	¥ —	¥ 137.7	—

Notes: (1) Prior period has been adjusted to conform to current period presentation.
(2) Other interest-earning assets and other interest-bearing liabilities include interest swaps and fund swaps.
(3) Represents a simple average of the balance at the end of the current period and the balance at the end of the previous period.
(4) n.m. is not meaningful.

Net revenue on interest-earning assets includes net interest income as well as revenue earned on the average balance of leased receivables and leased investment assets/installment receivables. We consider income on leased receivables and leased investment assets/installment receivables to be a component of interest income, but Japanese GAAP does not include income on leased receivables and leased investment assets/installment receivables in net interest income. Under Japanese GAAP, therefore, income on leased receivables and leased investment assets/installment receivables is reported in net other business income in our consolidated statement of income.

NET REVENUE ON INTEREST-EARNING ASSETS

Net revenue on interest-earning assets for the fiscal year ended March 31, 2009 was ¥252.2 billion, an increase of ¥62.3 billion compared to the prior fiscal year. Total revenue on interest-earning assets increased by ¥58.3 billion and total expense on interest-bearing liabilities decreased by ¥3.9 billion in fiscal year 2008 from the previous fiscal year. The net yield on interest-earning assets was 2.50% in fiscal year 2008, compared with 2.06% for the prior fiscal year, an increase of 0.44%.

TABLE 2. ANALYSIS OF CHANGES IN NET REVENUE ON INTEREST-EARNING ASSETS (CONSOLIDATED)

	Billions of yen		
	Due to change in[1]		
From fiscal year ended March 31, 2008 to fiscal year ended March 31, 2009	Volume	Rate	Net Change
Increase (decrease) in interest revenue:			
Loans and bills discounted	¥ 18.0	¥ 51.4	¥ 69.4
Leased receivables and leased investment assets/installment receivables	(5.2)	2.3	(2.8)
Securities	9.8	(14.6)	(4.7)
Other interest-earning assets	(0.3)	(3.0)	(3.4)
Total revenue on interest-earning assets			¥ 58.3
Increase (decrease) in interest expenses:			
Deposits, including negotiable certificates of deposit	¥ 3.8	¥ 0.5	¥ 4.3
Debentures	0.1	1.4	1.6
Borrowed money	0.0	1.6	1.7
Subordinated debt	0.0	0.0	0.0
Other borrowed money	0.0	1.5	1.6
Corporate bonds	(2.6)	(1.1)	(3.7)
Subordinated bonds	(2.8)	(0.9)	(3.8)
Other corporate bonds	(0.0)	0.1	0.0
Other interest-bearing liabilities	(3.7)	(4.2)	(7.9)
Total expense on interest-bearing liabilities			¥ (3.9)
Net increase in net revenue on interest-earning assets			¥ 62.3

Reconciliation of total revenue on interest-earning assets to total interest income

Total revenue on interest-earning assets	¥ 58.3
Less: Income on leased receivables and leased investment assets/installment receivables	(2.8)
Total interest income	¥ 61.2
Total interest expenses	(3.9)
Net increase in net interest income	¥ 65.2

Note: (1) The changes in net interest income and expense for each category are divided into the portion of change attributable to the variance in volume or rate for that category. The attribution of the volume variance is calculated by multiplying the change in volume by the previous fiscal year's rate. The attribution of the rate variance is calculated by multiplying the change in rate by the current fiscal year's balance.

The ¥58.3 billion increase in total revenue on interest-earning assets in fiscal year 2008 is primarily attributable to both a higher volume and rate on loans and bills discounted. The increase in average balance of loans and bills discounted was primarily the result of inclusion of consumer loans by Shinsei Financial. Shinsei Financial contributed ¥673.6 billion to the net increase in loans and bills discounted on a consolidated basis. Lower leased receivables and leased investment assets/installment receivables average volumes, offset by higher rates, led to ¥2.8 billion lower net revenues on these assets. Securities interest revenue decreased due primarily to lower yields caused by increased purchases of Japanese National Government bonds despite the increased average balance of these assets. The ¥3.9 billion decrease in total expense on interest-bearing liabilities was primarily due to the decreased rates on other interest-bearing liabilities as well as decreased volumes of subordinated bonds. The increase in interest expense relating to deposits including negotiable certificates of deposit was primarily due to an increase in the average balance to ¥6,195.6 billion from ¥5,734.4 billion.

NET FEES AND COMMISSIONS

Net fees and commissions is comprised substantially of fees on non-recourse real estate finance, consumer finance related guarantees and other financing products and commissions on sales of asset management products. Net fees and commissions of ¥26.5 billion were earned in fiscal year 2008, a decrease of ¥14.3 billion compared to the previous fiscal year, primarily as a result of lower market activity due to the ongoing turmoil in the global financial markets. Our Retail Banking asset management business generated total fees of ¥4.7 billion in fiscal year 2008, a decrease of ¥4.9 billion from the previous fiscal year, as retail customers slowed their purchases of fee based products, including mutual funds and annuities.

NET TRADING INCOME

The table below shows the principal components of net trading income.

TABLE 3. NET TRADING INCOME (CONSOLIDATED)

Fiscal year ended March 31	Billions of yen 2009	2008	% Change
Income (loss) from trading securities	¥ (5.8)	¥ (0.6)	(856.8)
Income (loss) from securities held to hedge trading transactions	(10.7)	0.3	(3,189.6)
Income from trading-related financial derivatives	11.9	9.3	27.2
Other, net	0.0	(0.0)	112.3
Net trading income	¥ (4.6)	¥ 9.0	(151.3)

Please see Note 27 on page 127 for details.

Net trading income reflects revenues from customer-driven transactions as well as transactions undertaken for trading purposes. In addition to investments in securities, it encompasses income we receive from providing derivative products, including structured deposits, to retail and institutional customers.

During fiscal year 2008, net trading income showed a loss of ¥4.6 billion, a decline of ¥13.7 billion from the previous fiscal year. Our overall business showed lower volumes due to lower customer-driven activity in fiscal year 2008.

The loss from securities held to hedge trading transactions includes ¥3.3 billion in losses on positions related to Lehman Brothers and another ¥7.3 billion in other bond related losses.

Our income from trading-related financial derivatives includes liquidity and credit reserves of ¥3.3 billion as a result of the increased market volatility and credit risk in the market as well as ¥0.6 billion in losses on derivatives positions related to Lehman Brothers.

NET OTHER BUSINESS INCOME

The table below shows the principal components of net other business income.

TABLE 4. NET OTHER BUSINESS INCOME (CONSOLIDATED)

Fiscal years ended March 31	Billions of yen 2009	2008	% Change
Income on monetary assets held in trust, net	¥ 5.1	¥20.9	(75.5)
Net gain (losses) on securities	(106.9)	(10.4)	(925.4)
Net gain on foreign exchange	8.4	2.7	213.0
Net gain on other monetary claims purchased	6.4	15.4	(58.2)
Other business income (losses), net(1)			
Income (losses) from derivatives for banking purposes, net	(2.8)	0.5	(631.1)
Equity in net income (losses) of affiliates	(2.7)	(8.3)	67.5
Gain on lease cancellation and other lease income, net	1.1	2.7	(59.7)
Other, net	0.2	(0.7)	134.6
Net other business income (loss) before income on leased assets and installment receivables, net	(91.0)	22.8	(498.7)
Income on leased receivables and leased investment assets/installment receivables, net	49.2	52.1	(5.5)
Net other business income (loss)	¥ (41.7)	¥74.9	(155.7)

Note: (1) Please see Note 28 on page 127 for details.

Net other business income showed a loss for fiscal year 2008 of ¥41.7 billion. This included income of ¥49.2 billion from the leased receivables and leased investment assets/installment receivables businesses of Showa Leasing, Shinsei Financial and APLUS. Excluding such income, net other business income for fiscal year 2008 showed a loss of ¥91.0 billion, a decrease of ¥113.8 billion from the previous fiscal year.

Income on monetary assets held in trust, net should be considered together with net gain on other monetary claims purchased for trading purposes as both of these income categories mainly include credit trading, securitization and real estate principal investment income. During fiscal year 2008, income on monetary assets held in trust, net, totaled ¥5.1 billion versus ¥20.9 billion in the prior fiscal year, a decrease of ¥15.8 billion compared to the prior fiscal year. This decline was driven both by losses of ¥9.2 billion on our European investments as well as ¥1.5 billion of lower credit trading revenues.

The ¥106.9 billion of net losses on securities includes ¥50.7 billion in impairments of our collateralized loan obligation (CLO) portfolio, ¥12.4 billion of losses related to our holdings of European asset-backed securities, ¥11.6 billion of impairments within our capital markets area, ¥11.5 billion of impairments of Japanese equities, ¥6.5 billion of losses on other asset-backed securities, and ¥4.7 billion of losses on our Lehman Brothers positions. The capital markets business-related activities should be considered together with corresponding equity derivatives included in income (losses) from derivatives for banking purposes, net.

Our foreign exchange business generated revenues of ¥8.4 billion during fiscal year 2008, compared to the net gain on foreign exchange of ¥2.7 billion in the prior fiscal year.

Equity in net income (losses) of affiliates for fiscal year 2007 is largely attributable to Shinsei Bank's equity in the non-consolidated net loss of Shinki, an equity-method affiliate, amounting to ¥6.8 billion, net of consolidation adjustments. Shinki's results have been consolidated during fiscal year 2008.

TOTAL REVENUE

Due to the factors described above, total revenue in fiscal year 2008 was ¥183.1 billion, as compared with ¥262.6 billion in the previous fiscal year.

GENERAL AND ADMINISTRATIVE EXPENSES

The table below sets forth the principal components of our general and administrative expenses.

TABLE 5. GENERAL AND ADMINISTRATIVE EXPENSES (CONSOLIDATED)

Billions of yen

Fiscal years ended March 31	2009	2008	% Change
Personnel expenses	¥ 72.2	¥ 64.5	12.0
Premises expenses	27.4	18.6	46.7
Technology and data processing expenses	24.4	21.8	12.3
Advertising expenses	12.5	9.9	25.7
Consumption and property taxes	8.2	8.4	(3.0)
Deposit insurance premium	3.8	3.4	13.3
Other general and administrative expenses	33.2	31.9	4.3
General and administrative expenses	182.0	158.7	14.7
Amortization of goodwill and other intangible assets	17.5	12.5	40.0
Total general and administrative expenses	¥ 199.5	¥ 171.2	16.5

From the fiscal year which commenced on April 1, 2006, amortization of goodwill and other intangible assets is recorded in total general and administrative expenses.

General and administrative expenses (excluding amortization of goodwill and other intangible assets) were ¥182.0 billion in fiscal year 2008, an increase of ¥23.2 billion or 14.7% compared to the previous fiscal year.

Higher expenses were incurred primarily due to the consolidation of Shinsei Financial's results for the second half of fiscal year 2008, and the consolidation of Shinki's financial results for fiscal year 2008, which for the first six months of fiscal year 2007 was accounted for as an equity method affiliate. Excluding Shinki and Shinsei Financial's expenses, our expenses declined to ¥145.2 billion, a decrease of ¥8.0 billion or 5.3% from the prior period.

Personnel expenses of ¥72.2 billion were ¥7.7 billion higher than in the previous fiscal year. This was largely due to the inclusion of Shinsei Financial's personnel expenses of ¥9.1 billion, which were partially offset by ongoing expense reductions within other areas of our business.

Non-personnel expenses rose to ¥109.7 billion compared to ¥94.2 billion in the prior fiscal year mainly due to the inclusion of Shinsei Financial and Shinki's financial results. Premises expenses increased mainly due to Shinsei Financial and Shinki's premises expenses and office rent for the Shinsei Bank headquarters building. Advertising expenses were ¥2.5 billion higher than the last fiscal year reflecting the inclusion of Shinsei Financial's expenses offset by continued optimization of advertising activities in Individual Group businesses. Consumption and property taxes were ¥0.2 billion lower mainly due to the absence of property taxes caused by the sale of the Shinsei Bank headquarters building in March 2008, offset by consumption and property taxes within Shinsei Financial.

AMORTIZATION OF GOODWILL AND OTHER INTANGIBLE ASSETS

The acquisition of majority stakes in Shinsei Financial, APLUS (including Zen-Nichi Shinpan Co., Ltd. (Zen-Nichi Shinpan)), Showa Leasing and Shinki resulted in the creation of goodwill and other intangible assets. The amortization of goodwill and other intangible assets was ¥17.5 billion for the fiscal year ended March 31, 2009. This includes amortization of goodwill and other intangible assets attributable to Shinsei Financial, APLUS (including Zen-Nichi Shinpan), Showa Leasing and Shinki in the amount of ¥5.6 billion, ¥8.6 billion, ¥2.9 billion and ¥0.8 billion, respectively.

NET CREDIT COSTS

The following table sets forth our net credit costs on a consolidated basis for the fiscal years ended March 31, 2009 and 2008.

TABLE 6. NET CREDIT COSTS (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2009**	2008	% Change
Losses on write-off or sales of loans	**¥ 3.1**	¥ 3.1	0.3
Net provision of reserve for loan losses:			
Net provision of general reserve for loan losses	**56.1**	22.8	145.7
Net provision of specific reserve for loan losses	**73.6**	50.4	45.8
Net provision (reversal) of reserve for loan losses to restructuring countries	**(0.0)**	0.0	(116.4)
Subtotal	**129.7**	73.3	76.9
Net provision (reversal) of specific reserve for other credit losses	**(4.7)**	(6.3)	25.1
Other credit costs relating to leasing business	**0.8**	3.4	(74.6)
Net credit costs	**¥ 129.0**	¥ 73.5	75.3

Note: Please see Note 29 on page 128 for details.

The principal components of net credit costs are provisions or reversals of loan loss reserves. In accordance with Japanese regulatory requirements, Shinsei maintains general and specific reserves for loan losses, a reserve for loans to restructuring countries, as well as a specific reserve for other credit losses. Certain of our subsidiaries, particularly Shinsei Financial, APLUS, Shinki and Showa Leasing, also maintain general and specific reserves for loan losses.

Net credit costs of ¥129.0 billion for fiscal year 2008 were ¥55.4 billion higher compared to the previous fiscal year. The increase was driven primarily by ¥20.6 billion in credit costs related to a loan to a Lehman Brothers subsidiary, ¥18.9 billion of reserves for real estate finance, ¥15.7 billion in credit costs associated with our holdings of European asset-backed investments and ¥14.9 billion of credit costs within Shinsei Financial. Excluding Shinsei Financial, net credit costs within our consumer finance subsidiaries improved to ¥34.4 billion from ¥43.6 billion in the prior period.

OTHER GAINS, NET

The table below sets forth the principal components of our other gains (losses).

TABLE 7. OTHER GAINS (LOSSES), NET (CONSOLIDATED)

	Billions of yen		
	2009	2008	% Change
Net gain (loss) on disposal of premises and equipment	**¥ 8.7**	¥ 66.1	(86.7)
Provision for losses on disposal of premises and equipment	**(3.9)**	(5.0)	22.4
Pension-related costs	**(2.1)**	(1.8)	(18.5)
Gain on write-off of unclaimed debentures	**1.2**	0.6	111.9
Recoveries of written-off claims	**5.7**	1.0	447.7
Gain on sale of subsidiary's stock	**8.2**	20.3	(59.6)
Provision of reserve for losses on interest repayments	**(15.0)**	(3.7)	(302.7)
Accelerated goodwill amortization	**(30.9)**	—	—
Gain from the cancellation of issued bond and other instruments	**75.1**	—	—
Business restructuring cost	**(12.5)**	—	—
Provision for litigation losses	**(3.6)**	—	—
Other, net	**(4.5)**	(2.8)	(57.8)
Total	**¥ 26.4**	¥ 74.7	(64.6)

Other gains of ¥26.4 billion largely included a ¥74.1 billion gain on the repurchase of our preferred and subordinated securities, a ¥7.2 billion gain on the sale of the Bank's Meguro Production Center, net of restoration and future relocation costs and a gain of ¥8.2 billion on the sale of Showa Auto Rental & Leasing, offset by a ¥30.9 billion accelerated amortization charge for goodwill in APLUS resulting from the impairment of our preferred shares investment on a non-consolidated basis, restructuring expenses of ¥20.3 billion and grey zone expenses of ¥15.0 billion at APLUS and Shinki. The fiscal year 2007 results include a gain of ¥61.7 billion on the sale of our headquarters building and a gain from the sale of Life Housing Loan Co., Ltd. of ¥20.3 billion, net of consolidation adjustments. In addition, the tax impact of these gains has been reflected in income taxes (benefit).

INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS

As a result of the foregoing, a loss before income taxes and minority interests of ¥119.0 billion was recorded for fiscal year

2008, as compared to income before income taxes and minority interests of ¥92.5 billion recorded in the previous fiscal year.

INCOME TAXES (BENEFIT)

Current and deferred income taxes reflected a net expense of ¥10.4 billion compared to a net expense of ¥14.4 billion in the previous fiscal year.

For the current fiscal year, we recorded ¥3.4 billion of current taxes, including ¥1.6 billion of current taxes on the sale of the Meguro Production Center, and ¥7.0 billion of deferred taxes. For the previous fiscal year, we recorded ¥4.9 billion in current income tax, mainly related to local income tax paid by our subsidiaries. We also recorded a deferred income tax expense of ¥9.5 billion, largely reflecting a reversal of deferred tax assets amounting to ¥6.5 billion related to the sale of Life Housing Loan Co., Ltd. This was partly offset by the tax benefit on the amortization of fair value adjustments to net assets of acquired subsidiaries and other intangible assets of ¥2.3 billion.

MINORITY INTERESTS IN NET INCOME (LOSS) OF SUBSIDIARIES

Minority interests in net income of subsidiaries for fiscal year 2008 amounting to ¥13.5 billion largely reflected dividends paid on perpetual preferred securities and minority interests relating to APLUS' preferred shareholders as well as minority interests in other subsidiaries. Lower minority interests reflect the decline in net income generated within our subsidiaries during the current period.

NET INCOME (LOSS)

Shinsei Bank recognized a consolidated net loss of ¥143.0 billion for fiscal year 2008, a decrease of ¥203.1 billion as compared to the previous fiscal year.

We report both Japanese GAAP net income (loss) and cash basis net income (loss) in order to provide greater transparency and understanding of our underlying performance. Consolidated cash basis net loss for fiscal year 2008 was ¥97.0 billion, a decrease of ¥168.3 billion, or 236.0%, as compared to the previous fiscal year. Cash basis net income is defined as Japanese GAAP net income adjusted to exclude the amortization of goodwill and other intangible assets, net of tax benefit.

RECONCILIATION FROM REPORTED-BASIS RESULTS TO OPERATING-BASIS RESULTS

In addition to analyzing our results of operations in the format used for our financial statements, which we refer to as the "reported-basis," our management also reviews our results on an "operating-basis" to assess each of our business lines and to measure our results against targeted goals. Operating-basis results are calculated by adjusting the reported-basis results principally for the amortization of goodwill and other intangible assets, certain revenue items, amortization of net actuarial losses and lump-sum payments. In essence, the operating-basis results represent what we consider to be "core" business results and are in conformity with Japanese GAAP at the net income (loss) level. The following summary table provides a reconciliation between our results on a reported- and operating-basis.

TABLE 8. RECONCILIATION FROM REPORTED-BASIS RESULTS TO OPERATING-BASIS RESULTS (CONSOLIDATED)

Billions of yen

	2009			2008		
Fiscal years ended March 31	Reported-basis	Reclassifications	Operating-basis	Reported-basis	Reclassifications	Operating-basis
Revenue:						
Net interest income	¥ 202.9	¥ —	¥ 202.9	¥ 137.7	¥ —	¥ 137.7
Non-interest income (loss) [1]	(19.8)	75.1	55.2	124.9	0.0	125.0
Total revenue	183.1	75.1	258.2	262.6	0.0	262.7
General and administrative expenses [2]	182.0	(3.2)	178.7	158.7	(0.9)	157.8
Amortization of goodwill and other intangible assets	17.5	(17.5)	—	12.5	(12.5)	—
Total general and administrative expenses	199.5	(20.8)	178.7	171.2	(13.4)	157.8
Net business profit/Ordinary business profit (loss) [3]	(16.4)	95.9	79.4	91.3	13.5	104.9
Net credit costs	129.0	—	129.0	73.5	—	73.5
Amortization of goodwill and other intangible assets	—	17.5	17.5	—	12.5	12.5
Other gains (losses), net [1][2]	26.4	(78.3)	(51.8)	74.7	(1.0)	73.7
Income (loss) before income taxes and minority interests	(119.0)	—	(119.0)	92.5	—	92.5
Income taxes and minority interests	24.0	—	24.0	32.4	—	32.4
Net income (loss)	¥ (143.0)	¥ —	¥ (143.0)	¥ 60.1	¥ —	¥ 60.1

Notes: (1) Reclassifications consist principally of adjustments relating to other business income between other gains (losses), net and non-interest income.
(2) Reclassifications consist principally of adjustments relating to lump-sum compensation and amortization of net actuarial gains or losses from general and administrative expenses to other gains (losses), net.
(3) Ordinary business profit is derived after reclassifying certain items from net business profit.

BUSINESS LINES RESULTS

In June 2008 we reorganized our business around two business groups: an Institutional Group and an Individual Group. Management monitors the performance of these business lines on an operating-basis. The business line discussion below covers the operating-basis ordinary business profit (loss) after net credit costs (recoveries) of the two business lines and a third category of Corporate/Other.

TABLE 9. OPERATING-BASIS ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS (RECOVERIES) BY BUSINESS LINE (CONSOLIDATED)

	Billions of yen			
	2009			
For the fiscal year ended March 31	Institutional Group	Individual Group	Corporate/ Other[1]	Total
Net interest income	¥ 44.6	¥ 152.8	¥ 5.5	¥ 202.9
Non-interest income (loss)	(74.0)	50.7	78.5	55.2
Total revenue (loss)	(29.3)	203.5	84.0	258.2
General and administrative expenses	57.8	120.1	0.7	178.7
Ordinary business profit (loss)	(87.2)	83.3	83.2	79.4
Net credit costs (recoveries)	80.8	49.5	(1.3)	129.0
Ordinary business profit (loss) after net credit costs	¥ (168.0)	¥ 33.8	¥ 84.6	¥ (49.6)

	Billions of yen			
	2008[2]			
For the fiscal year ended March 31	Institutional Group	Individual Group	Corporate/ Other[1]	Total
Net interest income	¥ 49.5	¥ 80.8	¥ 7.3	¥ 137.7
Non-interest income	68.2	54.6	2.0	125.0
Total revenue	117.7	135.5	9.4	262.7
General and administrative expenses	63.3	93.1	1.3	157.8
Ordinary business profit	54.4	42.3	8.1	104.9
Net credit costs	28.3	43.9	1.3	73.5
Ordinary business profit (loss) after net credit costs	¥ 26.1	¥ (1.5)	¥ 6.7	¥ 31.3

Notes: (1) Corporate/Other largely includes results of equity and sub-debt finance activities, corporate level expenses and credit costs.
(2) Prior period has been adjusted to conform to current period presentation.

INSTITUTIONAL GROUP

The Institutional Group consists of the Institutional Banking business and Showa Leasing. Our Institutional Banking business continues to be impacted by the global market turmoil.

TABLE 10. INSTITUTIONAL GROUP REVENUE BY PRODUCT (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	2009	2008[1]	% Change
Institutional Group:			
Non-recourse real estate finance	¥ 21.7	¥ 19.2	12.6
Leasing (Showa Leasing)	21.0	25.8	(18.5)
Basic banking[2]	13.8	16.4	(15.8)
Credit trading	11.5	22.0	(47.9)
ALM Activities	5.1	0.7	636.3
Securitization	(11.9)	0.5	(2,411.0)
Principal investments	(13.8)	11.5	(219.6)
Foreign exchange, derivatives, equity-related	(19.4)	12.6	(254.0)
Other capital markets	(61.1)	1.2	(5,101.5)
Others	3.5	7.5	(52.0)
Total revenue (loss)	¥ (29.3)	¥ 117.7	(124.9)

Notes: (1) Prior period has been adjusted to conform to current period presentation.
(2) Basic Banking mainly consists of corporate loans, deposits and debentures revenue.

The Institutional Group recorded total revenue of negative ¥29.3 billion in fiscal year 2008. This is ¥147.1 billion, or 124.9%, lower than last fiscal year. Our non-recourse real estate finance business generated revenue of ¥21.7 billion, an increase of ¥2.4 billion compared to last fiscal year. Basic Banking and Credit Trading generated total revenues of ¥13.8 billion and ¥11.5 billion respectively in fiscal year 2008, below the ¥16.4 billion and ¥22.0 billion generated in the previous year. Foreign exchange, derivatives and equity-related transactions showed a loss of ¥19.4 billion from the ¥12.6 billion revenue recorded in the previous fiscal year. This includes ¥3.9 billion of Lehman bond and swap losses. Our principal investments business generated a loss of ¥13.8 billion, ¥25.3 billion lower than in the prior year, reflecting ¥20.7 billion of losses on our private equity investments, including ¥12.6 billion of losses on European investments. Securitization recognized a loss of ¥11.9 billion during fiscal year 2008 as compared to revenue of ¥0.5 billion during the prior year. Our securitization loss includes losses of ¥15.3 billion on European asset-backed securities. Our Other Capital Markets businesses generated a loss of ¥61.1 billion for the current period, compared to revenue of ¥1.2 billion in the prior year. This includes impairments of ¥50.7 billion on our CLO portfolio and a loss of ¥4.7 billion related to Lehman Brothers bonds.

TABLE 11. INSTITUTIONAL GROUP ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS BY BUSINESS (CONSOLIDATED)[1]

For the fiscal year ended March 31	Billions of yen 2009 Institutional Banking	Showa Leasing	Institutional Group
Net interest income (expense)	¥ 49.7	¥ (5.0)	¥ 44.6
Non-interest income (loss)	(100.1)	26.1	(74.0)
Total revenue (loss)	(50.4)	21.0	(29.3)
General and administrative expenses	46.9	10.8	57.8
Ordinary business profit (loss)	(97.4)	10.1	(87.2)
Net credit costs	72.7	8.1	80.8
Ordinary business profit (loss) after net credit costs	¥ (170.1)	¥ 2.0	¥ (168.0)

For the fiscal year ended March 31	Billions of yen 2008 Institutional Banking	Showa Leasing	Institutional Group
Net interest income (expense)	¥ 55.8	¥ (6.2)	¥ 49.5
Non-interest income	36.1	32.1	68.2
Total revenue	91.9	25.8	117.7
General and administrative expenses	50.5	12.8	63.3
Ordinary business profit	41.4	13.0	54.4
Net credit costs	19.6	8.7	28.3
Ordinary business profit after net credit costs	¥ 21.8	¥ 4.3	¥ 26.1

Notes: (1) Net of consolidation adjustments, if applicable.

In fiscal year 2008, Institutional Banking general and administrative expenses were ¥46.9 billion, a ¥3.5 billion decrease from the previous fiscal year. The decrease was largely due to stricter cost controls and cost reduction measures put in place across the business.

Ordinary business loss for fiscal year 2008 was ¥97.4 billion, compared to an ordinary business profit of ¥41.4 billion in the prior period. The increase in net credit costs to ¥72.7 billion from ¥19.6 billion in the prior period was primarily driven by ¥20.6 billion of credit costs related to a loan to a subsidiary of Lehman Brothers, ¥18.9 billion of credit costs related to our real estate portfolio and ¥15.7 billion of credit costs related to our holdings of European asset-backed investments. As a result, Institutional Banking showed an ordinary business loss after net credit costs of ¥170.1 billion for fiscal year 2008, compared to an ordinary business profit after net credit costs of ¥21.8 billion in the prior period.

Showa Leasing's ordinary business profit after net credit costs declined to ¥2.0 billion for fiscal year 2008 from ¥4.3 billion in the prior fiscal year, reflecting lower revenues largely offset by lower expenses and credit costs.

INDIVIDUAL GROUP

The Individual Group consists of the Retail Banking business as well as the subsidiaries Shinsei Financial, APLUS, Shinki and Shinsei Property Finance Co., Ltd. Shinsei Financial's results have been incorporated in our Statements of Operation data from the third quarter of fiscal year 2008.

During fiscal year 2008, the Individual Group generated ordinary business profit after net credit costs of ¥33.8 billion compared to an ordinary business loss after net credit costs of ¥1.5 billion during the previous fiscal year. The improved ordinary business profit after net credit costs reflects the incorporation of Shinsei Financial within our Individual Group as well as the progress that we have made in our Retail Banking businesses and Shinki.

During this fiscal year, total Retail Banking revenue was ¥39.6 billion as compared to ¥34.0 billion during the previous fiscal year. The main sources of revenue were net interest income from retail deposits, fees from asset management products, income from structured deposits and fees and net interest income from loan products. During the current period, we generated net interest income of ¥28.4 billion compared to ¥21.0 billion during the prior fiscal year. The increase in net interest income comes primarily from increases in deposits and debentures net interest income as well as from loans. Non-interest income declined to ¥11.1 billion from ¥13.0 billion in the prior fiscal year as fees from asset management products declined.

TABLE 12. INDIVIDUAL GROUP REVENUE BY PRODUCT (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	2009	2008	% Change
Retail Banking:	¥ 39.6	¥ 34.0	16.3
Deposits and Debentures Net Interest Income	22.4	17.3	29.4
Deposits and Debentures Non-Interest Income	6.1	3.3	83.1
Asset management	4.7	9.6	(51.0)
Loans	6.3	3.7	69.2
(Reference) Revenue from Structured Deposits	7.0	5.7	22.0
Shinsei Financial	64.9	—	
APLUS	74.9	90.0	(16.7)
Shinki	19.7	6.3	211.0
Other Subsidiaries	4.1	5.0	(17.7)
Total revenue	¥ 203.5	¥ 135.5	50.1

Retail Banking incurred general and administrative expenses of ¥37.3 billion during fiscal year 2008, a decrease of 7.0% as compared to the previous fiscal year. The business generated ordinary business profit of ¥2.3 billion for fiscal year 2008, as compared to an ordinary business loss of ¥6.0 billion during the previous fiscal year. The ordinary business profit after net credit costs within Retail Banking reflects the steps that we have made to restructure our business and focus upon providing profitable products and services to our customer base.

For the six months ended March 31, 2009, Shinsei Financial generated total revenue of ¥64.9 billion, incurred general and administrative expenses of ¥26.6 billion and incurred net credit costs of ¥14.9 billion. As a result, its ordinary business profit after net credit costs was ¥23.3 billion.

For fiscal year 2008, APLUS generated total revenue of ¥74.9 billion, compared to ¥90.0 billion in the prior fiscal year. The decline in revenue was due both to the slowdown in economic activity as well as tighter credit controls that we enacted earlier in this fiscal year. The revenue shortfall was offset by lower general and administrative expenses and net credit costs. General and administrative expenses declined to ¥43.3 billion from ¥45.1 billion in the previous fiscal year, while net credit costs declined to ¥24.3 billion from ¥38.2 billion in the previous period. As a result, the business generated ordinary business profit after net credit costs of ¥7.2 billion in fiscal year 2008, compared to ¥6.6 billion in the previous fiscal year.

During the first six months of fiscal year 2007, Shinsei Bank accounted for its interest in Shinki under the equity-method of accounting. Accordingly, results for Shinki in the first six months of fiscal year 2007 reflect our equity interest in the company and credit provision for loans from Shinsei Bank to Shinki. For fiscal year 2008, Shinki recorded total revenue of ¥19.7 billion, general and administrative expenses of ¥10.8 billion and net credit costs of ¥3.9 billion, for an ordinary business profit after net credit costs of ¥4.9 billion. This compares to an ordinary business loss after net credit costs of ¥3.8 billion in fiscal year 2007.

Shinsei Financial grey zone payments and write-offs amounted to ¥61.8 billion in fiscal year 2008. The Shinsei Financial purchase agreement from GE includes an indemnity from GE that provides protection for potential losses beyond ¥203.9 billion from the majority of the legacy accounts with grey zone interest exposure. The total balance of Shinsei Financial grey zone reserves was ¥161.0 billion as of March 31, 2009, as compared to ¥225.4 billion as of September 30, 2008.

APLUS' grey zone payments and write-offs amounted to ¥6.3 billion in fiscal year 2008. The business made new grey zone related provisions of ¥8.7 billion and, as a result, the total balance of the grey zone reserve was ¥11.0 billion as of March 31, 2009, as compared to ¥8.6 billion as of March 31, 2008.

Shinki's grey zone payments and write-offs amounted to ¥15.2 billion in fiscal year 2008. The total balance of the grey zone reserve was ¥21.7 billion as of March 31, 2009, as compared to ¥30.6 billion as of March 31, 2008.

Other subsidiaries' financials mainly includes the financial results of Shinsei Property Finance Co., Ltd.

TABLE 13. INDIVIDUAL GROUP ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS BY SUBSIDIARY (CONSOLIDATED)[1]

Billions of yen

	2009					
For the fiscal year ended March 31	Retail Banking	Shinsei Financial	APLUS	Shinki	Other Subsidiaries[2]	Individual Group
Net interest income	¥ 28.4	¥ 65.3	¥ 34.2	¥ 21.0	¥ 3.6	¥152.8
Non-interest income (loss)	11.1	(0.3)	40.6	(1.2)	0.5	50.7
Total revenue	39.6	64.9	74.9	19.7	4.1	203.5
General and administrative expenses	37.3	26.6	43.3	10.8	1.9	120.1
Ordinary business profit	2.3	38.3	31.6	8.9	2.1	83.3
Net credit costs	0.0	14.9	24.3	3.9	6.1	49.5
Ordinary business profit (loss) after net credit costs	¥ 2.2	¥ 23.3	¥ 7.2	¥ 4.9	¥ (3.9)	¥ 33.8

Billions of yen

	2008[3]					
For the fiscal year ended March 31	Retail Banking	Shinsei Financial	APLUS	Shinki	Other Subsidiaries[2]	Individual Group
Net interest income	¥ 21.0	¥ —	¥ 41.8	¥ 13.7	¥ 4.2	¥ 80.8
Non-interest income (loss)	13.0	—	48.2	(7.4)	0.8	54.6
Total revenue	34.0	—	90.0	6.3	5.0	135.5
General and administrative expenses	40.1	—	45.1	5.6	2.2	93.1
Ordinary business profit (loss)	(6.0)	—	44.8	0.7	2.8	42.3
Net credit costs	0.3	—	38.2	4.5	0.8	43.9
Ordinary business profit (loss) after net credit costs	¥ (6.3)	¥ —	¥ 6.6	¥ (3.8)	¥ 2.0	¥ (1.5)

Notes: (1) Net of consolidation adjustments, if applicable.
(2) Includes Shinsei Property Finance and unallocated Consumer Finance Sub-Group financials.
(3) Prior period has been adjusted to conform to current period presentation.

CORPORATE/OTHER

Corporate/Other primarily includes results of corporate treasury activities, inter-company adjustments, and corporate level expenses. For the fiscal year ended March 31, 2009, ordinary business profit after net credit recoveries was ¥84.6 billion, including a gain of ¥74.1 billion on the repurchase of our preferred securities and subordinated debt.

RESULTS OF OPERATIONS (NON-CONSOLIDATED)

OVERVIEW

We disclose non-consolidated financial information of Shinsei in addition to our consolidated financial statements. As a recipient of public funds, we are required by the FSA to update and report on Shinsei's non-consolidated performance in relation to targets set forth in our Revitalization Plan on a quarterly basis, and to publicly disclose that information semi-annually. Shinsei's plan was initially prepared by LTCB upon its emergence from nationalization and we have subsequently updated the plan in August 2001, August 2003, August 2005 and August 2007.

Shinsei Bank recorded a net loss for the fiscal year ended March 31, 2009 of ¥157.0 billion on a non-consolidated basis. Current results on a non-consolidated basis differ from our consolidated results primarily because our non-consolidated results do not include the net income or loss from our consolidated subsidiaries, including Showa Leasing, Shinsei Financial, APLUS and Shinki. During the current period, we recorded impairment charges of ¥30.9 billion on our investment in APLUS preferred shares and ¥22.4 billion on our investment in Jih Sun Financial Holding Co., Ltd., an affiliate accounted for using the equity method within our consolidated financial statements. These charges were recorded in other gains (losses). During fiscal year 2008, we received dividends from subsidiaries of ¥18.8 billion.

The non-consolidated financial performance of Shinsei for fiscal year 2008 was substantially below the targets set in our Revitalization Plan agreed with the Japanese government due to significant charges arising from the loss on our investments in Lehman Brothers, our mark-downs, impairments and credit costs within our Institutional Bank, and impairments related to our investments in APLUS and Jih Sun Financial Holding Co., Ltd. Consequently, we failed to meet the non-consolidated net income target set in our Revitalization Plan.

We will further strive to strengthen our business franchise and profitability to enable us to complete our Revitalization Plan and repay all outstanding public funds.

IMPAIRMENT OF INVESTMENT IN APLUS PREFERRED SHARES

Legislative changes relating to consumer loan interest rates approved by the Japanese Diet on December 13, 2006 and announced on December 20, 2006 have had a significant impact on the consumer finance industry. Following these changes, and in accordance with our significant accounting policies regarding impairment, on a non-consolidated basis we evaluate impairment of our investment in APLUS. We retained PwC Advisory Co., Ltd. to provide independent valuation services to carry out this assessment.

The impairment of our investment in APLUS impacts Shinsei's non-consolidated financial results. Our investment in APLUS consists of preferred shares and common shares. For securities without readily available market prices such as preferred shares, a fair value must be calculated and compared against the book value to assess the need for recording impairment. We assessed the fair value of the preferred shares, except Class-D preferred shares, utilizing the binomial tree approach to capture the value attributable to the conversion option inherent in these instruments. For Class-D preferred shares, we applied the income approach to assess the fair value of the Class-D preferred shares. Based upon this analysis, an impairment of ¥30.9 billion was recorded for our preferred share investment in APLUS. No impairment was recorded for our investment in APLUS common shares.

TABLE 14. COMPARISON OF TARGETS AND RESULTS FOR KEY MEASURES IN THE REVITALIZATION PLAN (NON-CONSOLIDATED)

Billions of yen (except percentages)

Fiscal years ended March 31	2009 Target	2009 Actual	2008 Target	2008 Actual
Net income (loss)	**¥ 70.0**	**¥ (157.0)**	¥ 60.0	¥ 53.2
Total expenses (without taxes)[1]	**89.3**	**75.0**	82.3	80.5
Return on equity based on net business profit (loss)[2]	**9.4%**	**(10.1)%**	9.6%	9.7%

Notes: (1) Equals Shinsei's total general and administrative expenses excluding business taxes such as consumption tax.
(2) Equals net business profit (loss) before general reserve for loan losses, as such term is defined under "Supplemental Non-Consolidated Measures" below, divided by average total equity.

SUPPLEMENTAL NON-CONSOLIDATED MEASURES

In addition to the reporting items set forth in our non-consolidated financial statements, Japanese banking law requires us to disclose gross business profit (*gyomu sorieki*) on a non-consolidated basis. Furthermore, in the Japanese banking industry, net business profit before general reserve for loan losses (*jisshitsu gyomu jun-eki*) has traditionally been used as a measure of the profitability of core banking operations. We review these non-Japanese GAAP performance measures in monitoring the results of our operations.

Gross business profit is the sum of:

- net interest income;
- net fees and commissions, which consist of:
  - — fees on loans as well as on sales of asset management products,
  - — other fee-based activities, and
  - — income on monetary assets held in trust (in keeping with the definition of gross business profit in our Revitalization Plan);
- net trading income; and
- net other business income, which includes, among other things, gains or losses on securities and foreign exchange.

Net business profit before general reserve for loan losses is gross business profit minus non-consolidated total expenses, which corresponds to our consolidated general and administrative expenses.

While these business profit measures should not be viewed as a substitute for net income, management believes that these non-Japanese GAAP measures provide a meaningful way of comparing a number of the important components of Shinsei's revenues and profitability from year to year. The table below sets forth these supplemental financial data and corresponding reconciliations to net income under Japanese GAAP for the fiscal years ended March 31, 2009 and 2008.

TABLE 15. SUPPLEMENTAL MEASURES (NON-CONSOLIDATED)

Billions of yen

Fiscal years ended March 31	2009	2008
Gross business profit *(gyomu sorieki)*[1] :		
Net interest income	**¥ 93.9**	¥ 107.5
Net fees and commissions[1]	**11.3**	48.8
Net trading income (loss)	**(5.6)**	6.9
Net other business income (loss)	**(86.5)**	(11.4)
Total gross business profit[1]	**13.0**	152.0
Total expenses	**78.4**	84.7
Net business profit (loss)[1][2] *(jisshitsu gyomu jun-eki (jyun-sonshitsu))*	**(65.3)**	67.2
Other operating expenses, net[3]	**(99.5)**	(34.7)
Net operating income (loss) *(keijo rieki (sonshitsu))*	**(164.8)**	32.5
Extraordinary income	**13.4**	25.7[4]
Income (loss) before income taxes	**(151.3)**	58.3
Current income taxes (benefit)	**(4.1)**	(7.6)
Deferred income tax expense (benefit)	**9.8**	12.7
Net income (loss)	**¥ (157.0)**	¥ 53.2

Notes: (1) Includes income from monetary assets held in trust of ¥5.7 billion in the fiscal year ended March 31, 2009 and ¥37.3 billion in the fiscal year ended March 31, 2008.
(2) Excludes provisions for or reversals of general reserve for loan losses.
(3) Excludes income from monetary assets held in trust.
(4) Includes (i) income from investment in Tokumei Kumiai (silent partnership) of ¥66.0 billion from the sale of the Bank's headquarters building, which was included in the earnings distributed by Dolphin Japan Investment Y.K., the Bank's consolidated subsidiary; (ii) impairment charges on investments in APLUS' and Shinki's common shares of ¥15.9 billion and ¥6.0 billion, respectively; and (iii) losses on exposure to the U.S. residential mortgage market of ¥8.9 billion.

CRITICAL ACCOUNTING POLICIES

GENERAL

Our financial statements are prepared in accordance with Japanese GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. In addition, certain accounting principles require significant judgment by management in applying complex accounting principles to individual transactions to determine the most appropriate accounting treatment. We have established procedures and processes to facilitate making the estimates and assumptions necessary to value assets and liabilities, record transactions and prepare the financial statements. On an ongoing basis, management evaluates its estimates and judgments, including those related to the valuation of assets and liabilities. Although actual results may differ from these estimates under different assumptions and conditions and future changes in the key assumptions could change future valuations and results, we have used the best information available at the time to make our estimates. Significant accounting policies are described in Note 2 to the Consolidated Financial Statements included in this annual report.

Management believes the following are our critical accounting policies. These policies were considered "critical" because:

- the estimates involved in these policies require us to make assumptions about matters that are uncertain at the time the estimates are made; and
- different estimates that we reasonably could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on the presentation of our financial condition, or changes in our financial condition or results of operations.

RESERVE FOR CREDIT LOSSES

The reserve for loan losses, a separate component of the reserve for credit losses, is management's estimate of the credit losses to be incurred in the lending portfolio and is discussed in further detail in "—Financial Condition—Asset Quality and Disposal of Problem Loans of Shinsei." We establish a specific reserve, a general reserve and a reserve for loans to restructuring countries based on our self-assessment manual to absorb estimated credit losses in the lending portfolio.

A specific reserve is provided for specific claims against obligors in the possibly bankrupt, virtually bankrupt and legally bankrupt categories. For claims against obligors in the virtually and legally bankrupt categories, the unsecured, unguaranteed portion of the claim is written off or otherwise fully reserved because such portion is deemed unlikely to be collected. For claims against obligors in the possibly bankrupt category, a specific reserve is principally determined by estimating discounted future cash flows, other than in cases where it is difficult to reasonably estimate future cash flow.

A general reserve is provided for claims against normal obligors, as well as claims against need caution obligors (including substandard obligors). Shinsei applies the discounted cash flow method in calculating the amount of a general reserve for most of its claims against substandard obligors. The amount of the reserve for claims against normal obligors and claims against need caution obligors (other than substandard obligors of Shinsei which are subject to the discounted cash flow method) is based on the total amount of, as well as the expected loss ratios for, claims against each category of obligor. Shinsei calculates expected loss ratios based on historical losses on claims against each obligor category. Using the expected loss ratios, Shinsei reserves for the estimated amount of losses for the next three years for claims against substandard obligors, for the remaining term of the claims with respect to claims against normal obligors given ratings of 5A through 6C in Shinsei's credit ratings system and claims against need caution obligors other than substandard obligors, or other need caution obligors, and for the next year for claims against normal obligors given ratings higher than 5A.

The historical loan loss ratio is calculated by taking the greater result from the following three calculation methods: (1) the average of three consecutive calculation periods defined to be the previous one year as from each fiscal year-end, (2) the average of three consecutive calculation periods defined to be the previous three years as from each fiscal year-end, or (3) the average of all calculation periods since 1998, the period for which records for loan losses have been maintained.

Shinsei reviews its classification of obligors quarterly, although every month it downgrades obligors whose financial condition has deteriorated based on the results of its self-assessment process. A reserve for loans to restructuring countries is provided for estimated losses on those loans due to political and economic conditions in the countries where the loans are outstanding, based on losses estimated using the secondary market price of similar loans.

Estimating Shinsei's specific reserve for claims against obligors in the possibly bankrupt category and the general reserve for claims against obligors in the substandard category is subject to a number of significant judgments and uncertainties regarding discounted cash flows due to the changing financial conditions of the obligors and general economic conditions surrounding the obligors' business operations. In addition, because the secured portion of claims is not covered by a specific reserve, actual losses on such claims are also subject to significant judgments and uncertainties regarding the fair value of collateral. Estimating the general reserve for claims against obligors in the normal and other need caution categories could be affected by changes made by management in the methodologies used to calculate the migration analyses of obligors or the assumptions used in the calculation of the reserve. As a result, actual losses in the lending portfolio could be greater or less than we have estimated. If the estimated credit losses are not enough to cover actual losses incurred from the ultimate disposition of the portfolio, it would result in additional write-offs or additional reserves in the future for the lending portfolio, increasing our reported total credit costs. If the estimate is in excess of actual losses, it would result in a reduction of our total credit costs.

The reserve for other credit losses consists primarily of reserves, including a reserve taken on our contribution to an industry-wide fund set up to purchase and collect loans. A specific reserve has been established for each exposures based on our estimate of the prospects for recovery. Although we believe our existing reserves are sufficient to cover the risk from items we have identified, actual losses related to these items could be more or less than we have estimated, which could result in an increase or a decrease in our total credit costs.

APLUS establishes loan loss reserves based on historical loss rates for delinquent and non-delinquent accounts. The amount of reserves in the case of delinquent accounts primarily depends on the number of months for which a particular account is past due. In addition, APLUS writes off the entire amount of any claims it deems uncollectible, either as a result of personal bankruptcy or otherwise. Showa Leasing, Shinki and Shinsei Financial establish loan loss reserves in the same manner as APLUS except that with respect to customers with exposure above a specified amount, and Showa Leasing establishes reserves on the basis of obligor classification in accordance with its self-assessment guidelines.

RESERVE FOR LOSSES ON INTEREST REPAYMENTS

On October 13, 2006, the Japanese Institute of Certified Public Accountants (the "JICPA") issued "Audit Guidelines on Consumer Finance Companies' Provisions for Possible Losses on Reimbursements of Excess Interest Payments" (the "Guidelines"). These guidelines stipulate that consumer and commercial finance companies make certain provisions for possible losses on reimbursements of excess interest payments and loan losses related to consumer finance loans extended at interest rates in excess of the maximum interest rate prescribed in the Interest Rate Restriction Law. In accordance with such guidelines, the amount of such reserve for APLUS, Shinki and Shinsei Financial was calculated using the average period to maturity of the affected loans, an estimate of the percentage of such loan transactions that will be subject to a future reimbursement request based on past experience and an estimate of the average amount to be reimbursed based on past experience. The amount of the reserve is based on the best estimate of management of APLUS, Shinki and Shinsei Financial, using the assumptions described above. If any of the assumptions change due to changes in circumstances, an additional reserve could become necessary.

In addition, a reserve for losses on interest repayments of Shinsei Financial is calculated based on the terms stipulated in the share transfer agreement entered into by and between the Bank and the seller, GE Japan Holdings Co., Ltd. ("GE"), for the acquisition of Shinsei Financial, under which the sharing of interest repayment cost of between the Bank and GE Japan Holdings Co., Ltd is determined.

VALUATION OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

We have various types of financial instruments in our trading and banking books. Pursuant to Japanese GAAP, we record some of our financial instruments at their fair values, which are measured based on market prices or third-party quotes or, if both are unavailable, our internal valuation methodologies. ASBJ issued ASBJ Statement No.25, "the practical application of the fair values of financial instruments," which allows the use of reasonably estimated values in a very rare and extreme circumstance where the observed market prices are not deemed to be appropriate as transaction volume is extremely low and exhibits a large deviation from the theoretical value.

Although we strive to follow market standards in making assumptions and determining scenarios necessary for these valuation methodologies, the outcomes of our methodologies could differ from those derived from other methodologies.

AVAILABLE-FOR-SALE SECURITIES

We generally record available-for-sale securities, both debt and equity, at their fair values. The net unrealized gains or losses on these securities are included in and presented as a component of equity.

Available-for-sale securities include some securities without readily obtainable market prices or quotes. These securities mainly consist of residual interests and debt investments in collateralized debt obligations as well as illiquid corporate bonds. We estimate the fair values of these securities based on historical data concerning market prices and quotes. In some cases, we determine fair value using internal valuation methodologies that are subject to complex assumptions, including those relating to scenarios, interest rates and volatility.

As of March 31, 2009 and 2008, the amortized cost of our available-for-sale securities without readily determinable fair value was ¥460.8 billion and ¥428.9 billion, respectively. The total fair value of our available-for-sale securities as of March 31, 2009 and 2008 was ¥1,300.0 billion and ¥1,055.6 billion, respectively. Net unrealized losses recognized as of March 31, 2009 and 2008 were ¥30.1 billion and ¥35.2 billion respectively.

IMPAIRMENT IN VALUE OF DEBT AND EQUITY SECURITIES

Available-for-sale debt and equity securities, and held-to-maturity debt securities are both exposed to the risk of decline in their fair values. If the decline in fair value of available-for-sale securities and held-to-maturity securities with readily determinable fair value is deemed to be significant, impairment loss is recognized in the book values of the securities since the decline in fair values is deemed to be other than temporary. To determine whether an other-than-temporary impairment has occurred, the Bank applies the following rule, which depends on the credit risk category that the issuer of the security falls under based on the Bank's internal rules for establishing the reserve for credit losses:

Issuer Credit Risk Category	Fair Value Test for Related Security
Securities issued by "legally and virtually bankrupt" obligors and "possibly bankrupt" obligors	The fair value of a security is less than its book value
Securities issued by "need caution" obligors	The decline in fair value of a security is more than 30% of its book value
Securities issued by "normal" obligors	The decline in fair value of a security is in excess of 50% of its book value

"Legally bankrupt" obligors are obligors who have already gone bankrupt from a legal and/or formal perspective.

"Virtually bankrupt" obligors are obligors 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 obligors who are not yet bankrupt but are in financial difficulties and are very likely to go bankrupt in the future.

"Need Caution" obligors are obligors who require close attention because there are problems with their borrowings.

"Normal" obligors are obligors whose business conditions are favorable and who are deemed not to have any particular problems in terms of their financial position.

For available-for-sale securities without readily determinable fair value, if the net asset value of a security has declined by an amount ranging from 30% to 50% of its acquisition cost we consider the possibility of recovery of net asset value in order to determine whether an other-than-temporary impairment has occurred, but if the net asset value has declined in excess of 50% of its acquisition cost we deem the impairment to be other-than-temporary. Our judgment of the possibility and magnitude of a future recovery in net asset value relies on our subjective views concerning market uncertainties, the creditworthiness of the issuers of the securities and various other factors. Different judgments could lead to different conclusions regarding the need to recognize impairments in value.

For the fiscal year ended March 31, 2009, we recognized losses of ¥52.9 billion on debt and equity securities available-for-sale and losses of ¥50.7 billion on debt securities held-to-maturity due to impairment, as compared to ¥8.9 billion of losses on available-for-sale securities for the fiscal year ended March 31, 2008, mainly due to impairment of foreign securities.

SECURITIES RECLASSIFIED FROM AVAILABLE-FOR-SALE TO HELD TO MATURITY

As of December 5, 2008, ASBJ issued ASBJ Statement No.26, "Temporary treatment regarding change in classification of holding-purpose of debt securities." Under this statement, reclassification of holding-purpose of securities is allowed only under extremely unusual circumstances such as deterioration of liquidity in the market where it is difficult to sell securities at fair value, with certain conditions being met.

Among the securities that were previously classified as available-for-sale, a portion of the foreign bonds with high credit ratings was reclassified to held-to-maturity securities on October 1, 2008 by the fair value of ¥102.6 billion as of that date. This reclassification was pursuant to the change in the investment policy based on the judgment that it has been difficult to sell these securities at their fair values under the extremely illiquid market condition for a certain period.

However, since the credit risk worsened for a part of the securities reclassified to held-to-maturity and impairment losses of ¥50.7 billion were recognized using market prices based on quotes provided by independent brokers, the remaining value after the impairment of those securities was again reclassified to available-for-sale securities at the end of the fiscal year ended March 31, 2009.

FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING PURPOSES

Our trading book assets and liabilities consist of derivative financial instruments, securities, short-term money market investments and other monetary claims maturing within a short period of time.

In addition, we hold certain securities investments, such as foreign fund trusts and corporate bonds, financial assets backed by loans and receivables as well as mortgages included in securities, other monetary claims purchased and monetary assets held in trust that are not recorded in the trading book, but are held for trading purposes in the banking book. All of these trading-purpose assets and liabilities are booked at their fair values, and changes in value are reflected in our net income. The fair values of trading-purpose assets that are traded actively in open markets are based on observable market prices of the same or similar securities and monetary claims.

When actively traded market prices are not available, we estimate the fair values of the assets and liabilities held for trading purposes using our internal valuation methodologies. These methodologies require us to use our judgment in both making assumptions regarding market parameters, such as swap rates for interest rate and currency swaps with longer maturities, as well as determining the required scenarios, such as future cash flow projections for financial assets underlying purchased monetary claims. In addition, we adjust the fair value estimates for derivative financial instruments to account for credit and liquidity risks.

As of March 31, 2009, the net fair value of our trading assets and liabilities was ¥67.5 billion and the net balance of revaluation gains on those assets and liabilities was ¥23.4 billion. This compared with a net fair value of ¥110.2 billion and a net balance of revaluation gains of ¥77.0 billion as of March 31, 2008.

The fair value of securities held in our banking book for trading purposes was ¥17.3 billion and ¥63.1 billion as of March 31, 2009 and 2008, respectively. The fair value of other monetary claims purchased for trading purposes was ¥212.1 billion and ¥280.6 billion as of March 31, 2009 and 2008, respectively. The fair value of monetary assets held in trust for trading purposes was ¥235.7 billion and ¥248.7 billion as of March 31, 2009 and 2008, respectively.

CREDIT TRADING ACTIVITIES

We are engaged in credit-trading activities in Japan and foreign countries, in which we purchase monetary claims such as loans, bonds, guarantees, receivables and lease receivables without intending to hold them to maturity. To recover our investment, we either collect on the claim, including through repayments, legal proceedings and discounted payoffs, or resell or securitize the claim. Claims purchased are recorded either in monetary assets held in trust or other monetary claims purchased, depending on the structure used for the purchase, and are principally measured at fair value. Fair value is estimated in the same way as it is for assets held for trading purposes. The internal valuation methodology we use to calculate the fair value of these claims mainly relies on a discounted cash flow approach based on cash flow projections and implied market discount rates. As estimations of future cash flows and discount rates are based on complex processes and contain an element of judgment, changes in assumptions could lead to different estimates of the fair value of monetary assets held in trust and other monetary claims purchased, which could in turn impact the related gain or loss amounts in our financial statements. As of March 31, 2009 and 2008, balances related to credit trading of ¥235.7 billion and ¥248.7 billion, respectively, were included in monetary assets held in trust and ¥194.4 billion and ¥258.2 billion, respectively, were included in other monetary claims purchased for trading purposes. As of March 31, 2009 and 2008, net unrealized losses of ¥14.3 billion and ¥18.3 billion were recorded in those accounts, respectively.

VALUATION OF DEFERRED TAX ASSETS

We record deferred tax assets for deductible temporary differences and tax loss carryforwards and evaluate them in accordance with the guidelines of the Japanese Institute of Certified Public Accountants, or JICPA. Under the JICPA guidelines for the valuation of deferred tax assets, if a company records a material amount of tax loss carryforwards, in most cases, it is deemed difficult to reasonably estimate "Taxable Income" (which, for the purpose of utilizing deferred tax assets, is treated as income before adjustments for existing temporary differences and tax loss carryforwards). If, however, a company is able to reasonably estimate future Taxable Income for the next fiscal year, it may record deferred tax assets based on deductible temporary differences and tax loss carryforwards to the extent that it is probable that those differences or carryforwards would be used during the next fiscal year. In addition, the JICPA guidelines provide that a company with a material amount of tax loss carryforwards could recognize deferred tax assets as realizable based on future Taxable Income, reasonably estimated, for up to the next five fiscal years if the tax loss carryforwards had been incurred due to certain non-recurring events, such as the restructuring of businesses, and there was not necessarily any significant doubt as to the company's ability to earn Taxable Income in the future.

As a result of Taxable Income (as defined in the previous paragraph) recorded in recent periods, we could have recorded deferred tax assets realizable based on a reasonable estimate of income for at least a part of the next five fiscal years if we would have demonstrated that we would record actual income for the foreseeable future. We have evaluated the available evidence concerning our future Taxable Income and other possible sources of the realization of deferred tax assets, and have concluded that we should record deferred tax assets that are realizable only in the following fiscal year for Shinsei and most of its subsidiaries. We have recorded a valuation allowance to reduce deferred tax assets accordingly. The actual Taxable Income amount for the fiscal year ending March 31, 2010 may be different from our estimate, which would result in a larger or smaller amount of deferred tax assets that should have been recognized.

As of March 31, 2009 and 2008, our balances of net deferred tax assets, or the difference between our deferred tax assets and our deferred tax liabilities, were ¥20.5 billion and ¥23.9 billion, respectively. The amount of net deferred tax assets was 3.5% of our Tier I capital as of March 31, 2009 and 3.5% of our Tier I capital as of March 31, 2008. If we had concluded that we could reasonably estimate Taxable Income for the next five fiscal years, as of March 31, 2009, the balance of net deferred tax assets could have been significantly higher.

RESERVE FOR RETIREMENT BENEFITS

Shinsei, APLUS, Showa Leasing and Shinki each have a noncontributory defined benefit pension plan, and Shinsei Financial and certain of Shinsei's consolidated Japanese subsidiaries have unfunded severance indemnity plans, which cover substantially all of our employees. A reserve for retirement benefits

CRITICAL ACCOUNTING POLICIES (continued)

is provided for payment in future years. We follow guidelines for accounting for employee retirement benefit plans issued by the JICPA and estimate the amounts of the retirement benefit obligations and plan assets under the pension plans at the end of the fiscal year using assumptions for the expected rate of return on plan assets and the discount rate.

EXPECTED RATE OF RETURN ON PLAN ASSETS

We determine the expected rate of return on plan assets based on the targeted average long-term performance of the assets. Because assumptions regarding the rate of return on assets are affected by changing general economic and market conditions, we need to make significant judgments to determine appropriate assumptions underlying the estimate of long-term performance, which also impact the estimate of the reserve for retirement benefits and net periodic pension cost. The expected rate of return was between 0.75% and 3.5% for both the fiscal year ended March 31, 2009 and 2008.

DISCOUNT RATE

We have selected the interest rate for Japanese government bonds with a 20-year maturity as the basis for the discount rate. We have determined that the interest rate for Japanese government bonds with a 20-year maturity is the best estimate of the risk-free rate because we estimated that the period of time for effective settlement of the benefit obligation under the pension plans would be approximately 17 years on average and the risk-free rate for a period of 17 years was assumed to be substantially the same as the interest rate for a 20-year maturity Japanese government bond. This assumption could change if we become aware of information that leads us to determine that a different period for settling the benefit obligation is required. A change in that assumption could, in turn, change the discount rate and the amounts reported in our financial statements. Changing our methodologies for calculating the estimated settlement period would also affect our estimate of the discount rate and amounts in our financial statements. The discount rate was between 1.5% and 2.2% for both the fiscal year ended March 31, 2009 and 2008. Had the discount rate decreased 0.5 percentage points, net periodic pension cost for the fiscal year ended March 31, 2009 would have increased materially.

HEDGE ACCOUNTING

We follow guidelines issued by the JICPA regarding hedge accounting applicable to assets and liabilities exposed to a risk of change in fair value or cash flow. Derivative transactions that meet the hedge accounting criteria are primarily accounted for under a deferral method whereby unrealized gains and losses are deferred as assets or liabilities until the gains and losses on the hedged items are realized.

Until the end of the fiscal year ended March 31, 2003, Shinsei principally applied a "macro hedge" approach for interest rate derivatives used to manage interest rate risks and its ALM activities based on the transitional treatment prescribed in Industry Audit Committee Report No. 24 issued by the JICPA ("Report No. 24"). The effectiveness of the macro hedge approach was reviewed for a reduction in interest rate risk exposure and the actual risk amount of derivatives within the preapproved limit under our risk control policies. Effective April 1, 2003, we adopted portfolio hedging in accordance with Report No. 24. Under portfolio hedging, a portfolio of hedged items such as deposits or loans with common maturities is matched with a group of hedging instruments such as interest rate swaps, which offset the effect of fair value fluctuations of the hedged items by identified maturities, and are designated as a hedge of the portfolio. The effectiveness of the portfolio hedge is assessed by each group. As for portfolio hedging activities to fix the cash flows, the effectiveness is assessed based on the correlation between the base interest rate index of the hedged cash flow and that of the hedging instrument. The interest rate swaps of certain consolidated subsidiaries which qualify for hedge accounting and meet specific matching criteria are not remeasured at fair value but the net payments or receipts under the swap agreements are recognized and included in interest expenses or income.

Shinsei accounts for fund swap and certain currency swap transactions using either deferral hedge accounting or fair value hedge accounting in accordance with Industry Audit Committee Report No. 25 of the JICPA. Fund swap transactions are foreign exchange swaps, and consist of spot foreign exchange contracts bought or sold and forward foreign exchange contracts sold or bought. Such transactions are contracted for the purpose of lending or borrowing in a different currency and converting the corresponding principal equivalents and foreign currency equivalents to pay and receive, for which amounts and due dates are predetermined at the time of the transactions, into forward foreign exchange contracts bought or sold. Under deferral hedge accounting, hedged items are identified by grouping the foreign currency-denominated financial assets and liabilities by currencies and designated derivative transactions such as currency swap transactions and forward exchange contracts as hedging instruments. Hedge effectiveness is reviewed by comparing the total foreign currency position of the hedged items and hedging instruments by currency.

Shinsei also applies deferral hedge accounting and fair value hedge accounting to translation gains or losses from foreign currency assets of net investments in foreign affiliates and securities available-for-sale (other than bonds denominated in foreign currencies) when such foreign currency exposures recorded as assets are hedged with offsetting foreign currency liabilities and the liabilities exceed the acquisition cost of such foreign currency assets.

In December 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, any deferred gain or loss on derivatives accounted for under hedge accounting that were previously presented as assets or liabilities are now presented as components of equity. For the fiscal year ended March 31, 2009 and 2008, net losses on hedging instruments which were deferred and recorded as equity amounted to ¥2.9 billion and ¥1.0 billion respectively.

IMPAIRMENT OF LONG-LIVED ASSETS

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Impairment losses on an individual asset or a group of assets establish a new cost basis for the assets. We evaluate our long-lived assets for impairment using our best estimates based on reasonable and supportable assumptions and projections. An impairment loss would be recognized if the carrying amount of assets exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the assets. The impairment loss would be measured as the amount by which the carrying amount of assets exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of assets or the net selling price at disposition. For the fiscal year ended March 31, 2009, Shinsei Financial recognized an impairment loss of ¥1.3 billion based on the decision to close some of its branches for its personal loan and mortgage businesses. In addition, due to consecutive years of operating losses of the credit card business of Shinsei Financial, an impairment loss of ¥909 million ($9,256 thousand) was recognized, assuming their recoverable amount to be zero. For the fiscal year ended March 31, 2008, an impairment loss of ¥0.9 billion was recognized by the Bank on some of the BankSpots and ATMs that were planned to be terminated.

BUSINESS COMBINATIONS

For consolidated financial statement purposes, assets and liabilities of acquired subsidiaries are recorded primarily on the basis of their estimated fair values at the date of the acquisition.

We acquired controlling interests in APLUS and Showa Leasing on September 29, 2004 and March 23, 2005, respectively. On December 13, 2007, we acquired a controlling interest in Shinki, which was previously an affiliate, through the purchase of additional shares. On September 22, 2008, the Bank, together with APLUS, acquired 100% of the controlling interest (equity and debt) in GE Consumer Finance Co., Ltd (Shinsei Financial), a consumer finance company in Japan, and its subsidiaries.

In connection with the consolidation of APLUS, Showa Leasing, Shinki and Shinsei Financial, we recognized the assets (including intangibles) and liabilities of those entities primarily at their fair values. We used quoted market prices in active markets as the best evidence of fair value, where available. If quoted market prices were not available, the estimate of fair value was based on the best information available, including prices for similar assets and liabilities and the results using other fair value measurement techniques. We adopted the following methodologies based on the nature of the assets and liabilities being valued and the availability of information:

- market approach: market transactions involving the sale of comparable assets;
- income approach: present value of earnings attributable to the asset; and
- cost approach: reproduction or replacement costs adjusted for depreciation and obsolescence.

As a result of fair value recognition, reserves for credit losses were offset with the corresponding loans or other assets.

We also recognized certain identifiable other intangible assets in connection with the acquisition of APLUS, Showa Leasing, Shinki and Shinsei Financial because they arose from contractual or other legal rights, or were separable. The identified other intangible assets consist of APLUS, Showa Leasing, Shinki and Shinsei Financial's trade names and customer and/or merchant relationships, among others, which are valued using variations of the income approach and which are being amortized over various periods and using different methodologies depending on the nature of the asset. See Note 2 (C) to the Consolidated Financial Statements.

The excess of the purchase price over the fair value of the net assets acquired, including identified other intangible assets, was recorded as consolidation goodwill and is being amortized consistently over the period of mainly 20 years. The maximum of amortization period is defined in Japanese GAAP and determined based upon the Bank's business strategy. When the purchase price is lower than the fair value of the net assets acquired, including identified other intangible assets, the difference is recorded as negative goodwill and amortized on a straight-line basis over 20 years, which is the maximum period allowed under Japanese GAAP. Any unamortized balances of identified other intangible assets and goodwill are subject to impairment testing.

IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS

We conduct impairment testing for goodwill and other intangible assets semi-annually as a result of certain triggering events such as:

- An expectation of an operating loss or negative cash flow for two consecutive years;
- Impairment of underlying investment securities is recognized;
- A significant adverse change in the environment surrounding the business operations of the subsidiary, such as a change in the law which significantly impacts the business in a negative way, the suspension of business due to sanctions or adverse changes in the interest rate laws. Also, we monitor the latest status in management decisions and the business

environment that could have an adverse effect on the values of goodwill and other intangible assets in following quarters.

As the first step of the impairment test, we estimate the undiscounted future cash flow value of the business as a grouping unit. If the value of the undiscounted future cash flows is less than the book value of the net assets, including goodwill and other intangible assets, of the business, it is determined that impairment exists and the next step of the impairment test is performed to measure the amount of impairment loss, if any.

The next step of the impairment test compares the "value in use," which is calculated as the discounted value of future cash flows of the business, and the net asset book value which includes unamortized balances of goodwill and other intangible assets. Impairment loss for the total of goodwill and other intangible assets (A) is recognized as the amount by which the net asset book value exceeds the "value in use." The fair value of other intangible assets (and any other assets) is determined in the same manner used to apply purchase accounting at the time of the initial acquisition, and the impairment loss of other intangible assets (B) is determined as the difference between the fair value and book value. Finally the impairment of goodwill is calculated as (A) less (B) above.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

BUSINESS COMBINATIONS

On December 26, 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No.21, "Accounting Standard for Business Combinations." Major accounting changes under this accounting standard are as follows:

(1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires all business combinations to be accounted for under the purchase method.

(2) The current accounting standard requires the research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development (IPR&D) acquired in a business combination is capitalized as an intangible asset.

(3) The current accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized to income within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

UNIFICATION OF ACCOUNTING POLICIES APPLIED TO FOREIGN AFFILIATES FOR THE EQUITY METHOD

The current accounting standard requires unification of accounting policies within the consolidation group. However, the current guidance allows application of the equity method for the financial statements of foreign affiliates that have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions.

On December 26, 2008, the ASBJ issued ASBJ Statement No.16 (Revised 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to conform the affiliate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the affiliate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign affiliates in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless such items are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income.

This standard is applicable to equity method of accounting for investments effective on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

ASSET RETIREMENT OBLIGATIONS

On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, the ASBJ Statement No.18 "Accounting Standard for Asset Retirement Obligations" and the ASBJ Guidance No.21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

FINANCIAL CONDITION

TOTAL ASSETS

As of March 31, 2009, we had consolidated total assets of ¥11,949.1 billion, representing a 3.7% increase from March 31, 2008. Our loans and bills discounted balance was ¥5,876.9 billion as at March 31, 2009 as compared to ¥5,622.2 billion as at March 31, 2008. Loan growth in fiscal year 2008 was largely due to the acquisition of Shinsei Financial on September 22, 2008. Loans at Shinsei Financial totaled ¥673.6 billion at March 31, 2009. In addition to the increase in consumer finance loans, loans to retail customers, including lending to high net worth individuals, grew 7.1% or ¥64.1 billion to ¥971.5 billion. Corporate loans decreased 11.6% to ¥2,526.0 billion and the non-recourse real estate finance balance decreased 7.3% to ¥644.8 billion.

SECURITIES

The following table sets forth the composition of our consolidated portfolio of trading securities in the banking book, available-for-sale equity and debt securities and held-to-maturity debt securities as of March 31, 2009. As reflected below, almost 81.0% of the securities will mature during the next five years. The balance of securities as of March 31, 2009 amounted to ¥2,174.1 billion as compared to ¥1,980.2 billion as of March 31, 2008. The increase is due to investments in Japanese national government bonds, offset by declines in investments in Japanese corporate bonds and foreign bonds.

TABLE 16. SECURITIES BY MATURITY (CONSOLIDATED) (1)

Billions of yen

	As of March 31, 2009							
	One year or less	Over one year to three years	Over three years to five years	Over five years to seven years	Over seven years to ten years	Over ten years	Unspecified term	Total
Japanese national government bonds	¥ 439.1	¥ 600.2	¥ 84.9	¥ —	¥ 35.4	¥ 44.4	¥ —	¥ 1,204.2
Japanese local government bonds	—	—	1.2	—	0.5	—	—	1.7
Japanese corporate bonds	77.6	267.9	87.7	7.5	2.0	—	—	442.9
Japanese equity securities	—	—	—	—	—	—	26.9	26.9
Foreign bonds and other	45.8	85.5	70.1	33.4	82.6	69.0	111.5	498.2
Total securities	¥ 562.7	¥ 953.7	¥244.0	¥40.9	¥ 120.5	¥ 113.5	¥ 138.5	¥ 2,174.1

Billions of yen

	As of March 31, 2008							
	One year or less	Over one year to three years	Over three years to five years	Over five years to seven years	Over seven years to ten years	Over ten years	Unspecified term	Total
Japanese national government bonds	¥ 298.6	¥ 179.2	¥ 121.4	¥ —	¥ —	¥ 46.0	¥ —	¥ 645.3
Japanese local government bonds	0.0	—	1.7	—	0.5	—	—	2.2
Japanese corporate bonds	164.1	228.5	140.4	17.2	10.0	—	—	560.4
Japanese equity securities	—	—	—	—	—	—	34.3	34.3
Foreign bonds and other	28.2	104.0	109.5	42.1	130.6	170.5	152.5	737.7
Total securities	¥ 491.0	¥ 511.8	¥ 373.1	¥ 59.4	¥ 141.2	¥ 216.6	¥ 186.8	¥ 1,980.2

Note: (1) Please see Note 8 on page 115 for redemption schedules for securities being held to maturity and available-for-sale.

LOAN PORTFOLIO

As of March 31, 2009, we had ¥5,876.9 billion in loans and bills discounted. This represented 49.2% of total consolidated assets and a 4.5% increase from the ¥5,622.2 billion of loans and bills discounted as of March 31, 2008. Installment receivables of APLUS, Showa Leasing and our other non-bank subsidiaries are classified in our consolidated balance sheet as other assets, and are not reflected in our data on loans and bills discounted.

Most of our loan portfolio was originated by Shinsei and our domestic subsidiaries. Of loans we originated, loans to the finance and insurance industry and the real estate industry constituted nearly 40% of total loans as of March 31, 2009. Loans to the real estate industry as of March 31, 2009 consisted, in part, of non-recourse and project finance loans. Loans to this industry decreased by 21.9%, to ¥1,011.3 billion. Loans to others of ¥2,280.8 billion as of March 31, 2009 included loans extended to Shinsei's, Shinsei Financial's, APLUS' and Shinki's individual customers amounting, in aggregate, to ¥1,903.4 billion.

TABLE 17. LOANS BY BORROWER INDUSTRY (CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2009		2008	
Domestic offices (excluding Japan offshore market account):				
Manufacturing	¥ 243.1	4.2%	¥ 191.8	3.5%
Agriculture	0.0	0.0	0.0	0.0
Forestry	—	—	—	—
Fishery	2.7	0.0	2.9	0.0
Mining	3.6	0.1	4.5	0.1
Construction	13.0	0.2	20.4	0.4
Electric power, gas, heat supply and water supply	45.4	0.8	74.6	1.4
Information and communications	48.1	0.8	50.0	0.9
Transportation	336.9	5.9	379.4	6.9
Wholesale and retail	132.1	2.3	138.0	2.5
Finance and insurance	1,152.7	20.0	1,248.0	22.7
Real estate	1,011.3	17.6	1,295.1	23.6
Services	332.7	5.8	374.0	6.8
Local government	156.5	2.7	118.1	2.1
Others	2,280.8	39.6	1,597.9	29.1
Total domestic (A)	¥5,759.5	100.0%	¥5,495.3	100.0%
Overseas offices (including Japan offshore market accounts):				
Governments	¥ 1.4	1.3%	¥ 1.1	0.9%
Others	115.8	98.7	125.6	99.1
Total overseas (B)	¥ 117.3	100.0%	¥ 126.8	100.0%
Total (A+B)	¥5,876.9		¥5,622.2	

TABLE 18. OVERSEAS AND OFFSHORE LOANS BY REGION (NON-CONSOLIDATED)

Billions of yen

As of March 31	2009	2008
United States	¥ 103.1	¥ 76.8
Asset-backed investments in U.S.	5.4	6.0
Europe	166.1	235.5
Asset-backed investments in Europe	122.2	187.2
Others	191.7	178.2
Total overseas and offshore loans	¥ 460.9	¥ 490.6
Total asset-backed investments	¥ 127.7	¥ 193.2

Note: "Asset-backed investments" is another term for the Asset-Backed Investments Program, one of our old product programs. Under this program, the loans backed mainly by collateral (including infrastructure related assets or equipments, real estate, business and operating assets) are referred to as "asset-backed investments" for disclosure purposes. For the asset-backed securities which we disclose as securitized products, please see table 41 "Balance of Securitized Products (Breakdown by Region and Type of Securities)" on page 93.

LOAN MATURITY

The following table sets forth the composition of Shinsei's non-consolidated loan portfolio by type of interest rate and maturity as of the dates indicated. In the fiscal year ended March 31, 2009, the increase in total loans resulted from increases in both variable-interest rate loans and fixed-interest rate loans.

TABLE 19. LOAN MATURITY (NON-CONSOLIDATED)

Billions of yen

As of March 31	2009	2008
Fixed-interest loans:		
One year or less[1]	¥ —	¥ —
Over one year to three years	104.6	113.1
Over three years to five years	83.6	125.2
Over five years to seven years	80.7	94.8
Over seven years	719.5	740.1
Indefinite term	29.7	9.6
Variable-interest loans:		
One year or less[1]	¥ —	¥ —
Over one year to three years	1,265.3	1,388.6
Over three years to five years	397.2	552.3
Over five years to seven years	203.5	228.5
Over seven years	481.4	483.4
Indefinite term	100.2	21.1
Total loans:		
One year or less	¥ 1,701.6	¥ 1,599.1
Over one year to three years	1,370.0	1,501.8
Over three years to five years	480.9	677.5
Over five years to seven years	284.3	323.3
Over seven years	1,201.0	1,223.6
Indefinite term	129.9	30.8
Total loans	¥ 5,168.0	¥ 5,356.3

Note: (1) Loans with maturities of one year or less are not broken down by type of interest rate.

ASSET QUALITY AND DISPOSAL OF PROBLEM LOANS OF SHINSEI

At March 31, 2009, 49.7% of our consolidated problem loans as disclosed in accordance with the guidelines of the Japanese Bankers' Association (JBA) were held by Shinsei and most of the remaining were held by Shinsei Financial, APLUS and Shinki. This discussion of our asset quality presents information of Shinsei on a non-consolidated basis unless specified otherwise. In particular, problem claims as defined in the Financial Revitalization Law are only disclosed on a non-consolidated basis, and therefore do not include problem loans held by Shinsei Financial, APLUS, Showa Leasing and Shinki. For a discussion of the problem claims of Shinsei Financial, APLUS, Showa Leasing and Shinki see "—Asset Quality of Shinsei Financial, APLUS, Showa Leasing and Shinki."

We classify our obligors and assess our asset quality based on our self-assessment manual developed in accordance with guidelines published by the FSA. We generally perform our self-assessment quarterly. The self-assessment process involves classifying obligors based on their financial condition and then categorizing claims against obligors in order of collection risk. Based on these classifications, we establish reserves and disclose our problem loans and other claims using criteria specified in the Financial Revitalization Law. We also disclose our problem loans under a format devised by the JBA for the disclosure of risk-monitored loans.

The following table compares the scope of each category of claim under the Financial Revitalization Law and each type of risk-monitored loan, as well as the obligor type to which they relate:

COMPARISON OF CATEGORIES OF OBLIGORS, CLAIMS UNDER THE FINANCIAL REVITALIZATION LAW AND RISK-MONITORED LOANS

Obligor type	Claims under the Financial Revitalization Law[1][2]	Risk-monitored loans[1]
Legally bankrupt	Claims against bankrupt and quasi-bankrupt obligors	Loans to bankrupt obligors
Virtually bankrupt	Claims against bankrupt and quasi-bankrupt obligors	Non-accrual delinquent loans
Possibly bankrupt	Doubtful claims	Non-accrual delinquent loans
(Substandard)	Substandard claims	Loans past due for three months or more
(Substandard)	Substandard claims	Restructured loans
(Substandard)	(Other claims against substandard obligors)	
Need caution	Normal claims	
Normal	Normal claims	

Notes: (1) The Financial Revitalization Law requires us to classify and disclose "claims," which include, in addition to loans and bills discounted, foreign exchange claims, securities lent, private placement bonds guaranteed by Shinsei, accrued income and suspense payments in other assets, as well as customers' liabilities for acceptances and guarantees. By comparison, the format devised by the Japanese Bankers' Association only classifies, and calls for disclosure of, certain loans.
(2) Shaded claims denote claims that are considered to be non-performing under the Financial Revitalization Law.

In October 2002, the FSA announced a new "Program for Financial Revival" that has led to more stringent evaluations of claims. This program required banks to use discounted cash flow analyses, among other measures, when providing loan loss reserves against major borrowers with substandard claims. Through the program, the FSA also sought greater scrutiny of the effect of recording large amounts of deferred tax assets on the quality of a bank's regulatory capital. We have gone well beyond the FSA's requirements by employing the discounted cash flow method, applying it to approximately 90%, by principal amount, and ¥500 million or more in outstanding balance, of our claims against substandard obligors and possibly bankrupt obligors, excluding non-Japanese transactions and transactions with individuals as their future cash flows cannot be reasonably estimated.

SELF-ASSESSMENT GUIDELINES AND RESERVE POLICIES

DEFINITION OF OBLIGOR CLASSIFICATIONS

OBLIGOR CLASSIFICATION	DEFINITION
Legally bankrupt *(hatan-saki)*	Obligors who have already gone bankrupt, from a legal and/or formal perspective.
Virtually bankrupt *(jisshitsu hatan-saki)*	Obligors 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 *(hatan kenen-saki)*	Obligors who are not yet bankrupt but are in financial difficulties and are very likely to go bankrupt in the future because they are having difficulty implementing their management improvement plans. This includes obligors who are receiving ongoing support from financial institutions.
Need caution *(youchui-saki)*	Obligors who require close attention because there are problems with their borrowings, such as reduced or suspended interest payments, problems with fulfillment, such as substantial postponements of principal or interest payments, or problems with their financial positions as a result of their poor or unstable business conditions. The term "need caution obligors" includes "substandard obligors" *(youkanri-saki)*, which refers to obligors with "substandard claims," that is, loans past due for three months or more or restructured loans. Claims against need caution obligors that are not substandard claims are sometimes referred to as "other claims against need caution obligors" *(sono ta youchui-saki)*.
Normal *(seijou-saki)*	Obligors whose business conditions are favorable and who are deemed not to have any particular problems in terms of their financial position.

DEFINITIONS OF CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

CATEGORY	DEFINITION
Claims against bankrupt and quasi-bankrupt obligors *(hasan kosei saiken oyobi korera ni junzuru saiken)*	Claims against obligors under bankruptcy and similar claims, as provided for under the Bankruptcy Law, the Corporate Reorganization Law, the Civil Rehabilitation Law and similar laws.
Doubtful claims *(kiken saiken)*	Claims against obligors that are not yet in bankruptcy but have experienced deterioration in their financial condition and operating performance and for which there is a high probability of contractual defaults on principal and interest payments.
Substandard claims *(youkanri saiken)*	Loans past due for three months or more and restructured loans, excluding those categorized as claims against bankrupt and quasi-bankrupt obligors or doubtful claims.
Normal claims *(seijou saiken)*	Claims against obligors that are experiencing no particular problems with their financial condition or operating performance, other than claims in any of the three categories above.

DEFINITIONS OF CATEGORIES OF RISK-MONITORED LOANS

CATEGORY	DEFINITION
Loans to bankrupt obligors *(hatansaki saiken)*	Loans to legally bankrupt obligors.
Non-accrual delinquent loans *(entai-saki saiken)*	Loans to virtually bankrupt and possibly bankrupt obligors.
Loans past due for three months or more *(san-ka-getsu ijou entai saiken)*	Loans on which principal and/or interest are past due three months or more.
Restructured loans *(kashidashi jouken kanwa saiken)*	Loans with lending terms that have been changed in ways favorable to the borrower, including reducing interest rates, providing grace periods for repayment and forgiving a portion of the debt.

RESERVE POLICIES

CLAIMS AGAINST OBLIGORS, AS CATEGORIZED UNDER SELF-ASSESSMENT GUIDELINES	RESERVE POLICY
Claims against virtually and legally bankrupt obligors	We either write off directly or make a provision for, in the specific reserve for loan losses, the full amount of the unsecured, unguaranteed portion of the claim.
Claims against possibly bankrupt obligors	For most claims against possibly bankrupt obligors, we make a provision in the specific reserve for loan losses in an amount calculated based on the discounted cash flow method. See "—Reserve for Credit Losses." For the remaining claims, we make a provision to that reserve for the unsecured, unguaranteed portion of the claims in the amount of the product of that portion and the higher of 70% or the estimated loss ratio, based on historical losses on claims in this category, for the next three years.
Claims against substandard obligors	For most claims against substandard obligors, we make a provision in the general reserve for loan losses in an amount calculated based on the discounted cash flow method. See "—Reserve for Credit Losses." For the remaining claims, we make a provision to that reserve for the estimated amount of losses over three years computed based on the expected loss ratio for claims in this category.
Claims against need caution obligors, other than claims against substandard obligors	We make a provision, in the general reserve for loan losses, for the estimated amount of losses over the average remaining term of the loans computed based on the expected loss ratio for claims in this category.
Claims against normal obligors	For claims against obligors rated 5A through 6C under our credit rating system and all real estate non-recourse loans, we make a provision, in the general reserve for loan losses, for the estimated amount of losses over the remaining term of the loans computed based on the expected loss ratio for claims in this category. For the remaining claims, we make a provision to that reserve for the estimated amount of losses over a year computed based on the expected loss ratio for claims in this category.

CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

Under the Financial Revitalization Law, Japanese banks categorize their total claims in four categories by reference to the nature of the relevant assets. In addition to loans and bills discounted, claims that are subject to disclosure under the Financial Revitalization Law include foreign exchange claims, securities lent, private placement bonds guaranteed by Shinsei, accrued income and suspense payments in other assets, as well as customers' liabilities for acceptances and guarantees.

DISCLOSURE OF CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW

Our current management team has consistently emphasized the monitoring of problem loans. Shinsei's total amount of problem claims as disclosed pursuant to the Financial Revitalization Law increased by ¥92.7 billion, or 174.5%, to ¥145.8 billion, between March 31, 2008 and 2009. During the fiscal year ended March 31, 2009, claims against bankrupt and quasi-bankrupt obligors increased from ¥8.0 billion to ¥83.2 billion and doubtful claims increased from ¥15.5 billion to ¥55.7 billion, and substandard claims decreased from ¥29.5 billion to ¥6.8 billion as a result of our self assessment. The ratio of non-performing claims disclosed under the Financial Revitalization Law to total non-consolidated claims as of March 31, 2009 increased to 2.5%, compared to 1.0% as of March 31, 2008.

Shinsei's other claims against need caution obligors, excluding substandard claims, totaled ¥339.5 billion as of March 31, 2009, a 219.6% increase from ¥106.2 billion as of March 31, 2008. These include private placement bonds guaranteed by Shinsei and classified other claims against need caution obligors. These claims represented 5.8% of total non-consolidated claims as of March 31, 2009, up from 1.9% as of March 31, 2008.

TABLE 20. CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW (NON-CONSOLIDATED)

As of March 31	Billions of yen (except percentages) 2009	2008
Claims against bankrupt and quasi-bankrupt obligors	¥ 83.2	¥ 8.0
Doubtful claims	55.7	15.5
Substandard claims	6.8	29.5
Total claims disclosed under the Financial Revitalization Law[1]	145.8	53.1
Normal claims and claims against need caution obligors excluding substandard claims	5,669.7	5,512.8
Total claims	¥ 5,815.5	¥ 5,566.0
Ratio of total claims disclosed under the Financial Revitalization Law to total claims	2.5%	1.0%

Note: (1) Total claims disclosed under the Financial Revitalization Law include loans and bills discounted, customers' liabilities for acceptances and guarantees and other exposures to or in respect of bankrupt and quasi-bankrupt obligors and doubtful claims, as well as loans and bills discounted classified as substandard claims.

COVERAGE RATIOS

As of March 31, 2009, Shinsei's non-consolidated coverage ratios for claims classified under the Financial Revitalization Law, which for each category of claims is the total of collateral pledged against claims, guarantees for claims and reserve for loan losses, measured against total claims, were 100.0% for claims against bankrupt and quasi-bankrupt obligors, 90.7% for doubtful claims and 90.0% for substandard claims. For all claims classified under the Law, the coverage ratio was 96.0%, an increase from 62.2% as of March 31, 2008.

Shinsei directly writes off, rather than reserves, the portion of claims against virtually and legally bankrupt obligors that are estimated to be uncollectible. In the fiscal years ended March 31, 2009 and 2008, ¥71.2 billion and ¥34.5 billion, respectively, of such claims were written off on a non-consolidated basis.

TABLE 21. COVERAGE RATIOS FOR NON-PERFORMING CLAIMS DISCLOSED UNDER THE FINANCIAL REVITALIZATION LAW (NON-CONSOLIDATED)

Billions of yen (except percentages)

	Amount of claims	Amounts of coverage: Reserve for loan losses	Collateral and guarantees	Total	Coverage ratio
As of March 31, 2009:					
Claims against bankrupt and quasi-bankrupt obligors	¥ 83.2	¥ —	¥ 83.2	¥ 83.2	100.0%
Doubtful claims	55.7	23.3	27.2	50.5	90.7
Substandard claims	6.8	1.6	4.4	6.1	90.0
Total	¥ 145.8	¥ 25.0	¥ 114.9	¥ 140.0	96.0%
As of March 31, 2008:					
Claims against bankrupt and quasi-bankrupt obligors	¥ 8.0	¥ —	¥ 8.0	¥ 8.0	100.0%
Doubtful claims	15.5	7.6	5.8	13.5	87.1
Substandard claims	29.5	9.2	2.2	11.5	38.9
Total	¥ 53.1	¥ 16.8	¥ 16.1	¥ 33.0	62.2%

Management's Discussion and Analysis of Financial Condition and Results of Operations
Financial Highlights / Message from the Management
Review of Operations
Management Structure
Data Section

CHANGES IN AMOUNT OF PROBLEM CLAIMS

The table below sets forth Shinsei's experience since March 31, 2007 with the removal of problem claims and the emergence of new claims on a non-consolidated basis:

TABLE 22. CHANGES IN AMOUNT OF PROBLEM CLAIMS (NON-CONSOLIDATED)

Billions of yen

	Substandard claims	Doubtful claims	Claims against bankrupt and quasi-bankrupt obligors	Total
Balance of problem claims as of March 31, 2007	¥ 16.2	¥ 10.7	¥ 0.9	¥ 27.9
Claims newly added April 1, 2007 to March 31, 2008	23.4	6.3	8.0	37.8
Claims removed April 1, 2007 to March 31, 2008	(10.1)	(1.5)	(0.9)	(12.5)
Claims migrating between classifications April 1, 2007 to March 31, 2008	—	(0.0)	0.0	—
Net change	13.3	4.7	7.0	25.2
Balance of problem claims as of March 31, 2008	¥ 29.5	¥ 15.5	¥ 8.0	¥ 53.1
Claims newly added April 1, 2008 to March 31, 2009	**4.1**	**48.1**	**74.1**	**126.5**
Claims removed April 1, 2008 to March 31, 2009	**(7.2)**	**(6.9)**	**(19.5)**	**(33.7)**
Claims migrating between classifications April 1, 2008 to March 31, 2009	**(19.6)**	**(0.9)**	**20.6**	**—**
Net change	**(22.7)**	**40.2**	**75.2**	**92.7**
Balance of problem claims as of March 31, 2009	**¥ 6.8**	**¥ 55.7**	**¥ 83.2**	**¥ 145.8**

In the fiscal year ended March 31, 2009, ¥126.5 billion of claims were newly classified as substandard or worse, while Shinsei removed ¥33.7 billion of claims in these categories during the same period. Of the newly added problem claims, ¥48.1 billion were classified as doubtful claims, and ¥74.1 billion were classified as claims against bankrupt and quasi-bankrupt obligors.

For the fiscal year ended March 31, 2008, ¥37.8 billion of claims were newly classified as substandard or worse, while Shinsei removed ¥12.5 billion of claims in these categories during the same period.

RESERVE FOR CREDIT LOSSES

The following table sets forth a breakdown of our total reserve for credit losses on a non-consolidated basis as of the dates indicated:

TABLE 23. RESERVE FOR CREDIT LOSSES (NON-CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2009	2008
General reserve for loan losses	**¥ 65.5**	¥ 57.9
Specific reserve for loan losses	**32.1**	9.6
Reserve for loans to restructuring countries	**0.0**	0.0
Subtotal reserve for loan losses	**97.6**	67.5
Specific reserve for other credit losses	**21.2**	26.0
Total reserve for credit losses	**¥ 118.9**	¥ 93.6
Total claims[1]	**¥ 5,815.5**	¥ 5,566.0
Ratio of total reserve for loan losses to total claims	**1.7%**	1.2%
Ratio of total reserve for credit losses to total claims	**2.0%**	1.7%

Note: (1) Total claims include loans and bills discounted, foreign exchange claims, securities lent, accrued interest income and suspense payments in other assets, as well as customers' liabilities for acceptances and guarantees.

As of March 31, 2009 and 2008, Shinsei's total reserve for credit losses on a non-consolidated basis was ¥118.9 billion and ¥93.6 billion, respectively, constituting 2.0% and 1.7%, respectively, of total claims as of each such date.

TABLE 24. RESERVE RATIOS FOR BORROWERS' CATEGORY (NON-CONSOLIDATED)

Percentages

As of March 31		2009	2008
Legally and virtually bankrupt	(unsecured portion)	**100.00%**	100.00%
Possibly bankrupt	(unsecured portion)	**81.89%**	79.25%
Substandard	(unsecured portion)	**83.41%**	34.17%
Need caution	(total claims)	**6.85%**	8.95%
	(unsecured portion)	**46.26%**	26.70%
Normal	(total claims)	**0.37%**	0.31%

RISK-MONITORED LOANS

Consolidated risk-monitored loans increased by 171.5% during the fiscal year ended March 31, 2009 to ¥283.6 billion. The increase of ¥37.3 billion in loans to bankrupt obligors and the ¥136.0 billion in non-accrual delinquent loans added during the period were primarily attributable to Shinsei Financial and downgrading of other consolidated loans.

The following tables set forth information concerning our consolidated and non-consolidated risk-monitored loans as of the dates indicated:

TABLE 25. RISK-MONITORED LOANS (CONSOLIDATED)

As of March 31	Billions of yen (except percentages)	
	2009	2008
Loans and bills discounted	¥ 5,876.9	¥ 5,622.2
Loans to bankrupt obligors (A)	39.5	2.1
Non-accrual delinquent loans (B)	178.5	42.5
Total loans (A)+(B)	¥ 218.0	¥ 44.7
Ratio to total loans and bills discounted	3.7%	0.8%
Loans past due for three months or more (C)	¥ 5.9	¥ 4.7
Restructured loans (D)	59.6	54.9
Total risk-monitored loans (A)+(B)+(C)+(D)	¥ 283.6	¥ 104.4
Ratio to total loans and bills discounted	4.8%	1.9%
Reserve for credit losses	¥ 192.5	¥ 145.9

TABLE 26. RISK-MONITORED LOANS (NON-CONSOLIDATED)

As of March 31	Billions of yen (except percentages)	
	2009	2008
Loans and bills discounted	¥ 5,168.0	¥ 5,356.3
Loans to bankrupt obligors (A)	23.9	0.5
Non-accrual delinquent loans (B)	110.2	22.8
Total loans (A)+(B)	¥ 134.1	¥ 23.4
Ratio to total loans and bills discounted	2.6%	0.4%
Loans past due for three months or more (C)	¥ 3.7	¥ 0.1
Restructured loans (D)	3.1	29.4
Total risk-monitored loans (A)+(B)+(C)+(D)	¥ 141.0	¥ 53.0
Ratio to total loans and bills discounted	2.7%	1.0%
Reserve for credit losses	¥ 118.9	¥ 93.6

TABLE 27. RISK-MONITORED LOANS BY BORROWER INDUSTRY (NON-CONSOLIDATED)

As of March 31	Billions of yen	
	2009	2008
Domestic offices (excluding Japan offshore market account):		
Manufacturing	¥ 1.6	¥ 3.0
Agriculture	—	—
Forestry	—	—
Fishery	—	—
Mining	—	—
Construction	1.0	3.1
Electric power, gas, heat supply and water supply	—	—
Information and communications	0.5	—
Transportation	6.0	7.6
Wholesale and retail	0.0	3.5
Finance and insurance	51.1	0.4
Real estate	32.0	1.0
Services	3.4	6.5
Local government	—	—
Individual	5.3	1.2
Others	39.8	26.4
Total domestic (A)	¥ 141.0	¥ 53.0
Overseas offices (including Japan offshore market accounts):		
Governments	¥ —	¥ —
Financial institutions	—	—
Commerce and industry	—	—
Others	—	—
Total overseas (B)	¥ —	¥ —
Total (A+B)	¥ 141.0	¥ 53.0

TABLE 28. RISK-MONITORED LOANS OF OVERSEAS AND OFFSHORE LOANS BY REGION (NON-CONSOLIDATED)

Billions of yen

As of March 31	2009	2008
United States	¥ 0.7	¥ 6.0
Asset-backed investments in U.S.(1)	0.7	6.0
Europe	38.9	20.3
Asset-backed investments in Europe(1)	37.0	20.3
Others	0.0	0.0
Total overseas and offshore loans	¥ 39.8	¥ 26.4
Total asset-backed investments(1)(2)	¥ 37.8	¥ 26.3

Notes: (1) "Asset-backed investments" is another term for the Asset-Backed Investments Program, one of our old product programs. Under this program, the loans backed mainly by collateral (including infrastructure related assets or equipments, real estate, business and operating assets) are referred to as "asset-backed investments" for disclosure purposes. For the asset-backed securities which we disclose as securitized products, please see table 41 "Balance of Securitized Products (Breakdown by Region and Type of Securities)" on page 93.
(2) As of March 31, 2009, reserve for loan losses and collateral/guarantees for risk monitored loans related with asset-backed investments were ¥7.9 billion and ¥27.0 billion, respectively, and coverage ratio was 92.3%.

ASSET QUALITY OF SHINSEI FINANCIAL, APLUS, SHOWA LEASING AND SHINKI

Shinsei Financial, APLUS, Showa Leasing and Shinki classify their obligors and assess their asset quality on a semi-annual basis based on the self-assessment manual developed in accordance with guidelines published by the FSA. Shinsei Financial's, APLUS', Showa Leasing's and Shinki's assessments, where applicable, include, among other things, an assessment of credit extended to credit card customers as well as lease obligors, unsecured personal loans and customer guarantees.

The following tables set forth information concerning consolidated risk-monitored loans and risk-monitored installment receivables held by Shinsei, Shinsei Financial, APLUS, Showa Leasing, Shinki and other subsidiaries as of the dates indicated:

TABLE 29. RISK-MONITORED LOANS BREAKDOWN FOR LARGE ENTITIES (CONSOLIDATED)

Billions of yen

	Shinsei	Shinsei Financial	APLUS	Shinki	Other subsidiaries	Total
As of March 31, 2009:						
Loans to bankrupt obligors	¥ 23.9	¥ 5.6	¥ 0.0	¥ 0.1	¥ 9.8	¥ 39.5
Non-accrual delinquent loans	110.2	26.5	12.9	4.9	23.8	178.5
Loans past due for three months or more	3.7	0.7	0.8	0.0	0.5	5.9
Restructured loans	3.1	33.7	16.3	6.1	0.2	59.6
Total	¥ 141.0	¥ 66.6	¥ 30.2	¥ 11.2	¥ 34.4	¥ 283.6
As of March 31, 2008:						
Loans to bankrupt obligors	¥ 0.5	¥ —	¥ —	¥ 0.1	¥ 1.3	¥ 2.1
Non-accrual delinquent loans	22.8	—	3.2	5.1	11.2	42.5
Loans past due for three months or more	0.1	—	4.5	—	0.0	4.7
Restructured loans	29.4	—	18.6	6.8	0.0	54.9
Total	¥ 53.0	¥ —	¥ 26.3	¥ 12.2	¥ 12.7	¥ 104.4

TABLE 30. RISK-MONITORED INSTALLMENT RECEIVABLES INCLUDED IN OTHER ASSETS (CONSOLIDATED)(1)

Billions of yen

	APLUS	Showa Leasing	Shinsei Financial	Other subsidiaries	Total
As of March 31, 2009:					
Credits to bankrupt obligors	¥ 0.0	¥ 0.5	¥ 0.0	¥ 0.1	¥ 0.7
Non-accrual delinquent credits	0.5	2.2	0.4	1.0	4.3
Credits past due for three months or more	0.6	0.2	—	0.1	1.0
Restructured credits	4.1	5.1	0.0	0.1	9.4
Total	¥ 5.3	¥ 8.2	¥ 0.4	¥ 1.4	¥ 15.5
As of March 31, 2008:					
Credits to bankrupt obligors	¥ 0.0	¥ 2.5	¥ —	¥ 0.0	¥ 2.6
Non-accrual delinquent credits	1.9	2.9	—	—	4.9
Credits past due for three months or more	1.2	0.0	—	—	1.3
Restructured credits	6.6	0.1	—	—	6.7
Total	¥ 9.8	¥ 5.7	¥ —	¥ 0.0	¥ 15.6

Note: (1) Shinsei and Shinki have no such installment receivables.

FUNDING AND LIQUIDITY

FUNDING AND LIQUIDITY MANAGEMENT

Shinsei has maintained healthy liquidity even under the current challenging financial market conditions. We take a prudent liquidity management approach by keeping adequate liquidity reserves and minimizing reliance on market-based sources of funding.

The focus of liquidity management is to ensure sufficient liquidity to meet both normal and unanticipated funding needs. Successful liquidity management requires being able to fund all requirements without disruption to our normal business operations. Funding requirements may include contractual obligations, future asset growth, liability maturities and deposit withdrawals.

Our liquidity management strategy includes the following key components:

- maintaining a portfolio of surplus cash and liquid assets;
- developing retail customer deposits as a long-term, stable source of funding;
- maintaining unutilized funding capacity; and
- maintaining diverse sources of funding.

We continuously seek to improve our liquidity management strategy and minimize refinancing risk by enhancing the stability and diversity of our funding sources.

In accordance with its role as a special purpose long-term credit bank in Japan, LTCB had utilized domestic debentures for its funding. We formally converted from a long-term credit bank to an ordinary bank on April 1, 2004. In connection with this conversion, the FSA has allowed us to continue issuing debentures for ten years after the conversion. We have transformed ourselves into a full-service financial institution and have increased our retail deposit balances. We continue to grow the deposit base as our primary source of funding.

Shinsei provides funding to its subsidiaries and affiliates, and expects to continue to do so. Our subsidiaries and affiliates, however, may utilize other sources of funds, including financing from other banks as well as capital markets financing, where doing so would be sound from a cost and Group cash management perspective.

The table below shows changes in the proportion of our overall funding represented by funds raised from debentures and deposits in our Retail and Institutional Banking businesses, at the end of the periods indicated.

TABLE 31. DIVERSIFICATION BY FUNDING TYPE (CONSOLIDATED)

Billions of yen

Fiscal year ended March 31	2009	2008[1]	2007[1]	2006[1]
Retail deposits[2][3]	¥ 5,073.0	¥ 3,993.7	¥ 3,573.8	¥ 3,103.4
Retail debentures	308.1	342.2	381.9	435.3
Institutional deposits	1,199.0	1,812.8	1,847.1	968.2
Institutional debentures	367.4	320.2	321.3	583.5
Total	¥ 6,947.6	¥ 6,469.0	¥ 6,124.2	¥ 5,090.6

Notes: (1) Prior period has been adjusted to conform to current period presentation.
(2) Excludes unclaimed matured debentures.
(3) Includes wealth management customers' deposits.

DEPOSITS

Shinsei Bank maintains a diversified funding base. Total deposits and negotiable certificates of deposit increased ¥465.4 billion or 8.0% to ¥6,272.1 billion in fiscal year 2008. The retail deposits balance, including high net worth customers, totaled ¥5,073.0 billion at March 31, 2009, an increase of ¥1,079.2 billion compared to March 31, 2008. Retail Banking's customer funding represents 77.5% of the Bank's total funding through customer deposits and negotiable certificates of deposit and debentures.

The following table sets forth the composition of our time deposits in the fiscal years ended March 31, 2009 and 2008 by remaining maturity as of the dates indicated:

TABLE 32. TIME DEPOSITS BY MATURITY (CONSOLIDATED)

Billions of yen

As of March 31	2009	2008
Less than three months[1]	¥ 710.1	¥ 695.0
Three months or more, but less than six months	636.8	503.8
Six months or more, but less than one year	995.2	734.3
One year or more, but less than two years	884.7	695.5
Two years or more, but less than three years	487.9	580.9
Three years or more	720.7	313.9
Total	¥ 4,435.7	¥ 3,523.7

Note: (1) Less than three months includes time deposits that have matured but have not yet been paid.

FINANCIAL CONDITION (continued)

DEBENTURES AND CORPORATE BONDS

As of March 31, 2009, we had ¥675.5 billion in debentures outstanding. This represented 6.0% of our consolidated total liabilities and constituted a decline of 2.0% from March 31, 2008. As of March 31, 2009, corporate bonds stood at ¥266.4 billion.

As of March 31, 2009, scheduled repayments of debentures and corporate bonds over the periods indicated below were as follows:

TABLE 33. MATURITY SCHEDULE OF DEBENTURES AND CORPORATE BONDS (CONSOLIDATED)

DEBENTURES

Fiscal year ending March 31	Billions of yen
2010	¥ 201.4
2011	186.1
2012	115.1
2013	85.8
2014 and thereafter	86.9
Total	¥ 675.5

Please see Note 16 on page 118 for details.

CORPORATE BONDS

Fiscal year ending March 31	Billions of yen
2010	¥ 17.2
2011	25.2
2012	1.2
2013	4.9
2014 and thereafter	217.7
Total	¥ 266.4

Please see Note 19 on page 119 for details.

While we will continue to issue debentures at cost effective levels, we will also continue diversifying our funding sources by raising funds through other means, such as deposits.

OTHER

The securitization of loans and other assets is another component of our funding strategy. We launched the first residential mortgage backed security public offering in December 2008. We will continue to explore additional issuance opportunities subject to market conditions.

CREDIT RATINGS

Our borrowing costs and ability to raise funds are impacted directly by our credit ratings and changes thereto. Shinsei's credit ratings are set forth in the table below:

TABLE 34. SHINSEI'S CREDIT RATINGS AS OF MAY 2009

Rating agency	Long-term	Short-term
Moody's	Deposits: A3	P-2
	Senior debt: A3	P-2
Standard & Poor's	BBB+	A-2
Fitch	BBB	F2
R&I	A–	a-1
JCR	BBB+	J-2

CONTRACTUAL CASH OBLIGATIONS

We use contractual cash obligations for funding purposes. The following table sets forth a summary of our primary consolidated contractual cash obligations as of March 31, 2009 and 2008:

TABLE 35. CONTRACTUAL CASH OBLIGATIONS (CONSOLIDATED)

	Billions of yen		
Payments due by period as of March 31, 2009	One year or less	Over one year	Total
Borrowed money	**¥ 534.8**	**¥ 477.5**	**¥ 1,012.3**
Capital lease obligations	**0.6**	**0.2**	**0.9**
Total	**¥ 535.5**	**¥ 477.7**	**¥ 1,013.2**

	Billions of yen		
Payments due by period as of March 31, 2008	One year or less	Over one year	Total
Borrowed money	¥ 472.7	¥ 654.4	¥ 1,127.2
Capital lease obligations	0.8	0.5	1.4
Total	¥ 473.6	¥ 655.0	¥ 1,128.6

TAXATION

SCHEDULE OF TAX LOSS CARRYFORWARDS

Our tax loss carryforwards have principally resulted from losses recognized on securities due to recent instability in the financial markets. As of March 31, 2009, Shinsei had ¥127.0 billion in tax loss carryforwards. Tax reforms implemented in the fiscal year ended March 31, 2004 extended the period of tax loss carryforwards from five years to seven years. As this extension was applied retroactively for the three previous tax years, the expiration date for our tax loss carryforwards generated in the fiscal year ended March 31, 2003 has been extended to March 31, 2010. This amendment is beneficial to us as it provides more time to utilize these tax loss carryforwards. The table below sets forth a schedule of tax loss carryforwards related to corporate taxes and their expiration dates:

TABLE 36. SCHEDULE OF TAX LOSS CARRYFORWARDS

	Billions of yen	
Year tax loss carryforwards generated/renewed	Amount	Date of expiry
Shinsei Bank		
Fiscal year ended March 31, 2003	¥ 39.8	March 31, 2010
Fiscal year ended March 31, 2009	87.1	March 31, 2016
Total	¥ 127.0	
APLUS		
Fiscal year ended March 31, 2005	¥ 148.9	March 31, 2012
Fiscal period ended September 30, 2005	2.9	March 31, 2013
Fiscal period ended March 31, 2006	4.6	March 31, 2013
Fiscal year ended March 31, 2007	30.1	March 31, 2014
Fiscal year ended March 31, 2008	12.0	March 31, 2015
Total	¥ 198.7	
Shinsei Financial		
Fiscal year ended December 31, 2007	¥ 28.3	March 31, 2014
Fiscal year ended December 31, 2008	38.7	March 31, 2015
Fiscal period ended March 31, 2009	25.9	March 31, 2016
Total	¥ 92.9	
Showa Leasing		
Fiscal year ended March 31, 2005	¥ 23.6	March 31, 2012
Fiscal year ended March 31, 2007	10.0	March 31, 2014
Total	¥ 33.6	
Shinki		
Fiscal year ended March 31, 2008	¥ 19.0	March 31, 2015
Fiscal year ended March 31, 2009	9.2	March 31, 2016
Total	¥ 28.3	

The table above sets forth a schedule of tax loss carryforwards of Shinsei Bank, APLUS, Showa Leasing, Shinki and Shinsei Financial as of March 31, 2009. Because APLUS, Showa Leasing, Shinki and Shinsei Financial are not wholly owned subsidiaries, we are unable to include their results in our consolidated tax returns.

In the event that Shinsei, APLUS, Showa Leasing, Shinki or Shinsei Financial, as the case may be, generates less taxable income in a given fiscal year than the tax loss carryforward that will expire at year-end, the benefit of the unused portion of the expiring tax loss carryforward will be lost.

We record deferred tax assets for tax loss carryforwards and evaluate them in accordance with the JICPA guidelines. See "—Critical Accounting Policies—Valuation of Deferred Tax Assets" on page 71.

CONSOLIDATED CORPORATE TAX SYSTEM

We have filed our tax returns under the consolidated corporate tax system since the fiscal year ended March 31, 2004. Under the consolidated system, we base corporate tax payments on the combined profits or losses of Shinsei and its wholly owned domestic subsidiaries.

Showa Leasing has also adopted the consolidated corporate tax system beginning with the fiscal year ended March 31, 2007.

CAPITAL RESOURCES AND ADEQUACY

EQUITY

The following table sets forth a summary of our equity as of March 31, 2009:

TABLE 37. EQUITY (CONSOLIDATED)

	Millions of yen (except percentages)	
As of March 31	**2009**	2008
Common stock	**¥ 476,296**	¥ 476,296
Capital surplus	**43,554**	43,558
Stock acquisition rights	**1,808**	1,257
Retained earnings	**152,855**	302,535
Net unrealized gain (losses) on securities available-for-sale, net of taxes	**(38,813)**	(35,073)
Deferred loss on derivatives under hedge accounting	**(2,996)**	(1,057)
Foreign currency translation adjustments	**1,297**	1,872
Treasury stock, at cost	**(72,558)**	(72,566)
Total	**¥ 561,443**	¥ 716,823
Minority interests in subsidiaries	**206,037**	248,437
Total equity	**¥ 767,481**	¥ 965,261
Ratio of total equity to total assets	**6.4%**	8.4%

CAPITAL RATIOS

From the fiscal year ended March 31, 2007, the Basel II methodology has been adopted to calculate capital ratios. For credit risk, the Foundation Internal Ratings Based Approach (F-IRB) has been applied. For operational risk, the Standardized Approach (TSA) has been adopted and the Internal Model Method has been used for market risk.

Our total capital adequacy ratio as of March 31, 2009 was 8.35%, compared with 11.74% as of March 31, 2008. Our Tier I capital ratio, or the ratio of Tier I capital to risk assets, decreased from 7.37% as of March 31, 2008 to 6.02% as of March 31, 2009. The decreases in the capital ratios at March 31, 2009 are primarily the result of write-downs of selected assets in our Institutional Group business. Also, the reclassification of certain loans in our corporate loan portfolio resulted in higher total risk assets. Given the distressed credit markets, both Tier I and Tier II capital were opportunistically repurchased and this also had some impact on our capital ratios. While repurchasing capital securities did reduce the amount of capital outstanding, the decline was partially offset by an increase in retained earnings as the repurchases were done at levels significantly below par value.

In total, we repurchased ¥116.9 billion of Tier I and Tier II securities and recorded a gain of ¥74.1 billion from these repurchases. In addition, we were able to raise new Tier I capital in an extremely challenging environment which offset the decrease in existing Tier I capital.

TABLE 38. CAPITAL RATIOS (CONSOLIDATED)

As of March 31	Billions of yen (except percentages) 2009	2008
Basic items (Tier I):		
Capital stock	¥ 476.2	¥ 476.2
Common stock	476.2	476.2
Preferred stock	—	—
Capital surplus	43.5	43.5
Retained earnings	152.8	302.5
Treasury stock, at cost	(72.5)	(72.5)
Expected income distribution	—	(5.7)
Net unrealized losses on securities available-for-sale, net of taxes(2)	—	(35.0)
Foreign currency translation adjustments	1.2	1.8
Share warrant	1.8	1.2
Minority interests in consolidated subsidiaries	183.7	160.5
Preferred securities issued by foreign SPC	171.3	147.1
Consolidation goodwill	(132.9)	(142.2)
Other intangibles	(44.7)	(23.6)
Gain on sale of securitization	(14.0)	(15.3)
50% of expected loss provision shortfall	(15.1)	(11.6)
Total Tier I (A)	580.0	679.7
Step-up preferred securities	88.9	77.2
Supplementary items (Tier II):		
General reserve for loan losses	13.0	5.7
Perpetual preferred stocks	16.5	81.0
Perpetual subordinated debt and bonds	47.7	103.5
Non-perpetual preferred stocks	—	—
Non-perpetual subordinated debt and bonds	249.9	344.6
Total	¥ 327.3	¥ 535.0
Amount eligible for inclusion in capital (B)	327.3	530.2
Deduction (C)	¥ 103.9	¥ 128.0
Intentional capital investment to other financial institutions	11.3	15.9
Capital investment to affiliated companies	33.2	42.1
50% of expected loss provision shortfall	15.1	11.6
Expected losses on exposures under PD/LCD measures such as equities	1.1	1.2
Unrated securitization exposure	43.0	61.6
Exclusion from deductions	—	4.6
Total capital (D) [(A)+(B)-(C)]	¥ 803.4	¥ 1,081.9
Risk assets:		
On-balance sheet items	¥ 7,068.9	¥ 6,629.6
Off-balance sheet items	1,750.4	1,868.0
Market Risk(1)	340.2	251.3
Operational Risk(1)	461.4	463.4
Total (E)	¥ 9,621.0	¥ 9,212.5
Consolidated capital adequacy ratio (D) / (E)	8.35%	11.74%
Consolidated Tier I capital ratio (A) / (E)	6.02%	7.37%

Notes: (1) Derived by multiplying the capital requirement by 12.5 (i.e., the reciprocal of the minimum capital ratio of 8%).
(2) In accordance with Japanese FSA Notification Number 79 (issued in 2008 as a special treatment of the FSA Notification Number 19 issued in 2006), as at March 31, 2009, unrealized losses on securities available-for-sale were not included in the Tier I capital of Japanese banks that use a domestic standard for calculating capital adequacy ratios.

COMPOSITION OF TIER I CAPITAL

We executed an innovative securities exchange transaction in which investors holding APLUS Class-D preference shares, which were included in our Tier II capital, were given an opportunity to exchange their holdings for newly issued Shinsei hybrid Tier I securities. In connection with this securities exchange and with a new hybrid Tier I securities issuance, we issued ¥48.2 billion of new hybrid Tier I securities. Of this amount, ¥39.1 billion was placed with investors who exchanged their holdings of APLUS Class-D preferred shares for Shinsei hybrid Tier I securities. In addition, ¥9.1 billion was issued to new hybrid Tier I investors. In connection with this securities exchange, Shinsei made an investment of ¥64.5 billion in APLUS Class-H preference shares.

The issuance of hybrid Tier I securities domestically at attractive levels facilitated our strategy of selectively repurchasing our outstanding capital securities. In particular, we repurchased a total of ¥21.7 billion of our U.S. dollar denominated hybrid Tier I step up and non step up securities and recorded a gain of ¥18.5 billion in connection with these repurchases.

As of March 31, 2007, Shinsei had two classes of preferred stock outstanding. All shares of Class-A preferred stock were initially issued to the RCC by LTCB. Upon LTCB's nationalization, the RCC transferred those shares to the DIC. At the time of the sale of LTCB's common shares to New LTCB Partners in March 2000, a portion of the Class-A preferred shares was redeemed without any consideration paid and cancelled. The DIC continued to own the remaining 74,528,000 shares. At the same time, Shinsei issued 600,000,000 new shares of Class-B preferred stock to the RCC. At our request, the RCC converted 300,000,000 shares of the Class-B preferred stock into 200,033,338 common shares in July 2006 and subsequently sold them. In connection with these transactions, we repurchased 175,466,000 of our common shares for an aggregate consideration of ¥132.1 billion and subsequently cancelled 85 million of those common shares. The remainder of the repurchased common shares is included in treasury stock.

On August 1, 2007, we acquired all of our Class-B preferred shares (300,000,000 shares) and issued common shares (200,000,000 shares) based on the exchange price of ¥600 per share in exchange for these preferred shares. We cancelled all the relevant preferred shares immediately after acquiring them. On March 31, 2008, we acquired and cancelled all of our Class-A preferred shares and issued in exchange 269,128,888 of our common shares at an exchange price of ¥360 per share.

As a result of the above transactions, our capital stock did not include any preferred stock as of March 31, 2008.

PREFERRED SECURITIES ISSUED BY SUBSIDIARIES OUTSIDE JAPAN

On February 23, 2006, we issued US$775.0 million of step-up non-cumulative perpetual preferred securities. The dividend on the preferred securities is 6.418% for the initial ten years. In addition, on March 23, 2006, we issued US$700.0 million of non-step-up non-cumulative perpetual preferred securities. The dividend on the non-step-up perpetual preferred securities is 7.16% for the initial ten years.

On March 26, 2009, we issued ¥22.6 billion in step-up non cumulative perpetual preferred securities. The dividend on the preferred securities is 5.00% for the initial ten years. In addition, we also issued on March 26, 2009 ¥25.6 billion in non-step-up non-cumulative perpetual preferred securities. The dividend on the non-step-up perpetual preferred securities is 5.50% for the initial ten years.

All of these issuances are consistent with our strategy to strengthen our Tier I capital ratio. The proceeds from the offerings of the preferred securities are recorded as minority interests in consolidated subsidiaries and counted towards Tier I capital. The amount of such proceeds which may be counted towards Tier I capital is constrained by the amount of other Tier I capital outstanding. Our ability to raise additional regulatory capital in this manner could be constrained in the future.

COMPOSITION OF TIER II CAPITAL

The composition of our Tier II capital changed significantly as a result of our repurchases of upper Tier II and lower Tier II subordinated bonds. Our principal buybacks included ¥30.0 billion of our sterling upper Tier II bonds. We also repurchased ¥50.8 billion of our EUR lower Tier II bonds. While the repurchases reduced the amount of Tier II securities outstanding, we recorded a gain of ¥54.1 billion in connection with the repurchase of our Tier II bonds.

The principal component of our Tier II capital is subordinated debt and bonds. As of March 31, 2009, we had ¥91.3 billion of dated subordinated bonds issued by Shinsei (excluding the €0.9 billion of step-up callable subordinated notes and €0.4 billion of step-up callable perpetual subordinated notes discussed above) and ¥108.0 billion in subordinated debt from private lenders, ¥17.0 billion of which were perpetual loans. None of our current Tier II capital consists of public funds.

Other major elements of our Tier II capital are general reserve for loan losses and ¥16.0 billion of class-D perpetual preferred shares of APLUS held by third-parties as of March 31, 2009. Tier II capital is subject to the limitation that it cannot exceed the amount of Tier I capital, and non-perpetual subordinated debt and bonds cannot exceed half the amount of Tier I capital. Subject to those ceilings, the entire amount of perpetual subordinated debt and bonds can be included in Tier II capital and a portion of non-perpetual subordinated debt and bonds cannot be included in Tier II capital as of March 31, 2009. The table below sets forth the amount of our subordinated debt and bonds, as well as the portion included in our Tier II capital:

TABLE 39. SUBORDINATED DEBT AND BONDS (CONSOLIDATED)

	Billions of yen					
As of March 31, 2009	Perpetual	Perpetual included in Tier II	Non-perpetual[1]	Non-perpetual included in Tier II[2]	Total	Total included in Tier II[2]
Subordinated debt	¥ 17.0	¥ 17.0	¥ 85.0	¥ —	¥ 102.0	¥ —
Subordinated bonds	31.1	30.7	168.5	—	199.7	—
Total	¥ 48.1	¥ 47.7	¥ 253.5	¥ 249.9	¥ 301.7	¥ 297.7

	Billions of yen					
As of March 31, 2008	Perpetual	Perpetual included in Tier II	Non-perpetual[1]	Non-perpetual included in Tier II[2]	Total	Total included in Tier II[2]
Subordinated debt	¥ 17.0	¥ 17.0	¥ 91.0	¥ —	¥ 108.0	¥ —
Subordinated bonds	86.8	86.5	255.0	—	341.9	—
Total	¥ 103.8	¥ 103.5	¥ 346.0	¥ 339.8	¥ 449.9	¥ 443.4

Notes: (1) Stated at par value.
(2) Non-perpetual subordinated debt and bonds included in Tier II and total subordinated debt and bonds included in Tier II are not broken down by type of debt and bonds.

During the fiscal year ended March 31, 2009, we repaid ¥14.7 billion and €390.9 million of non-perpetual subordinated debt and bonds. Interest rates on ¥21.5 billion of our perpetual subordinated debt and bonds included in Tier II capital as of March 31, 2009 will increase between January 2013 and December 2015.

¥21.5 billion of our perpetual subordinated debt and bonds included in Tier II capital as of March 31, 2009 will become prepayable between January 2013 and December 2015. ¥0.5 billion of perpetual subordinated bonds are currently prepayable.

Interest rates on ¥22.0 billion of non-perpetual subordinated debt will increase between March 2011 and June 2011. Interest rates on the remaining ¥63.0 billion of non-perpetual subordinated debt are fixed rates until maturity.

¥77.0 billion of non-perpetual subordinated debt will become prepayable between July 2010 and July 2013 and the remaining ¥8.0 billion of non-perpetual subordinated debt cannot be repaid until maturity.

Shinsei issued ¥50.0 billion of dated subordinated bonds for the first time as Shinsei, not LTCB, on March 25, 2005. These dated subordinated bonds cannot be repaid until maturity, on March 25, 2015, and bear interest at a fixed rate of 1.96%. Shinsei issued an additional ¥50.0 billion of dated subordinated bonds on October 31, 2005. These dated subordinated bonds cannot be repaid until maturity, on October 30, 2015, and bear interest at a fixed rated of 2.01%.

Shinsei issued €1.0 billion of step-up callable subordinated notes bearing interest at a fixed rate of 3.75% on February 23, 2006. In February 2011, interest rates on these notes will increase and these notes will become prepayable.

In December 2006, Shinsei issued £0.4 billion of step-up callable perpetual subordinated notes bearing interest at a fixed rate of 5.625%. In December 2013, interest rates on these notes will increase and these notes will become prepayable.

OFF-BALANCE SHEET ARRANGEMENTS

We use off-balance sheet arrangements, including investments through special purpose entities, securitizations, lines and letters of credit, loan commitments and loan participations, in the ordinary course of business, including in our securitization and financing businesses, as well as to manage our own liquidity risk. The main purposes of such off-balance sheet arrangements are to develop our Institutional Banking business as well as to diversify our sources of liquidity. The following is a discussion of the principal off-balance sheet arrangements we use.

SECURITIZATION

We structure, arrange, distribute and service mortgage-backed securities and asset-backed securities both for third-parties and ourselves. Our securitization services utilize special purpose entities, which may be organized in the forms of trusts, partnerships or corporations, mainly to protect the securitized assets from creditors of transferors even in bankruptcy. Assets securitized include commercial loans, residential mortgage loans, installment receivables and credit card receivables.

REPACKAGING

One aspect of our securitization business involves our repackaging of assets purchased by special purpose entities that we establish into new financial instruments that represent undivided interests in the underlying assets. Repackaging the assets generally entails analyzing the cash flows from the underlying assets, using various means to rearrange the timing and order of cash flows, and then combining them with other cash flows to create new financial instruments that can be tailored to meet the demands of a broad range of investors.

Often the assets are repackaged into residual or subordinated interests, mezzanine interests and senior interests. The residual interests are the first to suffer any losses as a result of any decline in the value of the underlying financial assets, while the senior interests are structured to be the last to absorb such losses. In instances where we repackage assets on our own initiative, rather than for our customers, we generally retain the residual interests and either sell the senior or mezzanine interests immediately to third-parties or hold them temporarily before placing them with investors. Revenues on these transactions consist of gains on sales of the repackaged senior and mezzanine interests, transaction arrangement fees received from the originators of the assets, fees for underwriting the senior instruments, and returns on the residual interests.

The principal risk inherent in these repackagings is credit risk on the securitized financial instruments that is absorbed by the retained residual interests. We may record losses on the residual interests due to declines in the value of the underlying financial assets. We manage this credit risk through semi-annually assessing our retained interests and providing valuation allowances for them based on those assessments, taking into consideration how much we believe we will be able to collect on the underlying assets. We generally transfer financial assets to special purpose entities on a "true sale" basis, which means that we would neither be entitled nor required to reacquire the financial assets so transferred.

ARRANGEMENT

We also securitize customers' assets on their behalf, drawing on our know-how and experience in establishing securitization vehicles tailored to accommodate clients' needs, analyzing cash flows from the financial assets, structuring them into classes of securitized interests, arranging credit enhancements and locating investors for the securities to be issued. We generally place the securities representing the senior interests from these transactions with third-party investors. We may choose, however, to acquire temporarily a portion of these senior securities for later sale and often structure financial arrangements, including repackaging, that enhance the liquidity of these senior securities in order to attract third-party investors. These securities are recorded in other monetary claims purchased and recorded at fair value.

Our revenue on these transactions consists of fees, generally fixed, for arranging the transaction and for underwriting the sale of the financial instruments. We typically record those fees as having been received at the completion of all arrangements for the customer.

On these transactions, we act as an arranger, an underwriter, a servicer, a trustee or an administrator, or combination of some of these roles, for our corporate customers. As our customers usually retain the residual interests and the related risk of loss on them, we are not exposed to risks of incurring losses inherent in such residual interests.

RESIDUAL INTERESTS

As of March 31, 2009 and 2008, we held ¥54.7 billion and ¥59.1 billion, respectively, of debt securities and residual interests from securitization transactions. As of March 31, 2009 and 2008, ¥35.3 billion and ¥38.6 billion of such amounts, respectively, were attributable to securitization transactions of APLUS.

LOAN PARTICIPATIONS

We have sold or transferred participation interests in certain of our loans. Loan participation involves the original lender under the loans transferring economic interests in the loan to others, while the original lender retains title to the loan itself.

Under Japanese GAAP, where substantially all of the economic interest in and risks of the loans are transferred to the participants, the original lenders are not deemed to bear recourse obligations for the participating interests or to have any rights to repurchase such interests. As a result, the original lender may remove the loans from its balance sheet as if the loans were sold to the participants. Because substantially all of the economic interest and risks have been transferred to the participants, we believe that we are not taking any substantial economic risk on the portions of loans in which we have sold participating interests.

As of March 31, 2009 and 2008, the total principal amount of participation interests in loans transferred to third-parties was ¥50.8 billion and ¥61.1 billion, respectively.

OFF-BALANCE SHEET ARRANGEMENTS TO EXTEND CREDIT, ACCEPTANCES AND GUARANTEES

We have off-balance sheet commitments to extend credit to customers up to certain predetermined amounts at current market rates, in consideration of which we receive fee income that is recorded on an accrual basis for the period of the commitments. As of March 31, 2009 and 2008, we had ¥5,596.4 billion and ¥4,436.5 billion of these commitments, of which ¥5,343.1 billion and ¥4,064.7 billion had agreement terms of less than one year, respectively.

In addition, we provide acceptances and guarantees, which include lines and letters of credit and guarantees on customers' borrowings from other creditors. These acceptances and guarantees require us to satisfy our customers' obligations in the event they fail to do so, although we would have a claim for reimbursement against them. Under Japanese GAAP for banks, these commitments are deemed to be both contingent assets and liabilities, and are recorded as both assets and liabilities in the principal amount of the acceptances and guarantees. We record the fees we earn from providing acceptances and guarantees on an accrual basis over the period of the acceptance or guarantee. As of March 31, 2009 and 2008, we had ¥675.2 billion and ¥701.7 billion, respectively, of outstanding acceptances and guarantees.

APLUS extends credit in the form of guarantees. The most significant component of APLUS' guarantee business is providing guarantees on installment shopping credit provided by other lenders to customers of APLUS' partner merchants. APLUS also offers collection guarantees for foreign automobile dealers. Providing guarantees allows APLUS to limit its balance sheet exposure, while continuing to maintain its relations with its partner merchants. Off-balance sheet commitment and acceptances and guarantees increased as a result of our acquisition of APLUS and its inclusion in our consolidated balance sheet from September 30, 2004. As of March 31, 2009 and 2008, ¥663.2 billion and ¥693.7 billion of our outstanding acceptances or guarantees, respectively, were attributable to this guarantee business.

EXPOSURE TO U.S. RESIDENTIAL MORTGAGE, SECURITIZED PRODUCTS AND RELATED INVESTMENTS

EXPOSURE TO U.S. RESIDENTIAL MORTGAGE, SECURITIZED PRODUCTS AND RELATED INVESTMENTS

Tables 40 through 44 below set forth certain information regarding our exposure to the U.S. residential mortgage market, securitized products and related investments as of March 31, 2008, as of September 30, 2008, and as of and for the fiscal year ended March 31, 2009. Table 45 provides definitions for the defined terms used in Tables 40 through 44.

TABLE 40. U.S RESIDENTIAL MORTGAGE EXPOSURE (SECURITIES, EQUITIES AND WARRANTS AND LOANS) (CONSOLIDATED)

	Millions of dollars, %				Billions of yen
	Balance Before Evaluation[1]	Mark-Down During FY2008 (12 months) or Credit Reserve as of Mar 31, 2009		**Net Exposure Mar 31, 2009**	**Net Exposure Mar 31, 2009**
	(a)	(b)	% Decline	**(c) = (a) - (b)**	**(c) x ¥98.23**
Mark-to-Market Exposure	$ 29.7	$ 15.1[2]	$ (50.9)	**$ 14.5**	**¥ 1.4**
Securities[3]	29.7	15.1	(50.9)	14.5	1.4
AAA[4]	11.0	1.4	(13.0)	9.5	0.9
Other[4]	18.7	13.7	(73.3)	5.0	0.4
Loans and Other Credit Exposure	$ 168.8	$ 59.9[5]		**$ 108.8**	**¥ 10.6**
Loans[6]	168.8	59.9		108.8	10.6
Total	$ 198.5	$ 75.1		**$ 123.4**	**¥ 12.1**

Notes: (1) Figures are balances before mark-to-market adjustments or credit reserves.
(2) Mark-downs of U.S. residential mortgage exposure during FY2008 (12 months) totaled ¥3.1 billion ($33.3 million).
(3) One AAA-rated security of 2006-vintage amounts to $11.0 million (¥1.0 billion) as of March 31, 2009. Our exposure to this security was effectively zero as of the end of March 2009, since it was sold at the end of March 2009 with subsequent cash settlement. Of the total ¥1.4 billion of securities exposure, subprime-related exposure was ¥0.9 billion as of March 31, 2009.
(4) Based on ratings as of March 31, 2009.
(5) Net credit costs and others for U.S. residential mortgage exposure during FY2008 (12 months) totaled ¥0.1 billion.
(6) Includes undrawn portion of commitment lines.

TABLE 41. BALANCE OF SECURITIZED PRODUCTS (BREAKDOWN BY REGION AND TYPE OF SECURITIES)[1] (NON-CONSOLIDATED)

Billions of yen

	Credit Ratings of Securities[2] (Mar 31, 2009) AAA	AA	A or lower	N/A	Mar 31 2009 (a)	Mar 31 2008 (b)	Change (a)-(b)	Sep 30 2008 (c)	Change (a)-(c)
RMBS	26%	7%	8%	59%	**¥ 52.2**	¥ 76.2	¥ (24.0)	¥ 73.3	¥ (21.0)
Japan	24%	5%	8%	63%	**49.3**	45.6	3.6	48.7	0.5
U.S.[3]	100%	—	—	—	**0.9**	15.9	(15.0)	14.5	(13.6)
Europe	—	100%	—	—	**1.1**	7.3	(6.2)	4.0	(2.9)
Other[4]	100%	—	—	—	**0.8**	7.2	(6.4)	5.8	(5.0)
CMBS[5]	—	17%	83%	—	**¥ 19.4**	¥ 30.3	¥ (10.9)	¥ 24.9	¥ (5.4)
Japan	—	8%	92%	—	**13.1**	17.6	(4.5)	14.2	(1.1)
U.S.	—	—	—	—	**—**	—	—	—	—
Europe	—	—	100%	—	**3.9**	10.0	(6.1)	7.9	(4.0)
Other	—	100%	—	—	**2.3**	2.6	(0.2)	2.6	(0.3)
CLO	72%	25%	2%	1%	**¥ 69.1**	¥ 149.5	¥ (80.3)	¥ 107.5	¥ (38.3)
Japan	—	—	—	—	**—**	—	—	—	—
U.S.	71%	27%	—	2%	**53.2**	87.6	(34.3)	81.2	(27.9)
Europe	82%	18%	—	—	**14.5**	59.1	(44.5)	23.4	(8.8)
Other	—	—	100%	—	**1.3**	2.7	(1.4)	2.8	(1.5)
ABS CDO (Resecuritized Products)	—	—	23%	77%	**¥ 7.9**	¥ 8.9	¥ (0.9)	¥ 8.0	¥ (0.0)
Japan[6]	—	—	23%	77%	**7.9**	8.0	(0.1)	8.0	(0.0)
U.S.	—	—	—	—	**—**	0.8	(0.8)	—	—
Europe	—	—	—	—	**—**	—	—	—	—
Other	—	—	—	—	**—**	—	—	—	—
Total	43%	16%	16%	25%	**¥ 148.9**	¥ 265.1	¥ (116.2)	¥ 213.9	¥ (64.9)
Japan	17%	5%	26%	53%	**¥ 70.4**	¥ 71.4	¥ (0.9)	¥ 71.1	¥ (0.6)
U.S.	72%	27%	—	2%	**54.2**	104.4	(50.1)	95.8	(41.6)
Europe	60%	20%	20%	—	**19.6**	76.5	(56.8)	35.4	(15.8)
Other	18%	52%	29%	—	**4.5**	12.7	(8.1)	11.4	(6.8)
Securities					**¥ 81.7**	¥ 199.1	¥ (117.3)	¥ 146.0	¥ (64.3)
RMBS					**2.9**	30.6	(27.6)	24.5	(21.6)
CMBS					**9.5**	18.1	(8.5)	13.9	(4.3)
CLO					**69.1**	149.5	(80.3)	107.5	(38.3)
ABS CDO					**0.0**	0.8	(0.8)	0.0	0.0
Other monetary claims purchased[7]					**¥ 67.2**	¥ 66.0	¥ 1.1	¥ 67.8	¥ (0.6)
RMBS (Japan)					**49.3**	45.6	3.6	48.7	0.5
CMBS (Japan)					**9.8**	12.2	(2.3)	10.9	(1.1)
CLO (Japan)					**—**	—	—	—	—
ABS CDO (Japan)					**7.9**	8.0	(0.1)	8.0	(0.0)
Total					**¥ 148.9**	¥ 265.1	¥ (116.2)	¥ 213.9	¥ (64.9)

Notes: (1) The amount is the outstanding balance, after mark-downs and other comprehensive income (OCI) adjustments, at the end of each period. This table excludes securitized products backed by consumer loans, credit card loans, and other similar exposure to individuals.
(2) Based on ratings by S&P or ratings equivalent to S&P ratings matrix as of March 31, 2009. The "N/A" rating for Japanese RMBS represents senior portions of other monetary claims purchased for the purpose of warehousing for future securitization.
(3) While this ¥0.9 billion in U.S. RMBS outstanding as of March 31, 2009 is subprime-related exposure, our exposure to this security was effectively zero as of the end of March 2009, since it was sold at the end of March 2009 with subsequent cash settlement.
(4) Includes exposures guaranteed by a monoline insurer (¥0.8 billion as of March 31, 2009, ¥1.1 billion as of September 30, 2008, and ¥1.4 billion as of March 31, 2008).
(5) Breakdown of collateral: office building (49%), multi-family (34%), retail and shops (9%), hotel and others (8%)
(6) Backed by Japanese RMBS and CMBS and does not include subprime-related exposure.
(7) Includes Japanese RMBS recorded as monetary assets held in trust of ¥4.1 billion as at March 31, 2009.

TABLE 42. SECURITIZED PRODUCTS RECORDED UNDER "SECURITIES" AND "OTHER MONETARY CLAIMS PURCHASED" AND OCI[1] (NON-CONSOLIDATED)

SECURITIES

Billions of yen, %

	As of March 31, 2009			
	Balance before Mark-to-Market Evaluation	Market Value or Balance	Unrealized Gains/Losses (OCI)	Price Decline Ratio (%)
Trading Securities		¥ 3.8		
RMBS (Japan)		—		
RMBS (U.S.)[2]		0.9		
RMBS (Other foreign countries)		0.8		
CLO (U.S.)		0.6		
CLO (Other foreign countries)		1.3		
Securities Being Held to Maturity with Readily Determinable Fair Value[3]		¥ 47.3		
CLO (U.S.)		35.8		
CLO (Europe)		11.5		
Securities Available for Sale	¥ 31.1	¥ 30.5	¥ (0.5)	(1.9)
Other	31.1	30.5	(0.5)	(1.9)
Foreign Securities	31.1	30.5	(0.5)	(1.9)
Foreign Currency Denominated Foreign Corporate and Government Bonds	27.8	27.2	(0.5)	(2.0)
RMBS	1.1	1.1	—	—
Europe	1.1	1.1	—	—
CMBS	6.8	6.3	(0.5)	(8.1)
Europe	3.9	3.9	—	—
Other foreign countries	2.9	2.3	(0.5)	(18.9)
CLO	19.8	19.8	—	—
U.S.	16.7	16.7	—	—
Europe	3.0	3.0	—	—
Yen-Denominated Foreign Corporate and Government Bonds	3.2	3.2	—	(0.7)
CMBS (Japan)	3.2	3.2	—	(0.7)
Securities		¥ 81.7		
RMBS		2.9		
CMBS		9.5		
CLO		69.1		

OTHER MONETARY CLAIMS PURCHASED[4]

Billions of yen, %

	As of March 31, 2009			
	Balance before Mark-to-Market Evaluation	Market Value or Balance	Unrealized Gains/Losses (OCI)	Price Decline Ratio (%)
Trading Purposes		¥ 19.2		
RMBS (Japan)[4]		15.8		
CMBS (Japan)		3.3		
Others	¥ 47.9	¥ 47.9	—	—
RMBS (Japan)	33.4	33.4	—	—
CMBS (Japan)	6.4	6.4	—	—
ABS CDO (Japan)	7.9	7.9	—	—
Total		¥ 67.2		
RMBS (Japan)		49.3		
CMBS (Japan)		9.8		
ABS CDO (Japan)		7.9		
RMBS, CMBS, CLO, ABS CDO Total		¥ 148.9		
Securities		81.7		
Other Monetary Claims Purchased		67.2		

Note: (1) This table excludes securitized products backed by consumer loans, credit card loans, and other similar exposure to individuals.
(2) Securities with exposure to U.S. residential mortgage market.
(3) Among the securities that were previously classified as available-for-sale, certain of the foreign bonds with high credit ratings were reclassified to held-to-maturity on October 1, 2008 at their fair values of ¥10.2 billion, in accordance with the "Tentative Solution on Reclassification of Debt Securities" (December 5, 2008, Practical Issue Task Force No.26).
Subsequent to this date, an impairment of ¥50.7 billion was recognized for certain of these reclassified securities as a result of the worsening credit environment, and the value of such securities after impairment (¥19.6 billion) was reclassified from held-to-maturity back to available-for-sale.
(4) Includes Japanese RMBS recorded as monetary assets held in trust of ¥4.1 billion as at March 31, 2009.

TABLE 43. LBO, MONOLINE, SIV, ABCP (NON-CONSOLIDATED)

	Mar 31, 2009 (a)	Mar 31, 2008 (b)	Change (a)-(b)	Sep 30, 2008 (c)	Change (a)-(c)
	Billions of yen				
LBO[1]	¥ 291.7	¥ 277.1	¥ 14.6	¥ 313.8	¥ (22.1)
Japan	278.6[2]	258.6	20.0	297.8	(19.2)
U.S.	3.2	3.6	(0.4)	3.6	(0.4)
Europe	—	—	—	—	—
Other	9.8	14.8	(5.0)	12.3	(2.5)
(Breakdown by Industry Sector as of March 31, 2009)					
Manufacturing	12.3%				
Information and communications	12.6%				
Wholesale and retail	8.7%				
Finance and insurance	49.4%				
Services	8.5%				
Others	8.5%				
Total	100.0%				

Notes: (1) The amount includes unfunded commitment line.
(2) As of March 31, 2009, unfunded commitment line (only domestic) is ¥4.2 billion.

	Mar 31, 2009 (a)	Mar 31, 2008 (b)	Change (a)-(b)	Sep 30, 2008 (c)	Change (a)-(c)
	Billions of yen				
Monoline	¥ 0.8	¥ 1.4	¥ (0.6)	¥ 1.1	¥ (0.3)
Japan	—	—	—	—	—
U.S.	—	—	—	—	—
Europe	—	—	—	—	—
Other	0.8	1.4	(0.6)	1.1	(0.3)
SIV	—	—	—	—	—
ABCP	—	—	—	—	—

TABLE 44. CREDIT DEFAULT SWAPS (CDS)[1] (NON-CONSOLIDATED)[1]

	Billions of yen							
	As of March 31, 2009							FY2008
	Notional Amount		Fair Value		Netted Notional Amount and Fair Value[2]			Realized profits (losses)
					Notional Amount	Fair Value		
	Protection (buy)	Protection (sell)	Protection (buy)	Protection (sell)		Protection (buy)	Protection (sell)	
Total	¥ 1,195.4	¥ 1,282.2	¥ 122.0	¥ (108.0)	¥ 1,021.0	¥ 86.7	¥ (84.8)	¥ 6.0
Japan	1,062.8	1,157.6	110.9	(96.3)	907.3	78.5	(76.0)	7.7
U.S.	60.9	58.9	6.2	(7.7)	49.8	4.5	(5.0)	(1.8)
Europe	31.8	26.7	2.0	(1.5)	26.3	1.6	(1.4)	(0.0)
Other	39.8	38.8	2.8	(2.4)	37.5	2.0	(2.2)	0.1

Notes: (1) Represents transactions under both banking book and trading book.
(2) Transactions which are netted with buy and sell.

TABLE 45. DEFINED TERMS FOR TABLES 40-44

Names	Definitions
RMBS	Residential mortgage-backed securities and other related assets, including beneficial interests backed by mortgage loans. Recorded in "trading securities," "securities available-for-sale" and "other monetary claims."
CMBS	Commercial mortgage-backed securities. Recorded in "securities available-for-sale" and "other monetary claims." We have no U.S. CMBS exposure.
CLO	Collateralized loan obligations (CLO) mainly backed by LBO debt, corporate loans and high-yield securities. Recorded in "trading securities," "securities being held to maturity with readily determinable fair value," and "securities available-for-sale."
ABS CDO (Re-securitized Products)	CDO backed by asset-backed securities (ABS) such as RMBS. Recorded in "securities available-for-sale" and "other monetary claims."
Subprime-Related	Subprime-related exposure refers to the total book value of securities whose underlying assets include U.S. subprime, Alt-A and/or second-lien loans. While our total subprime-related exposure stood at ¥0.9 billion for one security as of March 31, 2009, our exposure to this security was effectively zero since it was sold at the end of March 2009 with subsequent cash settlement.
LBO	Loans for leveraged buyout for acquisition finance including refinancing of past acquisitions.
Monoline	Monolines are insurance companies that insure against the risk of a bond or other security defaulting. As of March 31, 2009, the exposure guaranteed by monoline insurers is ¥0.8 billion in Asia.
SIV	A structured investment vehicle (SIV) is a fund which borrows money by issuing short-term securities at low interest rates, then lends that money by buying long-term securities (such as securitization products) at higher interest rates, making a profit for investors from the difference. We have no exposure to SIVs.
ABCP	An asset-backed commercial paper (ABCP) conduit is a limited-purpose entity that issues CP to finance the purchase of assets or to make loans. Some asset types include receivables generated from trade, credit card, auto loan, auto, and equipment leasing obligors, as well as collateralized loan obligations (CLOs) and collateralized bond obligations (CBOs). We have no exposure to ABCP.
CDS	Credit default swap is a type of derivative in which the buyer receives credit protection by making periodic payments to a counterparty and the seller provides credit protection by giving the promise of a payoff if a third-party defaults.

CONSOLIDATED BALANCE SHEETS

Shinsei Bank, Limited, and Consolidated Subsidiaries
As of March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
ASSETS			
Cash and due from banks (Notes 4 and 23)	**¥ 605,089**	¥ 505,630	**$ 6,159,923**
Receivables under resale agreements	**—**	2,014	**—**
Collateral related to securities borrowing transactions	**280**	18,753	**2,858**
Other monetary claims purchased (Notes 5 and 23)	**408,035**	468,880	**4,153,882**
Trading assets (Notes 6, 23 and 36)	**375,107**	315,287	**3,818,670**
Monetary assets held in trust (Note 7)	**348,840**	371,572	**3,551,265**
Securities (Notes 8 and 23)	**2,174,198**	1,980,292	**22,133,753**
Loans and bills discounted (Notes 9, 23 and 34)	**5,876,910**	5,622,266	**59,828,066**
Foreign exchanges (Note 10)	**37,138**	17,852	**378,080**
Lease receivables and leased investment assets (Notes 23 and 31)	**232,554**		**2,367,449**
Other assets (Notes 11, 23 and 36)	**1,125,768**	1,100,151	**11,460,534**
Premises and equipment (Notes 12, 23 and 31)	**50,964**	305,771	**518,829**
Intangible assets (Notes 13 and 31)	**209,175**	233,174	**2,129,445**
Deferred issuance expenses for debentures	**161**	125	**1,644**
Deferred tax assets (Note 33)	**22,254**	28,238	**226,560**
Customers' liabilities for acceptances and guarantees (Note 22)	**675,225**	701,717	**6,873,922**
Reserve for credit losses (Note 14)	**(192,511)**	(145,966)	**(1,959,801)**
Total assets	**¥ 11,949,196**	¥ 11,525,762	**$ 121,645,079**
LIABILITIES AND EQUITY			
Liabilities:			
Deposits, including negotiable certificates of deposit (Notes 15 and 23)	**¥ 6,272,115**	¥ 5,806,634	**$ 63,851,322**
Debentures (Note 16)	**675,567**	662,434	**6,877,405**
Call money (Note 23)	**281,513**	632,117	**2,865,863**
Payables under repurchase agreements (Note 23)	**53,805**	—	**547,746**
Collateral related to securities lending transactions (Note 23)	**569,566**	148,421	**5,798,293**
Commercial paper (Note 23)	**198**	—	**2,018**
Trading liabilities (Notes 17 and 36)	**307,562**	205,011	**3,131,049**
Borrowed money (Notes 18 and 23)	**1,012,324**	1,127,227	**10,305,651**
Foreign exchanges (Note 10)	**4**	39	**45**
Short-term corporate bonds	**11,500**	73,600	**117,072**
Corporate bonds (Notes 19 and 23)	**266,489**	426,286	**2,712,914**
Other liabilities (Notes 20, 23 and 36)	**819,900**	708,749	**8,346,747**
Accrued employees' bonuses	**10,425**	14,572	**106,136**
Accrued directors' bonuses	**318**	249	**3,239**
Reserve for employees' retirement benefits (Note 21)	**18,219**	4,660	**185,480**
Reserve for directors' retirement benefits	**234**	132	**2,392**
Reserve for losses on interest repayments	**193,850**	39,333	**1,973,430**
Reserve for losses on disposal of premises and equipment	**7,559**	5,025	**76,959**
Reserve for losses on litigation	**3,662**	—	**37,289**
Reserve under special law	**4**	4	**48**
Deferred tax liabilities (Note 33)	**1,665**	4,283	**16,951**
Acceptances and guarantees (Notes 22 and 23)	**675,225**	701,717	**6,873,922**
Total liabilities	**11,181,714**	10,560,501	**113,831,971**
Equity:			
Capital stock (Notes 25 and 26):			
Common stock	**476,296**	476,296	**4,848,793**
Capital surplus	**43,554**	43,558	**443,391**
Stock acquisition rights (Note 26)	**1,808**	1,257	**18,406**
Retained earnings	**152,855**	302,535	**1,556,094**
Unrealized gain (loss) on available-for-sale securities	**(38,813)**	(35,073)	**(395,125)**
Deferred gain (loss) on derivatives under hedge accounting	**(2,996)**	(1,057)	**(30,503)**
Foreign currency translation adjustments	**1,297**	1,872	**13,209**
Treasury stock, at cost (Note 25)	**(72,558)**	(72,566)	**(738,661)**
Total	**561,443**	716,823	**5,715,604**
Minority interests in subsidiaries (Note 24)	**206,037**	248,437	**2,097,504**
Total equity	**767,481**	965,261	**7,813,108**
Total liabilities and equity	**¥ 11,949,196**	¥ 11,525,762	**$ 121,645,079**

See accompanying "Notes to Consolidated Financial Statements," which are an integral part of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Shinsei Bank, Limited, and Consolidated Subsidiaries
For the fiscal years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Interest income:			
Interest on loans and bills discounted	**¥ 257,063**	¥ 187,782	**$ 2,616,960**
Interest and dividends on securities	**37,997**	42,768	**386,823**
Interest on deposits with banks	**1,887**	5,359	**19,216**
Other interest income	**6,472**	6,261	**65,889**
Total interest income	**303,421**	242,171	**3,088,888**
Interest expenses:			
Interest on deposits, including negotiable certificates of deposit	**52,297**	47,925	**532,403**
Interest and discounts on debentures	**5,026**	3,398	**51,166**
Interest on other borrowings	**21,899**	30,176	**222,939**
Interest on corporate bonds	**11,509**	15,278	**117,169**
Other interest expenses	**9,692**	7,617	**98,674**
Total interest expenses	**100,425**	104,395	**1,022,351**
Net interest income	**202,995**	137,775	**2,066,537**
Fees and commissions income	**52,676**	65,977	**536,257**
Fees and commissions expenses	**26,162**	25,141	**266,336**
Net fees and commissions	**26,514**	40,835	**269,921**
Net trading income (loss) (Note 27)	**(4,663)**	9,090	**(47,477)**
Other business income (loss), net:			
Income on lease transactions and installment receivables, net	**49,290**	52,157	**501,784**
Income on monetary assets held in trust, net	**5,134**	20,967	**52,273**
Net gain (loss) on foreign exchanges	**8,457**	2,701	**86,100**
Net gain (loss) on securities	**(106,921)**	(10,427)	**(1,088,480)**
Net gain (loss) on other monetary claims purchased	**6,446**	15,408	**65,627**
Other, net (Note 28)	**(4,150)**	(5,816)	**(42,250)**
Net other business income (loss)	**(41,742)**	74,990	**(424,946)**
Total revenue	**183,104**	262,692	**1,864,035**
General and administrative expenses:			
Personnel expenses	**72,252**	64,526	**735,546**
Premises expenses	**27,403**	18,677	**278,970**
Technology and data processing expenses	**24,489**	21,803	**249,310**
Advertising expenses	**12,516**	9,958	**127,424**
Consumption and property taxes	**8,204**	8,455	**83,524**
Deposit insurance premium	**3,888**	3,431	**39,589**
Other general and administrative expenses	**33,287**	31,907	**338,878**
General and administrative expenses	**182,043**	158,761	**1,853,241**
Amortization of goodwill and other intangible assets	**17,553**	12,534	**178,697**
Total general and administrative expenses	**199,597**	171,295	**2,031,938**
Net business profit (loss)	**(16,493)**	91,396	**(167,903)**
Net credit costs (recoveries) (Note 29)	**129,039**	73,591	**1,313,646**
Other gains (losses), net (Note 30)	**26,478**	74,750	**269,557**
Income (loss) before income taxes and minority interests	**(119,054)**	92,556	**(1,211,992)**
Income taxes (benefit) (Note 33):			
Current	**3,466**	4,902	**35,292**
Deferred	**7,004**	9,500	**71,312**
Minority interests in net income of subsidiaries	**13,558**	18,044	**138,028**
Net income (loss)	**¥ (143,084)**	¥ 60,108	**$ (1,456,624)**

	Yen		U.S. dollars (Note 1)
Basic net income (loss) per common share (Note 37)	**¥ (72.85)**	¥ 38.98	**$ (0.74)**
Diluted net income per common share (Note 37)	**—**	32.44	**—**
Cash dividends applicable to the year:			
Common share	**—**	2.94	**—**
Class-A preferred share		6.50	
Class-B preferred share		—	

See accompanying "Notes to Consolidated Financial Statements," which are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Shinsei Bank, Limited, and Consolidated Subsidiaries
For the fiscal years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Common stock:			
Balance at beginning of year	¥ 476,296	¥ 291,853	$ 4,848,793
Issuance of new shares of common stock	—	25,000	—
Conversion from preferred stock	—	159,443	—
Balance at end of year	476,296	476,296	4,848,793
Preferred stock:			
Balance at beginning of year	—	159,443	—
Conversion into common stock	—	(159,443)	—
Balance at end of year	—	—	—
Capital surplus:			
Balance at beginning of year	43,558	18,558	443,432
Issuance of new shares of common stock	—	25,000	—
Disposal of treasury stock	(4)	—	(41)
Balance at end of year	43,554	43,558	443,391
Stock acquisition rights:			
Balance at beginning of year	1,257	517	12,805
Net change during the year	550	740	5,601
Balance at end of year	1,808	1,257	18,406
Retained earnings:			
Balance at beginning of year	302,535	245,499	3,079,868
Dividends paid	(5,773)	(3,072)	(58,780)
Net income (loss)	(143,084)	60,108	(1,456,624)
Changes by exclusion of consolidated subsidiaries	(822)	—	(8,370)
Changes by inclusion of subsidiaries (former non-consolidated subsidiaries)	—	(0)	—
Balance at end of year	152,855	302,535	1,556,094
Unrealized gain (loss) on available-for-sale securities:			
Balance at beginning of year	(35,073)	5,091	(357,055)
Net change during the year	(3,739)	(40,165)	(38,070)
Balance at end of year	(38,813)	(35,073)	(395,125)
Deferred gain (loss) on derivatives under hedge accounting:			
Balance at beginning of year	(1,057)	(7,744)	(10,766)
Net change during the year	(1,938)	6,686	(19,737)
Balance at end of year	(2,996)	(1,057)	(30,503)
Foreign currency translation adjustments:			
Balance at beginning of year	1,872	2,952	19,065
Net change during the year	(575)	(1,079)	(5,856)
Balance at end of year	1,297	1,872	13,209
Treasury stock, at cost:			
Balance at beginning of year	(72,566)	(72,560)	(738,744)
Purchase of treasury stock	(0)	(1)	(9)
Disposal of treasury stock	9	—	92
Changes by inclusion of subsidiaries	—	(4)	—
Balance at end of year	(72,558)	(72,566)	(738,661)
Minority interests in subsidiaries:			
Balance at beginning of year	248,437	289,642	2,529,142
Net change during the year	(42,399)	(41,204)	(431,638)
Balance at end of year	206,037	248,437	2,097,504
Total equity	¥ 767,481	¥ 965,261	$ 7,813,108

See accompanying "Notes to Consolidated Financial Statements," which are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Shinsei Bank, Limited, and Consolidated Subsidiaries
For the fiscal years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	**¥ (119,054)**	¥ 92,556	**$ (1,211,992)**
Adjustments for:			
Income taxes paid	**(6,358)**	(995)	**(64,731)**
Depreciation (other than leased assets as lessor)	**15,158**	12,541	**154,316**
Amortization of goodwill and other intangible assets	**48,458**	12,534	**493,316**
Impairment losses	**1,456**	919	**14,828**
Net change in reserve for credit losses	**46,628**	(688)	**474,688**
Net change in reserve for losses on interest repayments	**(68,420)**	(9,244)	**(696,533)**
Net change in other reserves	**9,256**	7,558	**94,237**
Interest income	**(303,421)**	(242,171)	**(3,088,888)**
Interest expenses	**100,425**	104,395	**1,022,351**
Investment (gains) losses	**104,826**	3,919	**1,067,156**
Net exchange (gain) loss	**(5,594)**	25,522	**(56,956)**
Gains from the cancellation of issued bond and other instruments	**(75,106)**	—	**(764,603)**
Net change in trading assets	**(59,820)**	(11,897)	**(608,985)**
Net change in trading liabilities	**102,551**	105,764	**1,043,991**
Net change in loans and bills discounted	**439,904**	(385,175)	**4,478,307**
Net change in deposits, including negotiable certificates of deposit	**465,481**	389,111	**4,738,685**
Net change in debentures	**13,132**	(40,863)	**133,696**
Net change in borrowed money (other than subordinated debt)	**(77,753)**	(36,765)	**(791,543)**
Net change in corporate bonds (other than subordinated corporate bonds)	**(14,572)**	22,595	**(148,353)**
Net change in interest-bearing deposits with banks	**(18,445)**	80,196	**(187,784)**
Net change in call loans, receivables under resale agreements, collateral related to securities borrowing transactions and other monetary claims purchased	**55,911**	(61,820)	**569,189**
Net change in call money, payables under repurchase agreements, collateral related to securities lending transactions, commercial paper and short-term corporate bonds (liabilities)	**62,444**	(26,287)	**635,701**
Net change in foreign exchange assets	**(19,286)**	(2,805)	**(196,336)**
Net change in foreign exchange liabilities	**(34)**	(79)	**(356)**
Interest received	**307,784**	246,447	**3,133,302**
Interest paid	**(99,252)**	(120,275)	**(1,010,412)**
Net change in securities for trading purposes	**45,761**	53,470	**465,864**
Net change in monetary assets held in trust for trading purposes	**12,957**	90,344	**131,913**
Net change in leased assets		(88,665)	
Net change in lease receivables and leased investment assets	**22,799**		**232,107**
Other, net	**119,926**	96,996	**1,220,879**
Total adjustments	**1,226,799**	224,583	**12,489,046**
Net cash provided by (used in) operating activities	**1,107,745**	317,139	**11,277,054**
Cash flows from investing activities:			
Purchase of investments	**(2,814,469)**	(2,793,634)	**(28,651,831)**
Proceeds from sales of investments	**1,130,550**	597,333	**11,509,220**
Proceeds from maturity of investments	**1,316,087**	1,902,928	**13,398,020**
Purchase of premises and equipment (other than leased assets as lessor)	**(4,391)**	(6,498)	**(44,710)**
Proceeds from sales of premises and equipment (other than leased assets as lessor)	**19,598**	119,795	**199,520**
Purchase of investments in subsidiaries	**(70,405)**	—	**(716,744)**
Payment for acquisition of new subsidiaries	**(574,179)**	—	**(5,845,258)**
Proceeds from acquisition of new subsidiaries	**—**	4,509	**—**
Proceeds from sale of subsidiary's stocks	**13,989**	24,999	**142,419**
Payment for acquisition of business	**—**	(31,302)	**—**
Other, net	**(25,420)**	(9,335)	**(258,786)**
Net cash provided by (used in) investing activities	**(1,008,640)**	(191,205)	**(10,268,150)**
Cash flows from financing activities:			
Repayment of subordinated debt	**(6,000)**	—	**(61,081)**
Payment for redemption of subordinated corporate bonds	**(39,706)**	(3,308)	**(404,222)**
Proceeds from minority shareholders of subsidiaries	**50,247**	1,223	**511,530**
Payment for capital returned to minority shareholders of subsidiaries	**(6,143)**	(18,622)	**(62,540)**
Proceeds from issuance of stock	**—**	49,777	**—**
Dividends paid	**(5,773)**	(3,072)	**(58,780)**
Dividends paid to minority shareholders of subsidiaries	**(14,349)**	(17,407)	**(146,082)**
Purchase of treasury stock	**(0)**	(1)	**(9)**
Proceeds from sale of treasury stock	**4**	—	**51**
Net cash provided by (used in) financing activities	**(21,721)**	8,588	**(221,133)**
Foreign currency translation adjustments on cash and cash equivalents	**(50)**	(89)	**(513)**
Net change in cash and cash equivalents	**77,332**	134,433	**787,258**
Cash and cash equivalents at beginning of year	**405,926**	271,493	**4,132,414**
Cash and cash equivalents at end of year (Note 4)	**¥ 483,259**	¥ 405,926	**$ 4,919,672**

See accompanying "Notes to Consolidated Financial Statements," which are an integral part of these statements.
Note: Investments consist of securities and monetary assets held in trust for other than trading purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shinsei Bank, Limited, and Consolidated Subsidiaries
For the fiscal years ended March 31, 2009 and 2008

1. BASIS OF PRESENTATION

CONSOLIDATED

The accompanying consolidated financial statements of Shinsei Bank, Limited (the "Bank") and its consolidated subsidiaries (collectively, the "Group"), stated in Japanese yen, have been prepared on the basis of generally accepted accounting principles in Japan ("Japanese GAAP") and in conformity with the Banking Law of Japan (the "Banking Law"), and compiled from the consolidated financial statements prepared under the provisions set forth in the Accounting Standards for Consolidated Financial Statements (the Business Accounting Council, June 24, 1975) and the standards of the Financial Instruments and Exchange Act of Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

Certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, the accompanying notes include information that is not required under Japanese GAAP, but is presented herein for the convenience of readers.

The preparation of consolidated financial statements in conformity with Japanese GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

As permitted by the Financial Instruments and Exchange Act of Japan, yen amounts, except for per share amounts, are presented in millions of yen and are rounded down to the nearest million. As a result, the totals do not necessarily agree with the sum of the individual amounts.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥98.23 to U.S.$1.00, the rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 31, 2009. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATED

(A) PRINCIPLES OF CONSOLIDATION

The Group applies its consolidation scope using the control and influence concept. Under the control and influence concept, those companies in which the Bank, directly or indirectly, is able to exercise control over operations are fully consolidated and those companies in which the Bank, directly or indirectly, is able to exercise significant influence over operations are accounted for by the equity method.

The numbers of consolidated subsidiaries and affiliates as of March 31, 2009 and 2008 were as follows:

	2009	2008
Consolidated subsidiaries	126	104
Unconsolidated subsidiaries	99	100
Affiliates accounted for by the equity method	30	30

Unconsolidated subsidiaries are mainly operating companies that undertake leasing business based on the *Tokumei Kumiai system* (silent partnerships). *Tokumei Kumiai*'s assets, liabilities, profit and loss virtually belong to each silent partner, and the Group does not have any material transactions with these subsidiaries. Therefore, these subsidiaries are excluded from consolidation in order to avoid any material misunderstanding by the Bank's stakeholders.

Other unconsolidated subsidiaries are excluded from consolidation because they are not material to the financial condition or results of operations of the Group.

Major consolidated subsidiaries as of March 31, 2009 were as listed below:

Name	Location	Percentage ownership
APLUS Co., Ltd.	Japan	76.7%
Showa Leasing Co., Ltd.	Japan	96.4%
SHINKI Co., Ltd.	Japan	96.8%
Shinsei Trust & Banking Co., Ltd.	Japan	100.0%
Shinsei Financial Co., Ltd. (former GE Consumer Finance Co., Ltd.)	Japan	100.0%
Shinsei Securities Co., Ltd.	Japan	100.0%

All significant inter-company transactions, related account balances and unrealized gains and losses have been eliminated in consolidation. As of March 31, 2009, the fiscal year ending dates are March 31 for 72 subsidiaries, February 28 for 3 subsidiaries, January 31 for 1 subsidiary, December 31 for 49 subsidiaries, and September 30 for 1 subsidiary. Except for 9 subsidiaries who are consolidated as of March 31 rather than their fiscal year ends, those consolidated subsidiaries whose fiscal years end at dates other than March 31 are consolidated using their fiscal year-end financial statements with appropriate adjustments made for significant transactions during the period from the ending dates of their fiscal years to the date of the Group's consolidated financial statements.

Major affiliates accounted for by the equity method as of March 31, 2009 were as listed below:

Name	Location	Percentage ownership
Hillcot Holdings Limited	Bermuda	33.7%
Jih Sun Financial Holding Co., Ltd.	Taiwan	32.9%

(B) BUSINESS COMBINATIONS

In October 2003, the Business Accounting Council ("BAC") issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No.7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No.10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

The Group acquired 100% of the net assets of Shinsei Financial Co., Ltd. ("Shinsei Financial") on September 22, 2008, and accounted for it by the purchase method of accounting. The related goodwill is systematically amortized over 10 years.

(C) GOODWILL AND OTHER INTANGIBLE ASSETS

The Bank recognized certain identifiable intangible assets in connection with the acquisition of APLUS Co., Ltd. ("APLUS"), Showa Leasing Co., Ltd. ("Showa Leasing"), SHINKI Co., Ltd. ("Shinki"), and Shinsei Financial because they arose from contractual or other legal rights, or were separable.

The identified intangible assets with amortization method and period are as listed below:

APLUS CO., LTD.

Identified intangible assets	Amortization method	Amortization period
Trade name and trademarks	Straight-line	10 years
Customer relationship	Sum-of-the-years digits	10 years
Merchant relationship	Sum-of-the-years digits	20 years

SHOWA LEASING CO., LTD.

Identified intangible assets	Amortization method	Amortization period
Trade name	Straight-line	10 years
Customer relationship	Sum-of-the-years digits	20 years
Maintenance component contracts	Straight-line	Subject to the remaining contract years
Sublease contracts	Straight-line	Subject to the remaining contract years

SHINKI CO., LTD.

Identified intangible assets	Amortization method	Amortization period
Trade name and trademarks	Straight-line	10 years
Customer relationship	Sum-of-the-years digits	10 years

SHINSEI FINANCIAL CO., LTD.

Identified intangible assets	Amortization method	Amortization period
Trade names and trademarks	Straight-line	10 years
Customer relationship	Sum-of-the-years digits	10 years

The excess of the purchase price over the fair value of the net assets acquired, including identified intangible assets, was recorded as goodwill and is amortized on a consistent basis primarily over the period of 20 years. The amortization period is the period allowed under Japanese GAAP and was determined based upon the Bank's business strategy. The unamortized balances of identified intangible assets and goodwill are subject to impairment testing.

When the purchase price is lower than the fair value of the net assets acquired, including identified intangible assets, the difference is recorded as negative goodwill and primarily amortized on a straight-line basis over 20 years, which is the maximum period allowed under Japanese GAAP.

(D) IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS

The Bank conducts impairment testing for goodwill and other intangible assets semi-annually and as a result of certain triggering events including:

- An expectation of an operating loss or negative cash flow for two consecutive years;
- Impairment of underlying investment securities is recognized;
- A significant adverse change in the environment surrounding the business operations of the subsidiary, such as a change in law which significantly impacts the business in a negative way, the suspension of business due to sanction or adverse changes in the interest rate laws;
- Management decisions that could have an adverse effect on the values of goodwill and other intangible assets.

Also, we monitor the latest status in management decisions and the business environment that could have an adverse effect on the values of goodwill and other intangible assets in following quarters.

As the first step of the impairment test, we estimate the undiscounted future cash flow value of the business as a grouping unit. If the value of the undiscounted future cash flows is less than the book value of the net assets, including goodwill and other intangible assets, of the business, it is determined that impairment exists and the next step of the impairment test is performed to measure the amount of the impairment loss.

The next step of the impairment test compares the "value in use," which is calculated as the discounted value of future cash flows of the business, and the net asset book value which includes unamortized balances of goodwill and other intangible assets. Impairment loss for the total of goodwill and other intangible assets (A) is recognized as an amount by which the net asset book value exceeds the "value in use." The fair value of other intangible assets (and any other assets) will be determined in the same manner used to apply purchase accounting at the time of the initial acquisition, and the impairment loss of other intangible assets (B) is determined as the difference between the fair value and book value. Finally, the impairment loss of goodwill is calculated as the residual calculated as (A) less (B) above.

In addition, Report No.7 issued by the Accounting Practice Committee of the Japanese Institute of Certified Public Accountants ("JICPA") Committee of the JICPA may require the recognition of accelerated amortization of goodwill if certain conditions are met, when the parent company recognizes impairment on its investment in the subsidiary on the parent company's non-consolidated financial statements.

(E) TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS AND TRANSACTIONS

(i) The financial statements of consolidated foreign subsidiaries are translated into Japanese yen at exchange rates as of their respective balance sheet dates, except for equity, which is translated at historical exchange rates. Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of equity in the accompanying consolidated balance sheets.

(ii) Foreign currency accounts held by consolidated foreign subsidiaries are translated into the currency of the subsidiary at exchange rates as of their respective balance sheet dates.

(iii) Foreign currency-denominated assets and liabilities and the accounts of overseas branches of the Bank and consolidated domestic subsidiaries are translated into Japanese yen at exchange rates as of their respective balance sheet dates, except for investments in unconsolidated subsidiaries and affiliates which are translated at the relevant historical exchange rates.

(F) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and non-interest-bearing deposits.

(G) OTHER MONETARY CLAIMS PURCHASED

The components of other monetary claims purchased are principally loans held for trading purposes. Other monetary claims purchased held for trading purposes are recorded at fair value and unrealized gains and losses are recorded in other business income (loss), net.

(H) VALUATION OF TRADING ACCOUNT ACTIVITIES

Trading account positions entered into to generate gains arising from short-term changes in interest rates, currency exchange rates or market prices of financial instruments and other market-related indices, or from price differences among markets, are included in trading assets and trading liabilities on a trade date basis.

Trading securities and monetary claims purchased for trading purposes are stated at market value and derivative financial instruments related to trading positions are stated at fair value based on estimated amounts that would be settled in cash if such positions were terminated at the end of the fiscal year, which reflects liquidation and credit risks.

Trading revenue and trading expenses include interest received and paid during the fiscal year and unrealized gains and losses resulting from the change in the value of securities, monetary claims purchased, and derivatives between the balance sheet dates.

(I) MONETARY ASSETS HELD IN TRUST

The components of trust assets are accounted for based on the standard appropriate for each asset type. Instruments held in trust for trading purposes are recorded at fair value and unrealized gains and losses are recorded in other business income (loss), net. Instruments held in trust classified as available-for-sale are recorded at fair value with the corresponding unrealized gains and losses recorded directly in a separate component of equity.

Instruments held in trust classified as available-for-sale for which fair value is not readily determinable are carried at cost.

(J) SECURITIES

Securities other than investments in unconsolidated subsidiaries and affiliates are classified into three categories, based principally on the Group's intent, as follows:

Trading securities are securities held in anticipation of gains arising from short-term changes in market value and/or held for resale to customers. Trading securities are carried at fair value with corresponding unrealized gains and losses recorded in income.

Securities being held to maturity are debt securities for which the Group has both the positive intent and ability to hold until maturity. Securities being held to maturity are carried at amortized cost determined by the moving average method.

Securities available-for-sale are securities other than trading securities and securities being held to maturity. Securities available-for-sale are carried at fair value with the corresponding unrealized gains and losses recorded directly in a separate component of equity. The cost of these securities upon sale is determined by the moving average method. Securities available-for-sale for which fair value is not readily determinable are carried at moving average cost or amortized cost determined by the moving average method.

In addition, investments in unconsolidated subsidiaries that are not accounted for by the equity method are carried at cost determined by the moving average method.

Individual securities are written down when a decline in fair value below the cost of such securities is deemed to be other than temporary.

On December 5, 2008, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No.26, "Tentative Solution on Reclassification of Debt Securities." PITF No.26 is effective immediately through March 31, 2010. PITF No.26 permits an entity to reclassify certain debt securities when in rare circumstances the entity changes its accounting classification according to a change in the intended holding purpose and the securities meet the definition of a held-to-maturity category, if the case is:

(i) Trading debt securities can be reclassified to available-for-sale securities at their fair value on the date of reclassification and any difference between the carrying amount and the fair value will be charged to profit or loss.

(ii) Trading debt securities can be reclassified to held-to-maturity debt securities at their fair value on the date of reclassification and any difference between the carrying amount and the fair value will be charged to profit or loss.

(iii) Available-for-sale securities can be reclassified to held-to-maturity debt securities at their fair value on the date of reclassification and any difference between the amortized cost and the fair value will be recorded in equity and will be amortized and charged directly to profit or loss over the period through the maturity date.

The Bank reclassified certain foreign bonds classified as available-for-sale securities to held-to-maturity at their fair value of ¥102,670 million (U.S.$1,045,200 thousand) as of October 1, 2008 because it will be difficult to sell these securities at their fair values under the extremely illiquid market conditions that currently exist.

As a result of this reclassification, securities were higher and unrealized losses were lower by ¥8,598 million (U.S.$87,538 thousand) as of March 31, 2009, respectively, than they would have remained in available-for-sale.

(K) PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation.

Depreciation of the Group's buildings and the Bank's computer equipment (including ATMs) other than personal computers is computed principally using the straight-line method, and depreciation of other equipment is computed principally using the declining-balance method. Principal estimated useful lives of buildings and equipment as of March 31, 2009 were as follows:

Buildings .... 3 years to 50 years
Equipment .... 2 years to 15 years

(L) SOFTWARE

Capitalized software for internal use is depreciated using the straight-line method based on the Group's estimated useful lives (mainly 5 or 8 years).

(M) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

For the fiscal year ended March 31, 2009, mainly due to a decision to close certain of the branches for the personal loan and mortgage businesses of Shinsei Financial, an impairment loss of ¥437 million (U.S.$4,452 thousand) was recognized. The recoverable amount of the asset group was mainly measured at its value in use. The future cash flows used for computation of the value in use were not discounted because of the short duration for the continued use of the asset group. In addition, due to consecutive years of operating losses of the credit card business of Shinsei Financial, an impairment loss of ¥909 million (U.S.$9,256 thousands), was recognized, assuming their recoverable amount to be zero. For the fiscal year ended March 31, 2008, mainly due to the decision to close some of the Bank's BankSpots and ATM sites, an impairment loss of ¥919 million was recognized, assuming their recoverable amount to be zero.

(N) DEFERRED CHARGES

Stock issuance costs of the Bank are charged to income as incurred.

Deferred issuance expenses for debentures and the Bank's corporate bonds issued after April 1, 2006 are amortized using the straight-line method over the term of the debentures and corporate bonds.

Deferred issuance expenses for debentures and the Bank's corporate bonds issued before March 31, 2006 are amortized using the straight-line method over the shorter of the terms of the debentures and corporate bonds or the maximum three-year period stipulated in the former Japanese Commercial Code and its regulations.

Consolidated subsidiaries' deferred issuance expenses for corporate bonds are mainly amortized using the straight-line method over the terms of the corporate bonds.

Formation costs and stock issuance costs of consolidated subsidiaries are charged to income as incurred.

(O) RESERVE FOR CREDIT LOSSES

The reserve for loan losses of the Bank and the consolidated domestic trust and banking subsidiary has been established as described below based on the Bank's internal rules for establishing the reserve.

For claims to obligors who are legally bankrupt (due to bankruptcy, special liquidation, etc.) or virtually bankrupt, a specific reserve is provided based on the amount of claims, after the charge-off stated below, net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

For claims to obligors who are possibly bankrupt, a specific reserve is provided for the amount considered to be necessary based on an overall solvency assessment performed for the amount of claims net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

The Bank applies the discounted cash flow method (the "DCF method") in calculating the loan loss reserve amounts for most of the claims against obligors categorized as possibly bankrupt or substandard under the self-assessment guidelines. Under the DCF method, the loan loss reserve is determined as the difference between (a) relevant estimated cash flows discounted by the original contractual interest rate and (b) the book value of the claim. In cases where it is difficult to reasonably estimate future cash flows, the Bank sets aside, as reserves, the product of the estimated loss ratios on the claims and either (A) the balance of the claims, in the case of claims against substandard obligors, or (B) the unsecured, unguaranteed portion of the claims, in the case of claims against possibly bankrupt obligors.

For other claims, the Bank provides a general reserve based on historical loan loss experience.

The historical loan loss ratio is calculated by taking the greatest result from the following three calculation methods: (1) the average of three consecutive calculation periods defined to be the previous one year as from each fiscal year-end, or (2) the average of three consecutive calculation periods defined to be the previous three years as from each fiscal year-end, or (3) the average of all calculation periods since 1998, the period for which records for loan losses have been maintained.

For specific foreign claims, there is a reserve for loans to restructuring countries which has been provided based on losses estimated by considering the political and economic conditions in those countries.

All claims are assessed by business divisions based on the predetermined internal rules for the self-assessment of asset quality. The Credit Assessment Division, which is independent from business divisions, conducts verifications of these assessments, and additional reserves may be provided based on the verification results.

As of March 31, 2008, the reserve for other credit losses primarily consisted of reserves on amounts, included in accounts receivable, that the Bank believed the DIC was obligated to reimburse to it in accordance with certain indemnification clauses in the Share Purchase Agreement but which the DIC had not yet accepted, as well as certain litigation claims and a reserve taken on the Bank's contribution to an industry-wide fund set up to purchase and collect loans.

The consolidated subsidiaries other than the domestic trust and banking subsidiary calculate the general reserve for "normal" and "caution, including substandard" categories based on the specific actual historical loss ratio, and the specific reserve for the "possibly bankrupt," "virtually bankrupt" and "legally bankrupt" categories based on estimated losses, considering the recoverable value.

For collateralized or guaranteed claims of the Bank and certain consolidated subsidiaries to obligors who are legally bankrupt or virtually bankrupt, the amount of claims exceeding the estimated value of collateral or guarantees, which is deemed uncollectible, has been charged off and totaled ¥158,361 million (U.S.$1,612,147 thousand) and ¥96,378 million as of March 31, 2009 and 2008, respectively.

(P) ACCRUED BONUSES FOR EMPLOYEES AND DIRECTORS

Accrued bonuses for employees and directors are provided in the amount of the estimated bonuses which are attributable to each fiscal year.

(Q) RESERVE FOR EMPLOYEES' RETIREMENT BENEFITS

The Bank, APLUS, Showa Leasing, and Shinki each have a non-contributory defined benefit pension plan, and Shinsei Financial and certain of the other consolidated domestic subsidiaries have unfunded severance indemnity plans, which cover substantially all of the Group's employees. The reserve for employees' retirement benefits is provided for the payment of employees' retirement benefits based on the estimated amounts of the actuarial retirement benefit obligation net of the estimated value of pension assets. Net actuarial gains and losses and prior service costs are amortized using the straight-line method over the average remaining service period primarily from the fiscal year of occurrence.

Effective April 1, 2000, the Bank adopted a new accounting standard for employees' retirement benefits and accounts for the liabilities for retirement benefits based on the projected benefit obligations net of plan assets at the balance sheet date. The transitional unrecognized net retirement benefit obligation for the Bank of ¥9,081 million is being amortized using the straight-line method over 15 years.

(R) RESERVE FOR DIRECTORS' RETIREMENT BENEFITS

Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

(S) RESERVE FOR LOSSES ON INTEREST REPAYMENTS

The reserve for losses on interest repayments is provided for possible losses on reimbursements of excess interest payments and loan losses related to consumer finance loans extended at interest rates in excess of the maximum interest rate prescribed in the Interest Rate Restriction Law in Japan. The amount of such reserve is calculated using the average period to maturity of the affected loans, an estimate of the percentage of such loan transactions that will be subject to a future reimbursement request based on past experience and an estimate of the average amount to be reimbursed based on past experience.

In addition, a reserve for losses on interest repayments of Shinsei Financial is calculated considering the terms stipulated in the share transfer agreement entered into by and between the Bank and the seller, GE Japan Holdings Co., Ltd. (“GE”), for the acquisition of Shinsei Financial, under which the sharing of interest repayment cost between the Bank and GE is determined.

(T) RESERVE FOR LOSSES ON DISPOSAL OF PREMISES AND EQUIPMENT

A reserve for losses on disposal of premises and equipment is established based on reasonable estimates primarily for the restoration costs associated with the planned relocation of the headquarters of the Bank, some of the consolidated subsidiaries and the Bank’s Meguro Financial Center, and the planned closure of some of the BankSpots and ATM sites for retail banking.

(U) RESERVE FOR LOSSES ON LITIGATION

A reserve for losses on litigation is provided in the amount of the estimated losses on litigation in progress.

(V) RESERVE UNDER SPECIAL LAW

The reserve under special law is provided for contingent liabilities from brokering of securities transactions in accordance with section 1 of Article 46-5 of the Financial Instruments and Exchange Act of Japan.

(W) STOCK OPTIONS

On December 27, 2005, the ASBJ issued ASBJ Statement No. 8, “Accounting Standard for Stock Options” and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006. This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions.

(X) LEASE TRANSACTIONS

Prior to April 1, 2008, under Japanese accounting standards for leases, finance leases where the ownership of the property was deemed to transfer to the lessee were capitalized, while other finance leases could be accounted for as operating leases if certain “as if capitalized” information was disclosed in the notes to the consolidated financial statements. All such leases where the ownership of the property was not deemed to transfer to the lessee, entered into by the Bank and its consolidated domestic subsidiaries had been accounted for as operating leases.

Lease and rental income was recognized at the due date of each lease payment according to the lease contracts. Leased assets held by consolidated domestic subsidiaries as lessor were depreciated using the straight-line method over the leasing periods.

On March 30, 2007, the ASBJ issued ASBJ Statement No.13, “Accounting Standard for Lease Transactions,” and ASBJ Practical Solutions Report No.16, “Practical Solutions for the Accounting Standard for Lease Transactions” which revised the former accounting standard for lease transactions issued on June 17, 1993.

Effective April 1, 2008, the Bank and its consolidated subsidiaries applied the revised accounting standard for lease transactions. Under the revised accounting standard, all finance lease transactions are to be capitalized.

The effect of this change on the consolidated statement of operations for the fiscal year ended March 31, 2009 was not material.

(Lessee)

All finance lease transactions were capitalized recognizing lease assets and lease obligations in the balance sheet.

Depreciation of leased assets from finance lease transactions that do not deem to transfer ownership of the leased property to the lessee is computed using the straight-line method over the leasing period. Residual values of leased assets are the guaranteed value determined in the lease contracts or zero for assets without such guaranteed value.

With regard to finance lease transaction entered into prior to April 1, 2008, that do not deem to transfer ownership of the leased property to the lessee, leased assets are recognized at the amount of lease obligations as of the end of March 31, 2008.

(Lessor)

All finance lease transactions that deem to transfer ownership of the leased property to the lessee are recognized as lease receivables, and all finance lease transactions that do not deem to transfer ownership of the leased property to the lessee are recognized as leased investment assets.

Lease revenue is recognized at the due date of each lease payment according to the lease contract and the cost and net income on each lease transaction is calculated on the basis of the internal rate of return.

With regard to finance lease transactions entered into prior to April 1, 2008, that do not deem to transfer ownership of the property to the lessee, leased investment assets are recognized at the book value of leased assets as of March 31, 2008.

As a result, loss before income taxes and minority interests for the fiscal year ended March 31, 2009 was increased by ¥10,220 million (U.S.$104,051 thousand) more than it would have been if the revised accounting standard was applied retroactively to all the finance lease transactions.

(Y) INSTALLMENT SALES FINANCE AND CREDIT GUARANTEES

Fees from installment sales finance have principally been prorated over the respective installment periods using the sum-of-the-months digits method, or by using the credit-balance method depending on the contract terms.

Fees from credit guarantees have been recognized either by the sum-of-the-months digits method, the straight-line method or the credit-balance method depending on the contract terms.

(Z) REVENUE RECOGNITION FOR INTEREST ON CONSUMER LENDING BUSINESS

In a consolidated subsidiary specialized in consumer lending business, accrued interest income at the balance sheet date is accrued at the lower of the amount determined using a rate permissible under the Interest Rate Restriction Law of Japan or the amount determined using rates on contracts with customers.

(AA) INCOME TAXES

Deferred income taxes relating to temporary differences between financial reporting and tax bases of assets and liabilities and tax loss carryforwards have been recognized. The asset and liability approach is used to recognize deferred income taxes.

The Bank files its corporate income tax return under the consolidated corporation tax system, which allows companies to base tax payments on the combined profits and losses of the Bank and its wholly-owned domestic subsidiaries.

A valuation allowance is recognized for any portion of the deferred tax assets where it is considered more likely than not that it will not be realized.

(AB) DERIVATIVES AND HEDGE ACCOUNTING

Derivatives are stated at fair value. Derivative transactions that meet the hedge accounting criteria are primarily accounted for using a deferral method whereby unrealized gains and losses are deferred until the gains and losses on the hedged items are realized.

(i) Hedge of interest rate risks

Derivative transactions that meet the hedge accounting criteria for mitigating interest rate risks of the Bank's financial assets and liabilities are accounted for using the deferral method. Prior to April 1, 2003, the Bank principally applied a "macro hedge" approach for interest rate derivatives used to manage interest rate risks and its ALM activities based on the transitional treatment prescribed in Industry Audit Committee Report No. 24 issued by the JICPA. Effective April 1, 2003, the Bank adopted portfolio hedging to determine the effectiveness of its hedging instruments in accordance with Report No. 24. Under portfolio hedging, a portfolio of hedged items with common maturities such as deposits or loans is designated and matched with a group of hedging instruments such as interest rate swaps, which offset the effect of fair value fluctuations of the hedged items by identified maturities. The effectiveness of the portfolio hedging is assessed by each group.

As for portfolio hedging activities to fix the cash flows, the effectiveness is assessed based on the correlation between the base interest rate index of the hedged cash flow and that of the hedging instrument.

Deferred hedge losses and deferred hedge gains previously recorded on the consolidated balance sheets as a result of macro hedge accounting before implementation of portfolio hedging are being amortized as interest expense or income over the remaining lives of the hedging instruments. The unamortized balances of deferred hedge losses attributable to macro hedge accounting, before deduction of tax benefit, as of March 31, 2009 and 2008 were ¥4 million (U.S.$48 thousand) and ¥11 million, respectively.

The interest rate swaps of certain consolidated subsidiaries which qualify for hedge accounting and meet specific matching criteria are not measured at fair value, but the net payments or receipts under the swap agreements are recognized and included in interest expenses or income.

(ii) Hedge of foreign exchange fluctuation risks

Fund swap and certain currency swap transactions are accounted for using either deferral hedge accounting or fair value hedge accounting in accordance with Industry Audit Committee Report No. 25 of the JICPA.

Fund swap transactions are foreign exchange swaps, and consist of spot foreign exchange contracts bought or sold and forward foreign exchange contracts sold or bought. Such transactions are contracted for the purpose of lending or borrowing in a different currency and converting the corresponding principal equivalents and foreign currency equivalents to pay and receive, whose amounts and due dates are predetermined at the time of the transactions, into forward foreign exchange contracts sold or bought.

Under deferral hedge accounting, hedged items are identified by grouping the foreign currency-denominated financial assets and liabilities by currencies and designating derivative transactions such as currency swap transactions and forward exchange contracts as hedging instruments. Hedge effectiveness is reviewed by comparing the total foreign currency position of the hedged items and hedging instruments by currency.

The Bank also applies deferral hedge accounting and fair value hedge accounting to translation gains or losses from foreign currency assets of net investments in foreign affiliates and securities available-for-sale (other than bonds denominated in foreign currencies) when such foreign currency exposures recorded as assets are hedged with offsetting foreign currency liabilities and the liabilities exceed the acquisition cost of such foreign currency assets.

(iii) Inter-company and intra-company derivative transactions
Gains and losses on inter-company and intra-company derivative hedging transactions between the trading book and the banking book are not eliminated since offsetting transactions with third parties are appropriately entered into in conformity with the non-arbitrary and strict hedging policy in accordance with Industry Audit Committee Reports No. 24 and No. 25. As a result, in the banking book, realized gains and losses on such inter-company and intra-company transactions are reported in current earnings and valuation gains and losses which meet the hedge accounting criteria are deferred. On the other hand, in the trading book, realized gains and losses and valuation gains and losses on such inter-company and intra-company transactions are substantially offset with covering contracts entered into with third parties.

(AC) PER SHARE INFORMATION

Basic net income (loss) per common share calculations represent net income (loss) available to common shareholders, divided by the weighted average number of outstanding shares of common stock during the respective fiscal year, retroactively adjusted for stock splits and reverse stock splits.

Diluted net income per common share calculations consider the dilutive effect of common stock equivalents, which include preferred shares and stock acquisition rights, assuming that all preferred shares were converted into common shares at the beginning of the fiscal year with an applicable adjustment for related dividends on preferred stock, and that stock acquisition rights were fully exercised at the time of issuance for those issued during the fiscal year and at the beginning of the fiscal year for those previously issued and outstanding at the beginning of the fiscal year.

(AD) NEW ACCOUNTING PRONOUNCEMENTS

Business Combinations

On December 26, 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No.21, "Accounting Standard for Business Combinations." Major accounting changes under this accounting standard are as follows:

(1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires all business combinations to be accounted for under the purchase method.

(2) The current accounting standard requires the research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development (IPR&D) acquired in a business combination is capitalized as an intangible asset.

(3) The current accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized to income within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Unification of Accounting Policies Applied to Foreign Affiliates for the Equity Method

The current accounting standard requires unification of accounting policies within the consolidation group. However, the current guidance allows application of the equity method for the financial statements of foreign affiliates that have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions.

On December 26, 2008, the ASBJ issued ASBJ Statement No.16 (Revised 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to conform the affiliate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the affiliate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign affiliates in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless such items are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income.

This standard is effective on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Asset Retirement Obligations

On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, the ASBJ Statement No.18 "Accounting Standard for Asset Retirement Obligations" and the ASBJ Guidance No.21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability.

The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

(AE) RECLASSIFICATIONS

Certain reclassifications have been made to the consolidated financial statements for the fiscal year ended March 31, 2008 to conform to the presentation for the fiscal year ended March 31, 2009.

3. ACQUISITION

CONSOLIDATED

Shinsei Financial Co., Ltd.

On September 22, 2008, the Bank, together with APLUS acquired 100% of the controlling interest (equity and debt) in Shinsei Financial Co., Ltd. ("Shinsei Financial"), which was renamed from GE Consumer Finance Co., Ltd., on April 1, 2009, a consumer finance company in Japan, and its subsidiaries. This acquisition was made in line with the Bank's business strategy to expand the Individual Group and pursue further synergy between its retail banking and consumer finance operations.

The purchase price reflects the following terms under which grey zone costs will be shared between the Bank and the Seller (GE).

- The Bank will take on the first loss from grey zone up to ¥201.5 billion
- Risk sharing between the Bank and the Seller (GE) for the loss from grey zone between ¥201.5 billion and ¥258 billion
- The Seller (GE) will cover the loss from grey zone beyond ¥258 billion

The Bank's maximum grey zone liability for assets subject to these terms is ¥203.9 billion. In connection with the investment in Shinsei Financial, on September 24, 2008, securitization of ¥402.9 billion (senior beneficial interest of ¥362.1 billion, rated A3 and mezzanine beneficial interest of ¥40.8 billion, rated Baa3) of Shinsei Financial's unsecured personal loan assets was implemented. The Bank purchased all of the senior and mezzanine beneficial interests issued by Shinsei Financial, which allows those assets to be funded directly through the stable retail deposits and other internal funding resources of the Bank. The securitization did not, however, impact Shinsei's consolidated financial statements as no portion of the beneficial interests was sold to a third party.

In connection with the acquisition, the Bank conducted a fair value review of Shinsei Financial's assets and liabilities, including intangible assets, for the purpose of preparing the consolidated balance sheet as of September 30, 2008 (deemed acquisition date). The excess of the purchase price over the fair value of assets acquired and liabilities assumed, including intangible assets is accounted for as goodwill. The following table is the summary of the fair value of the assets acquired and liabilities assumed, including intangible assets and goodwill as of September 30, 2008.

	Millions of yen	Thousands of U.S. dollars
Cash and due from banks	¥ 33,100	$ 336,967
Securities	300	3,054
Loans	696,655	7,092,089
Other assets	40,283	410,096
Premises and equipment	11,443	116,494
Intangible assets (Including ¥27,077 million of intangible assets recognized through fair value review)	29,270	297,977
Deferred tax assets	15,870	161,565
Total assets acquired	826,923	8,418,242
Other liabilities	(31,334)	(318,986)
Reserve for losses on interest repayments	(222,936)	(2,269,538)
Deferred tax liabilities	(11,017)	(112,164)
Total liabilities assumed	(265,288)	(2,700,688)
Net assets acquired	561,635	5,717,554
Total consideration	597,701	6,084,713
Goodwill	36,066	367,159

Payment for acquisition of new subsidiary:

	Millions of yen	Thousands of U.S. dollars
Subscription price of the shareholder rights	¥ 597,701	$ 6,084,713
Cash and cash equivalent of Shinsei Financial	25,218	256,730
Payment for acquisition of new subsidiary	572,482	5,827,983

SHINKI Co., Ltd.

On December 13, 2007, following a full subscription to the rights offering of new shares proposed by Shinki on November 27, 2007, the Bank received 76,822 thousand new Shinki shares at a subscription price of ¥7,682 million. As a result, the Bank holds 102,430 thousand common shares of Shinki, including 25,607 thousand shares previously owned, representing approximately 67.7% of Shinki's common stock. Following the new investment, Shinki, which had previously been an equity method investee, became a consolidated subsidiary of the Bank.

In connection with the acquisition, the Bank conducted a fair value review of Shinki's assets and liabilities, including intangible assets, for the purpose of preparing the consolidated balance sheet as of October 1, 2007 (deemed acquisition date). The excess of the fair value of the net assets acquired over the cumulative purchase price, including the original equity-method investment was accounted for as negative goodwill.

The following table summarizes the fair value of the assets acquired and liabilities assumed, including intangible assets and negative goodwill as of October 1, 2007:

	Millions of yen
Cash and due from banks	¥ 23,097
Securities	676
Loans	113,940
Other assets	6,411
Premises and equipment	4,515
Intangible assets (Including ¥7,107 million of intangible assets recognized through fair value review)	8,648
Deferred tax assets	4,432
Total assets acquired	161,719
Borrowed money	(70,576)
Commercial paper	(8,000)
Corporate bonds	(19,800)
Other liabilities	(6,244)
Reserve for losses on interest repayments	(38,224)
Deferred tax liabilities	(3,638)
Total liabilities assumed	(146,482)
Minority interest	(4,909)
Treasury stock	4
Net assets acquired (cumulative)	10,331
Cumulative purchase price (see below)	3,083
Negative goodwill	(7,248)

Cumulative purchase price calcuated as follows:

	Millions of yen
Subsrciption price of the shareholder rights	¥ 7,682
Net book value of the investment in Shinki prior to the deemed acquisition date	(4,598)
Cumulative purchase price	3,083

3. ACQUISITION (CONTINUED) CONSOLIDATED

Proceeds from aquisition of new subsidiaries:

	Millions of yen
Subsrciption price of the shareholder rights	¥ 7,682
Cash and cash equivalents of Shinki	12,191
Proceeds from acquisition of new subsidiaries	4,509

4. CASH AND CASH EQUIVALENTS CONSOLIDATED

The reconciliation of cash and cash equivalents at the end of the fiscal year and cash and due from banks in the consolidated balance sheets as of March 31, 2009 and 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Cash and due from banks	¥ 605,089	¥ 505,630	$ 6,159,923
Interest-bearing deposits included in due from banks	(121,829)	(99,703)	(1,240,251)
Cash and cash equivalents at end of year	¥ 483,259	¥ 405,926	$ 4,919,672

5. OTHER MONETARY CLAIMS PURCHASED CONSOLIDATED

(a) Other monetary claims purchased as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Trading purposes	¥ 212,130	¥ 280,630	$ 2,159,530
Other	195,905	188,249	1,994,352
Total	¥ 408,035	¥ 468,880	$ 4,153,882

(b) The fair value and the unrealized loss which is included in income (loss) of other monetary claims purchased for trading purposes as of March 31, 2009 and 2008 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2009		2008		2009	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Trading purposes	¥ 212,130	¥ 7,914	¥ 280,630	¥ 12,697	$ 2,159,530	$ 80,573

6. TRADING ASSETS CONSOLIDATED

Trading assets as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Trading securities	¥ 9,167	¥ 13,941	$ 93,323
Derivatives for trading securities	27,611	18,042	281,086
Securities held to hedge trading transactions	19,532	65,927	198,845
Derivatives for securities held to hedge trading transactions	22,506	16,633	229,122
Trading-related financial derivatives	291,268	192,055	2,965,165
Other trading assets	5,022	8,687	51,129
Total	¥ 375,107	¥ 315,287	$ 3,818,670

7. MONETARY ASSETS HELD IN TRUST

CONSOLIDATED

(a) Monetary assets held in trust as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Trading purposes	¥ 235,795	¥ 248,752	$ 2,400,440
Other	113,045	122,819	1,150,825
Total	¥ 348,840	¥ 371,572	$ 3,551,265

(b) The fair value and the unrealized loss which is included in income (loss) of monetary assets held in trust for trading purposes as of March 31, 2009 and 2008 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2009		2008		2009	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Trading purposes	¥ 235,795	¥ 6,936	¥ 248,752	¥ 5,603	$ 2,400,440	$ 70,611

(c) The acquisition cost, which is the same as the book value, of monetary assets held in trust for the other than trading purposes as of March 31, 2009 and 2008 was ¥113,045 million (U.S.$1,150,825 thousand) and ¥122,819 million, respectively.

8. SECURITIES

CONSOLIDATED

(a) Securities as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Trading securities	¥ 17,361	¥ 63,122	$ 176,739
Securities being held to maturity	362,701	390,495	3,692,365
Securities available-for-sale:			
Marketable securities, at fair value	1,300,093	1,055,601	13,235,201
Book value of securities whose fair value is not readily determinable	455,704	421,530	4,639,154
Investments in unconsolidated subsidiaries at cost and affiliates using the equity method	38,338	49,541	390,294
Total	¥ 2,174,198	¥ 1,980,292	$ 22,133,753

The above balances do not include securities held in relation to securities borrowing transactions with or without cash collateral, securities purchased under resale agreements or securities accepted as collateral based on derivative transactions, where the Group has the right to sell or pledge such securities without restrictions. The balances of those securities as of March 31, 2009 and 2008 were ¥54,083 million (U.S.$550,579 thousand) and ¥84,384 million, respectively. In addition, ¥76,017 million (U.S.$773,874 thousand) and ¥3,058 million of those securities were further pledged as of March 31, 2009 and 2008, respectively.

The amount of guarantee obligations for privately-placed bonds (Item 3 of Article 2 of the Financial Instruments and Exchange Act), out of bonds included in securities as of March 31, 2009 and 2008 were ¥64,362 million (U.S.$655,223 thousand) and ¥78,691 million, respectively.

(b) The amortized cost and the fair value of marketable securities (other than trading securities) as of March 31, 2009 and 2008 were as follows:

	Millions of yen							
	2009				2008			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
Securities being held to maturity:								
Japanese national government bonds	¥ 229,197	¥ 1,881	¥ —	¥ 231,079	¥ 304,333	¥ 1,901	¥ 66	¥ 306,168
Japanese corporate bonds	75,292	1,329	—	76,622	75,138	1,381	—	76,519
Other	58,208	1,904	8,598	51,513	11,023	1,347	—	12,371
Total	¥ 362,698	¥ 5,115	¥ 8,598	¥ 359,214	¥ 390,495	¥ 4,630	¥ 66	¥ 395,059
Securities available-for-sale:								
Equity securities	¥ 18,499	¥ 440	¥ 3,919	¥ 15,020	¥ 22,300	¥ 1,068	¥ 4,226	¥ 19,142
Japanese national government bonds	974,716	1,085	709	975,092	344,819	378	4,148	341,048
Japanese local government bonds	1,712	37	—	1,749	2,205	58	—	2,264
Japanese corporate bonds	36,205	108	1,229	35,084	201,297	647	337	201,608
Other, mainly foreign debt securities	299,102	1,937	27,893	273,146	520,220	8,479	37,162	491,537
Total	¥ 1,330,235	¥ 3,609	¥ 33,751	¥ 1,300,093	¥ 1,090,844	¥ 10,631	¥ 45,874	¥ 1,055,601

	Thousands of U.S. dollars			
	2009			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
Securities being held to maturity:				
Japanese national government bonds	$ 2,333,272	$ 19,156	$ —	$ 2,352,428
Japanese corporate bonds	766,489	13,539	—	780,028
Other	592,574	19,383	87,539	524,418
Total	$ 3,692,335	$ 52,078	$ 87,539	$ 3,656,874
Securities available-for-sale:				
Equity securities	$ 188,328	$ 4,483	$ 39,898	$ 152,913
Japanese national government bonds	9,922,798	11,055	7,226	9,926,627
Japanese local government bonds	17,432	380	—	17,812
Japanese corporate bonds	368,579	1,103	12,519	357,163
Other, mainly foreign debt securities	3,044,916	19,727	283,957	2,780,686
Total	$ 13,542,053	$ 36,748	$ 343,600	$ 13,235,201

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 losses on marketable securities available-for-sale for the fiscal years ended March 31, 2009 and 2008 were ¥36,193 million (U.S.$368,461 thousand) and ¥5,454 million, respectively.

To determine whether an other-than-temporary impairment has occurred, the Bank applies the following rule depending on the credit risk category the issuer of a security falls under based on the Bank's internal rules for establishing the reserve for credit losses:

Securities issued by "legally and virtually bankrupt" obligors and "possibly bankrupt" obligors	The fair value of a security is less than its book value
Securities issued by "need caution" obligors	The decline in fair value of a security is more than 30% of its book value
Securities issued by "normal" obligors	The decline in fair value of a security is in excess of 50% of its book value

"Legally bankrupt" is obligors who have already gone bankrupt from a legal and/or formal perspective.

"Virtually bankrupt" is obligors 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" is obligors who are not yet bankrupt but are in financial difficulties and are very likely to go bankrupt in the future.

"Need caution" is obligors who require close attention because there are problems with their borrowings.

"Normal" is obligors whose business conditions are favorable and who are deemed not to have any particular problems in terms of their financial position.

The fair value of floating rate Japanese government bonds were previously measured at their market prices. However, after consideration of the recent market environment, a judgment has been made by management that current market prices are not indicative of the fair values. At the end of this fiscal year, the fair values of these bonds were determined based on the values reasonably estimated by a broker dealer. As a result, securities were higher and unrealized losses on available-for-sale securities were lower by ¥3,230 million (U.S.$32,891 thousand) than they would have been if valued based on the market prices.

The reasonably estimated values by a broker dealer are computed as the sum of discounted future cash flow based on the convexity-adjusted forward curve and zero-floor option value of floating rate Japanese government bonds. Major variables in that measurement methodology are the yield of government bonds and volatility of those yields.

(c) Securities available-for-sale sold during the fiscal years ended March 31, 2009 and 2008 were as follows:

	Millions of yen					
	2009			2008		
	Proceeds from sales	Total amount of gains on sales	Total amount of losses on sales	Proceeds from sales	Total amount of gains on sales	Total amount of losses on sales
Securities available-for-sale sold	¥ 1,075,747	¥ 6,070	¥ 4,097	¥ 536,145	¥ 6,025	¥ 1,235

	Thousands of U.S. dollars		
	2009		
	Proceeds from sales	Total amount of gains on sales	Total amount of losses on sales
Securities available-for-sale sold	$ 10,951,316	$ 61,797	$ 41,711

(d) The book value (amortized cost) of securities being held to maturity and securities available-for-sale whose fair value was not readily determinable as of March 31, 2009 and 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Securities being held to maturity:			
Japanese corporate bonds	¥ 3	¥ —	$ 30
Total	¥ 3	¥ —	$ 30
Securities available-for-sale:			
Equity securities	¥ 11,769	¥ 14,989	$ 119,813
Japanese local government bonds	—	4	—
Japanese corporate bonds	332,552	283,743	3,385,448
Foreign securities	54,617	61,436	556,015
Other	56,764	61,357	577,878
Total	¥ 455,704	¥ 421,530	$ 4,639,154

(e) Reclassification of securities

Among the securities that were previously classified as available-for-sale, certain of the foreign bonds with high credit ratings were reclassified to held-to-maturity on October 1, 2008 at their fair values of ¥102,670 million (U.S.$1,045,200 thousand). This reclassification was pursuant to a change in the investment policy based on management's judgment that it would be difficult to sell these securities at their fair values under the extremely illiquid market condition which currently exist.

Subsequent to this date, an impairment of ¥50,728 million (U.S.$516,424 thousand) was recognized for certain of these reclassified securities as a result of the worsening credit environment, and the value of such securities after impairment (¥19,666 million (U.S. $200,213 thousand)) was reclassified from held-to-maturity back to available-for-sale.

As a result, the foreign bonds that were reclassified to held-to-maturity as of October 1, 2008, and are accounted for as held-to-maturity as of March 31, 2009 were as follows:

Securities reclassified from available-for-sale to held-to-maturity (as of March 31, 2009)

	Millions of yen		
	2009		
	Fair value	Amortized cost	Unrealized loss on available-for-sale securities
Other (foreign debt securities)	¥ 38,757	¥ 47,356	¥ 8,463

	Thousands of U.S. dollars		
	2009		
	Fair value	Amortized cost	Unrealized loss on available-for-sale securities
Other (foreign debt securities)	$ 394,563	$ 482,102	$ 86,160

Note: The fair values are quoted from external brokers.

(f) Redemption schedules for securities being held to maturity and available-for-sale as of March 31, 2009 and 2008 were as follows:

	Millions of yen							
	2009				2008			
	1 year or less	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years	1 year or less	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years
Bonds:								
Japanese national government bonds	¥ 439,175	¥ 685,222	¥ 35,401	¥ 44,491	¥ 298,680	¥ 300,618	¥ —	¥ 46,083
Japanese local government bonds	—	1,231	517	—	4	1,738	525	—
Japanese corporate bonds	77,680	355,659	9,591	—	164,110	369,027	27,351	—
Subtotal	516,855	1,042,113	45,510	44,491	462,795	671,384	27,876	46,083
Other	45,167	150,064	114,670	67,304	26,086	203,360	165,234	162,753
Total	¥ 562,022	¥ 1,192,178	¥ 160,181	¥ 111,795	¥ 488,882	¥ 874,744	¥ 193,111	¥ 208,836

	Thousands of U.S. dollars			
	2009			
	1 year or less	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years
Bonds:				
Japanese national government bonds	$ 4,470,886	$ 6,975,693	$ 360,391	$ 452,928
Japanese local government bonds	—	12,540	5,273	—
Japanese corporate bonds	790,802	3,620,683	97,645	—
Subtotal	5,261,688	10,608,916	463,309	452,928
Other	459,811	1,527,686	1,167,366	685,173
Total	$ 5,721,499	$ 12,136,602	$ 1,630,675	$ 1,138,101

9. LOANS AND BILLS DISCOUNTED

CONSOLIDATED

Loans and bills discounted as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Loans on deeds	¥ 4,460,271	¥ 4,717,711	$ 45,406,411
Loans on bills	244,579	91,849	2,489,866
Bills discounted	1,125	2,036	11,462
Overdrafts	1,170,933	810,668	11,920,327
Total	¥ 5,876,910	¥ 5,622,266	$ 59,828,066

(a) Loans and bills discounted included loans to bankrupt obligors totaling ¥39,549 million (U.S.$402,619 thousand) and ¥2,173 million as of March 31, 2009 and 2008, respectively, as well as non-accrual delinquent loans totaling ¥178,540 million (U.S.$1,817,579 thousand) and ¥42,528 million as of March 31, 2009 and 2008, respectively.

Non-accrual delinquent loans included loans classified as "possibly bankrupt" and "virtually bankrupt" under the Bank's self-assessment guidelines.

In addition to non-accrual delinquent loans as defined, certain

9. LOANS AND BILLS DISCOUNTED (CONTINUED) — CONSOLIDATED

other loans classified as "substandard" under the Bank's self-assessment guidelines include loans past due for three months or more.

Loans past due for three months or more consist of loans for which the principal and/or interest is three months or more past due but exclude loans to bankrupt obligors and non-accrual delinquent loans. The balances of loans past due for three months or more as of March 31, 2009 and 2008 were ¥5,917 million (U.S.$60,238 thousand) and ¥4,792 million, respectively.

Restructured loans are loans where the Group relaxes lending conditions, such as by reducing the original interest rate, or by forbearing interest payments or principal repayments to support the borrower's reorganization, but exclude loans to bankrupt obligors, non-accrual delinquent loans or loans past due for three months or more. The outstanding balances of restructured loans as of March 31, 2009 and 2008 were ¥59,669 million (U.S.$607,452 thousand) and ¥54,980 million, respectively.

(b) The total outstanding amounts deducted from the loan account for loan participations as of March 31, 2009 and 2008 were ¥50,839 million (U.S.$517,560 thousand) and ¥61,144 million, respectively. This "off-balance sheet" treatment was in accordance with guidelines issued by the JICPA. The total amounts of such loans in which the Bank participated were ¥78,450 million (U.S.$798,640 thousand) and ¥157,021 million as of March 31, 2009 and 2008, respectively.

(c) Bills discounted, such as bank acceptances bought, commercial bills discounted, documentary bills and foreign exchange contracts bought, are accounted for as financing transactions in accordance with the Industry Audit Committee Report No. 24 issued by the JICPA, although the Group has the right to sell or pledge them without restrictions. The face amounts of such bills discounted held as of March 31, 2009 and 2008 were ¥1,276 million (U.S.$12,998 thousand) and ¥2,199 million, respectively.

10. FOREIGN EXCHANGES — CONSOLIDATED

The assets and liabilities related to foreign currency trade financing activities of the Bank as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Foreign exchange assets:			
Foreign bills bought	**¥ 150**	¥ 162	**$ 1,535**
Foreign bills receivable	**—**	2,155	**—**
Due from foreign banks	**36,988**	15,534	**376,545**
Total	**¥ 37,138**	¥ 17,852	**$ 378,080**
Foreign exchange liabilities:			
Foreign bills payable	**¥ 1**	¥ 36	**$ 20**
Due to foreign banks	**2**	2	**25**
Total	**¥ 4**	¥ 39	**$ 45**

11. OTHER ASSETS — CONSOLIDATED

Other assets as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Accrued income	**¥ 35,378**	¥ 42,335	**$ 360,157**
Prepaid expenses	**5,808**	6,825	**59,132**
Fair value of derivatives	**351,682**	389,006	**3,580,192**
Financial stabilization fund contribution	**70,239**	70,239	**715,046**
Accounts receivable	**115,717**	56,764	**1,178,023**
Installment receivables	**404,702**	421,817	**4,119,953**
Security deposits	**24,308**	17,623	**247,463**
Suspense payments	**34,653**	40,582	**352,782**
Other	**83,278**	54,957	**847,786**
Total	**¥ 1,125,768**	¥ 1,100,151	**$ 11,460,534**

Installment receivables in other assets as of March 31, 2009 and 2008 included credits to bankrupt obligors totaling ¥766 million (U.S.$7,801 thousand) and ¥2,635 million, non-accrual delinquent credits totaling ¥4,318 million (U.S.$43,961 thousand) and ¥4,908 million, credits past due for three months or more of ¥1,030 million (U.S.$10,487 thousand) and ¥1,340 million, and restructured credits of ¥9,437 million (U.S.$96,078 thousand) and ¥6,782 million, respectively.

12. PREMISES AND EQUIPMENT

CONSOLIDATED

Premises and equipment as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Buildings	¥ 36,032	¥ 28,299	$ 366,816
Land	9,667	10,689	98,419
Tangible leased assets	72,714	548,364	740,250
Other	28,957	21,819	294,796
Subtotal	147,372	609,173	1,500,281
Accumulated depreciation	(96,408)	(303,401)	(981,452)
Net book value	¥ 50,964	¥ 305,771	$ 518,829

13. INTANGIBLE ASSETS

CONSOLIDATED

Intangible assets as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Software	¥ 29,099	¥ 27,499	$ 296,235
Goodwill, net			
Goodwill	139,708	149,314	1,422,263
Negative goodwill	(6,756)	(7,075)	(68,783)
Intangible assets acquired through acquisitions	44,791	23,676	455,988
Intangible leased assets	755	39,668	7,693
Other	1,576	89	16,049
Total	¥ 209,175	¥ 233,174	$ 2,129,445

14. RESERVE FOR CREDIT LOSSES

CONSOLIDATED

Reserve for credit losses as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Reserve for loan losses:			
General reserve	¥ 105,630	¥ 96,650	$ 1,075,334
Specific reserve	65,572	23,236	667,542
Reserve for loans to restructuring countries	14	15	146
Subtotal	171,217	119,902	1,743,022
Specific reserve for other credit losses	21,294	26,064	216,779
Total	¥ 192,511	¥ 145,966	$ 1,959,801

15. DEPOSITS, INCLUDING NEGOTIABLE CERTIFICATES OF DEPOSIT

CONSOLIDATED

Deposits, including negotiable certificates of deposit, as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Current	¥ 26,018	¥ 23,814	$ 264,870
Ordinary	1,273,763	1,377,135	12,967,152
Notice	15,289	20,376	155,651
Time	4,435,756	3,523,765	45,156,838
Negotiable certificates of deposit	259,659	577,189	2,643,384
Other	261,628	284,353	2,663,427
Total	¥ 6,272,115	¥ 5,806,634	$ 63,851,322

16. DEBENTURES

CONSOLIDATED

Debentures as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Coupon debentures	**¥ 675,567**	¥ 662,434	**$ 6,877,405**

Annual maturities of debentures as of March 31, 2009 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥ 201,448	$ 2,050,780
2011	186,160	1,895,151
2012	115,199	1,172,755
2013	85,800	873,467
2014 and thereafter	86,958	885,252
Total	¥ 675,567	$ 6,877,405

17. TRADING LIABILITIES

CONSOLIDATED

Trading liabilities as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Derivatives for trading securities	**¥ 12,401**	¥ 19,468	**$ 126,247**
Derivatives for securities held to hedge trading transactions	**6,447**	4,625	**65,633**
Trading-related financial derivatives	**288,653**	180,890	**2,938,546**
Other trading liabilities	**61**	27	**623**
Total	**¥ 307,562**	¥ 205,011	**$ 3,131,049**

18. BORROWED MONEY

CONSOLIDATED

Borrowed money as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Borrowings from the Bank of Japan and other financial institutions	**¥ 910,324**	¥ 1,019,227	**$ 9,267,272**
Subordinated debt	**102,000**	108,000	**1,038,379**
Total	**¥ 1,012,324**	¥ 1,127,227	**$ 10,305,651**

The weighted average interest rate applicable to the balance of total borrowed money as of March 31, 2009 was 1.39%.

Annual maturities of borrowed money as of March 31, 2009 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥ 534,820	$ 5,444,578
2011	174,955	1,781,082
2012	77,894	792,977
2013	48,649	495,264
2014 and thereafter	176,003	1,791,750
Total	¥ 1,012,324	$ 10,305,651

19. CORPORATE BONDS

CONSOLIDATED

Corporate bonds as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Corporate bonds	**¥ 70,211**	¥ 85,043	**$ 714,762**
Subordinated bonds	**196,278**	341,243	**1,998,152**
Total	**¥ 266,489**	¥ 426,286	**$ 2,712,914**

In February 2006, the Bank issued €1.0 billion of step-up callable subordinated notes. The issue price was 99.486% of the principal amount. The notes bear interest at the fixed rate per annum of 3.75% through February 23, 2011, and at the floating rate per annum equal to three-month EURIBOR plus 1.95% thereafter. The notes are redeemable at the Bank's option in whole but not in part on any interest payment date on or after February 23, 2011, subject to the prior approval of the Financial Services Agency of Japan.

In December 2006, the Bank issued £400 million of step-up callable perpetual subordinated notes. The issue price was 99.669% of the principal amount. The notes bear interest at the fixed rate per annum of 5.625% through December 6, 2013, and at the floating rate per annum equal to the LIBOR for six-month deposits in British pounds plus 2.12% thereafter. The notes are redeemable at the Bank's option in whole but not in part on any interest payment date on or after December 6, 2013, subject to the prior approval of the Financial Services Agency of Japan.

During the fiscal year ended March 31, 2009, the Bank repurchased €391 million of step-up callable subordinated notes, and £214 million of set-up callable perpetual subordinated notes in open-market transactions and cancelled all of the repurchased notes.

Annual maturities of corporate bonds as of March 31, 2009 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥ 17,279	$ 175,904
2011	25,215	256,702
2012	1,288	13,113
2013	4,927	50,159
2014 and thereafter	217,779	2,217,036
Total	¥ 266,489	$ 2,712,914

20. OTHER LIABILITIES

CONSOLIDATED

Other liabilities as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Accrued expenses	**¥ 33,473**	¥ 33,430	**$ 340,763**
Unearned income	**1,448**	2,047	**14,750**
Income taxes payable	**2,821**	5,554	**28,719**
Fair value of derivatives	**401,861**	353,722	**4,091,026**
Matured debentures, including interest	**23,441**	28,482	**238,642**
Trust account	**6,288**	4,588	**64,016**
Accounts payable	**68,442**	56,820	**696,761**
Deferred gains on installment receivables	**32,532**	37,729	**331,187**
Deposits payable	**182,397**	125,120	**1,856,838**
Other	**67,193**	61,253	**684,045**
Total	**¥ 819,900**	¥ 708,749	**$ 8,346,747**

21. RESERVE FOR EMPLOYEES' RETIREMENT BENEFITS — CONSOLIDATED

The following table presents the funded status of the plans as of March 31, 2009 and 2008:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Projected benefit obligation	**¥ (83,323)**	¥ (69,056)	**$ (848,251)**
Fair value of plan assets	**49,227**	61,589	**501,146**
Funded status (projected benefit obligation in excess of plan assets)	**(34,096)**	(7,467)	**(347,105)**
Unrecognized prior service cost	**(3,403)**	(3,823)	**(34,649)**
Unrecognized net actuarial losses	**21,297**	10,070	**216,810**
Unrecognized obligation at transition	**3,632**	4,237	**36,980**
Net amount accrued on the balance sheets	**(12,569)**	3,016	**(127,964)**
Prepaid pension cost	**5,649**	7,677	**57,516**
Reserve for retirement benefits	**¥ (18,219)**	¥ (4,660)	**$ (185,480)**

As of March 31, 2009, "Projected benefit obligation" includes ¥9,271 million (U.S.$94,389 thousand) of special retirement benefits as a part of business restructuring at Shinsei Financial.

The following table provides the components of net periodic retirement benefit cost for the fiscal years ended March 31, 2009 and 2008:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Service cost	**¥ 4,611**	¥ 3,694	**$ 46,945**
Interest cost	**1,489**	1,443	**15,161**
Expected return on plan assets	**(1,407)**	(1,586)	**(14,330)**
Amortization of prior service cost	**(419)**	(419)	**(4,273)**
Amortization of net actuarial losses	**2,922**	1,268	**29,756**
Amortization of unrecognized obligation at transition	**605**	607	**6,163**
Other (mainly consists of extraordinary severance benefit)	**11,680**	1,235	**118,909**
Net periodic retirement benefit cost	**¥ 19,482**	¥ 6,243	**$ 198,331**

For the fiscal year ended March 31, 2009, "Other (mainly consists of extraordinary severance benefit)" includes ¥9,271 million (U.S.$94,389 thousand) of special retirement benefits as a part of business restructuring at Shinsei Financial Co., Ltd.

Assumptions used in calculation of the above information were as follows:

	2009	2008
Discount rate	**1.50-2.20%**	1.50-2.20%
Expected rate of return on plan assets	**0.75-3.50%**	0.75-3.50%
Method of attributing the projected benefits to periods of service	**Straight-line basis**	Straight-line basis
Period of amortization of prior service cost	**5.00-14.74 years**	5.00-14.74 years
Period of amortization of net actuarial losses	**5.00-14.74 years**	5.00-14.74 years
Period of amortization of unrecognized obligation at transition	**15 years**	15 years

The table includes benefit obligations of certain consolidated subsidiaries that calculate their obligations based on the full amount due to eligible employees as of the fiscal year-end.

22. ACCEPTANCES AND GUARANTEES — CONSOLIDATED

Acceptances and guarantees as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Guarantees	**¥ 675,225**	¥ 701,717	**$ 6,873,922**

23. ASSETS PLEDGED AS COLLATERAL

CONSOLIDATED

Assets pledged as collateral and debts collateralized as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Assets:			
Cash and due from banks	¥ 783	¥ 643	$ 7,972
Other monetary claims purchased	47,380	47,380	482,337
Trading assets	15,669	—	159,519
Securities	964,554	530,791	9,819,351
Loans and bills discounted	438,946	19,192	4,468,556
Lease receivables and leased investment assets	20,034	—	203,958
Other assets	842	—	8,576
Premises and equipment	1,398	2,221	14,240
Debts:			
Deposits, including negotiable certificates of deposit	¥ 988	¥ 1,058	$ 10,060
Call money	250,000	180,000	2,545,047
Payables under repurchase agreements	53,805	—	547,746
Collateral related to securities lending transactions	569,205	148,421	5,794,625
Commercial paper	198	—	2,017
Borrowed money	225,754	80,294	2,298,227
Corporate bonds	9,868	—	100,462
Other liabilities	24	—	248
Acceptances and guarantees	909	908	9,259

A total of ¥33,429 million of unearned lease claims was pledged as collateral for the above mentioned borrowed money as of March 31, 2008.

In addition, ¥215,813 million (U.S.$2,197,020 thousand) and ¥162,420 million of securities as of March 31, 2009 and 2008, were pledged as collateral for transactions, including exchange settlements, swap transactions and replacement of margin for future trading.

Also, ¥1,339 million (U.S.$13,635 thousand) and ¥91 million of margin deposits for futures transactions outstanding were included in other assets as of March 31, 2009 and 2008, respectively. In addition, ¥6,865 million (U.S.$69,888 thousand) and ¥5,603 million of cash collateral pledged for derivative transactions were included in other assets as of March 31, 2009 and 2008, respectively.

24. PREFERRED SECURITIES ISSUED BY SUBSIDIARIES OUTSIDE JAPAN

CONSOLIDATED

In February 2006, Shinsei Finance (Cayman) Limited, the Bank's wholly owned subsidiary, issued U.S.$775 million of step-up non-cumulative perpetual preferred securities. Dividends on the securities are payable on a non-cumulative basis annually in arrears at a rate of 6.418% until July 2016. After July 2016, dividends on the securities will be calculated at a floating rate of LIBOR plus 2.22%. On July 20, 2016 or any dividend payment date thereafter, Shinsei Finance (Cayman) Limited may redeem the securities at a price equal to the liquidation preference together with any dividends otherwise payable.

In March 2006, Shinsei Finance II (Cayman) Limited, the Bank's wholly owned subsidiary, issued U.S.$700 million of non-cumulative perpetual preferred securities. Dividends on the securities are payable on a non-cumulative basis annually in arrears at a rate of 7.160% until July 2016. After July 2016, dividends on the securities will be calculated at a floating rate of LIBOR plus 1.87%. On July 25, 2016 and on each dividend payment date falling at ten year intervals thereafter, Shinsei Finance II (Cayman) Limited may redeem the securities at a price equal to the liquidation preference together with any dividends otherwise payable.

On March 30, 2009, the Bank repurchased U.S.$100 million of non-cumulative perpetual securities of Shinsei Finance (Cayman) Limited, and U.S.$121 million of non-cumulative perpetual preferred securities of Shinsei Finance II (Cayman) Limited in open-market transactions and cancelled all of the repurchased securities.

On March 30, 2009, Shinsei Finance III (Cayman) Limited, the Bank's wholly owned subsidiary, issued ¥39,100 million of non-cumulative perpetual preferred securities. Dividends on ¥19,000 million of the securities are payable annually in arrears at a rate of 5.50% until July 2014 and at a floating rate of LIBOR plus 4.56% after July 2014. Dividends on ¥20,100 million of the securities are payable annually in arrears at a rate of 5.00% until July 2019 and at a floating rate of LIBOR plus 4.70% after July 2019.

Also on March 30, 2009, Shinsei Finance IV (Cayman) Limited, the Bank's wholly owned subsidiary, issued ¥9,100 million of non-cumulative perpetual preferred securities. Dividends on ¥2,500 million of the securities are payable annually in arrears at a rate of 5.00% until July 2019 and at a floating rate of LIBOR plus 4.70% after July 2019. Dividends on ¥6,600 million of the securities are payable annually in arrears at a rate of 5.50% until July 2014 and at a floating rate of LIBOR plus 4.56% after July 2014.

These preferred securities are accounted for as minority interests in the consolidated financial statements of the Bank.

25. EQUITY

CONSOLIDATED

The authorized number of shares of capital stock as of March 31, 2009 was 4,000,000 thousand common shares.

The following table shows changes in the number of shares of common stock, preferred stock and treasury stock.

	Thousands					
	Issued number of shares			Number of treasury stock		
	Common stock	Preferred Stock Class-A	Preferred Stock Class-B	Common stock	Preferred Stock Class-A	Preferred Stock Class-B
Fiscal year ended March 31, 2008:						
Beginning of year	1,473,570	74,528	300,000	96,425	—	—
Increase	586,775	—	—	10	74,528	300,000
Decrease	—	(74,528)	(300,000)	—	(74,528)	(300,000)
End of year	2,060,346	—	—	96,436	—	—
Fiscal year ended March 31, 2009:						
Beginning of year	**2,060,346**	**—**	**—**	**96,436**	**—**	**—**
Increase	**—**	**—**	**—**	**4**	**—**	**—**
Decrease	**—**	**—**	**—**	**(13)**	**—**	**—**
End of year	**2,060,346**	**—**	**—**	**96,427**	**—**	**—**

On August 1, 2007, pursuant to the provisions of Shinsei Bank's Articles of Incorporation concerning the mandatory acquisition of 300,000,000 Class-B preferred shares issued by the Bank, owned entirely by the RCC, the Bank acquired all relevant preferred shares and issued 200,000,000 of the Bank's common shares in exchange for these preferred shares. The conversion price of the preferred shares was ¥600. The Bank subsequently cancelled all the relevant preferred shares immediately after it obtained these shares, pursuant to Article 178 of the Law of Japan (the "Company Act").

On February 4, 2008, the Bank issued 117,647,000 new common shares by third-party allotment to a group of investors which included affiliates of J. C. Flowers & Co. LLC at ¥425 per common share. The Bank raised its capital by ¥50,000 million through this allotment.

On March 31, 2008, pursuant to a request by the DIC, the Bank acquired all 74,528,000 Class-A preferred shares and issued 269,128,000 of the Bank's common shares in exchange for these preferred shares. The conversion price of the preferred shares was ¥360. The Bank subsequently cancelled all the relevant preferred shares immediately after it obtained these shares, pursuant to Article 178 of the Company Act.

Since May 1, 2006, Japanese banks have been subject to the Company Act. The significant provisions in the Company Act and the Banking Law of Japan that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Company Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors of such company may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Board of Directors of companies with board committees (nomination committee, compensation committee and audit committee) can also do so because such companies with board committees already, by nature, meet the above criteria under the Company Act, even though such companies have an audit committee instead of the Board of Corporate Auditors. The Bank is organized as a company with board committees.

The Company Act permits companies to distribute dividends in kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semi-annual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Company Act and the Banking Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Banking Law requires that an amount equal to 20% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 100% of the common stock.

The Company Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Company Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution

25. EQUITY (CONTINUED) CONSOLIDATED

of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Company Act, stock acquisition rights are presented as a separate component of equity. The Company Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

26. STOCK ACQUISITION RIGHTS CONSOLIDATED

The Bank issues stock acquisition rights as a stock option plan to directors, statutory executive officers and employees of the Bank and its subsidiaries as well as its senior advisors.

Stock acquisition rights provide eligible individuals (the "holders") with the right to purchase common stock of the Bank without any consideration at an exchange rate of one thousand common shares to one stock acquisition right. The amount of money to be paid upon exercising stock acquisition rights is the amount calculated by multiplying the payment amount per share (the "exercise price") and the number of common shares that can be purchased through the exercise of one stock acquisition right. Conditions are stipulated in the "Agreement on the Grant of Stock Acquisition Rights" entered into between the Bank and the holders to whom stock acquisition rights were allotted based on the resolution of the annual general meeting of shareholders and the meetings of the Board of Directors which resolves the issuance of stock acquisition rights subsequent to the shareholders' meeting.

On December 27, 2005, the ASBJ issued "Accounting Standard for Stock Options" and related guidance, which requires companies to recognize compensation expense for stock acquisition rights based on the fair value at the date of grant and over the vesting periods for stock acquisition rights newly granted on and after May 1, 2006.

Stock-based compensation expenses were ¥636 million (U.S.$6,477 thousand) and ¥740 million for the fiscal years ended March 31, 2009 and 2008.

(a) Details of stock options

Stock options outstanding as of March 31, 2009 are as follows:

	Date of issuance	Total number of stock options (shares) at the issuance	Total number of holders at the issuance	Exercise period	Exercise price
1st	July 1, 2004	9,455,000	2,196	July 1, 2006-June 23, 2014	¥684
2nd	October 1, 2004	161,000	3	July 1, 2006-June 23, 2014	¥646
3rd	December 10, 2004	25,000	1	July 1, 2006-June 23, 2014	¥697
4th	June 1, 2005	250,000	1	July 1, 2006-June 23, 2014	¥551
5th	June 27, 2005	4,922,000	462	July 1, 2007-June 23, 2015	¥601
6th	June 27, 2005	2,856,000	40	July 1, 2007-June 23, 2015	¥601
7th	June 27, 2005	1,287,000	135	July 1, 2008-June 23, 2015	¥601
8th	June 27, 2005	561,000	35	July 1, 2008-June 23, 2015	¥601
9th	September 28, 2005	157,000	2	July 1, 2007-June 23, 2015	¥697
10th	September 28, 2005	53,000	2	July 1, 2008-June 23, 2015	¥697
11th	March 1, 2006	50,000	2	July 1, 2007-June 23, 2015	¥774
12th	March 1, 2006	17,000	2	July 1, 2008-June 23, 2015	¥774
13th	May 25, 2006	5,342,000	588	June 1, 2008-June 23, 2015	¥825
14th	May 25, 2006	3,027,000	31	June 1, 2008-June 23, 2015	¥825
15th	May 25, 2006	1,439,000	171	June 1, 2009-June 23, 2015	¥825
16th	May 25, 2006	331,000	19	June 1, 2009-June 23, 2015	¥825
17th	May 25, 2007	3,306,000	135	June 1, 2009-May 8, 2017	¥555
18th	May 25, 2007	1,480,000	26	June 1, 2009-May 8, 2017	¥555
19th	July 2, 2007	140,000	32	July 1, 2009-June 19, 2017	¥527
20th	May 30, 2008	2,830,000	124	June 1, 2010-May 13, 2018	¥416
21st	May 30, 2008	2,081,000	30	June 1, 2010-May 13, 2018	¥416
22nd	July 10, 2008	203,000	43	July 1, 2010-June 24, 2018	¥407
23rd	December 1, 2008	97,000	17	December 1, 2010-November 11, 2018	¥221

26. STOCK ACQUISITION RIGHTS (CONTINUED) CONSOLIDATED

(b) Number of stock options and movement therein

Numbers of stock options and per share price information are as follows:

	1st	2nd	3rd	4th
Fiscal year ended March 31, 2008				
Non-vested (share)				
Outstanding at the beginning of the year	2,880,000	79,000	12,000	125,000
Granted during the year	—	—	—	—
Forfeited during the year	52,000	—	—	—
Vested during the year	2,828,000	79,000	12,000	125,000
Outstanding at the end of the year	—	—	—	—
Vested (share)				
Outstanding at the beginning of the year	4,072,000	22,000	13,000	125,000
Vested during the year	2,828,000	79,000	12,000	125,000
Exercised during the year	—		—	—
Forfeited during the year	557,000	59,000	—	—
Exercisable at the end of the year	6,343,000	42,000	25,000	250,000
Exercise price (Yen)	684	646	697	551
Weighted average stock price at the date of exercise	721	739	—	—
Fiscal year ended March 31, 2009				
Non-vested (share)				
Outstanding at the beginning of the year	—	—	—	—
Granted during the year	—	—	—	—
Forfeited during the year	—	—	—	—
Vested during the year	—	—	—	—
Outstanding at the end of the year	—	—	—	—
Vested (share)				
Outstanding at the beginning of the year	6,343,000	42,000	25,000	250,000
Vested during the year	—	—	—	—
Exercised during the year	—	—	—	—
Forfeited during the year	398,000	—	—	—
Exercisable at the end of the year	5,945,000	42,000	25,000	250,000
Exercise price (Yen)	684	646	697	551
Weighted average stock price at the date of exercise	721	739	—	—

	5th	6th	7th	8th
Fiscal year ended March 31, 2008				
Non-vested (share)				
Outstanding at the beginning of the year	3,400,000	2,328,000	827,000	406,000
Granted during the year	—	—	—	—
Forfeited during the year	204,000	83,000	94,000	46,000
Vested during the year	1,898,000	1,249,000	18,000	—
Outstanding at the end of the year	1,298,000	996,000	715,000	360,000
Vested (share)				
Outstanding at the beginning of the year	527,000	220,000	214,000	26,000
Vested during the year	1,898,000	1,249,000	18,000	—
Exercised during the year	—	—	—	—
Forfeited during the year	134,000	65,000	—	—
Exercisable at the end of the year	2,291,000	1,404,000	232,000	26,000
Exercise price (Yen)	601	601	601	601
Weighted average stock price at the date of exercise	—	—	—	—
Fiscal year ended March 31, 2009				
Non-vested (share)				
Outstanding at the beginning of the year	1,298,000	996,000	715,000	360,000
Granted during the year	—	—	—	—
Forfeited during the year	43,000	110,000	31,000	88,000
Vested during the year	1,255,000	886,000	314,000	139,000
Outstanding at the end of the year	—	—	370,000	133,000
Vested (share)				
Outstanding at the beginning of the year	2,291,000	1,404,000	232,000	26,000
Vested during the year	1,255,000	886,000	314,000	139,000
Exercised during the year	—	—	—	—
Forfeited during the year	178,000	137,000	9,000	3,000
Exercisable at the end of the year	3,368,000	2,153,000	537,000	162,000
Exercise price (Yen)	601	601	601	601
Weighted average stock price at the date of exercise	—	—	—	—

	9th	10th	11th	12th
Fiscal year ended March 31, 2008				
Non-vested (share)				
Outstanding at the beginning of the year	157,000	53,000	50,000	17,000
Granted during the year	—	—	—	—
Forfeited during the year	—	—	4,000	3,000
Vested during the year	79,000	—	26,000	—
Outstanding at the end of the year	78,000	53,000	20,000	14,000
Vested (share)				
Outstanding at the beginning of the year	—	—	—	—
Vested during the year	79,000	—	26,000	—
Exercised during the year	—	—	—	—
Forfeited during the year	—	—	5,000	—
Exercisable at the end of the year	79,000	—	21,000	—
Exercise price (Yen)	697	697	774	774
Weighted average stock price at the date of exercise	—	—	—	—
Fiscal year ended March 31, 2009				
Non-vested (share)				
Outstanding at the beginning of the year	78,000	53,000	20,000	14,000
Granted during the year	—	—	—	—
Forfeited during the year	—	—	—	—
Vested during the year	78,000	27,000	20,000	7,000
Outstanding at the end of the year	—	26,000	—	7,000
Vested (share)				
Outstanding at the beginning of the year	79,000	—	21,000	—
Vested during the year	78,000	27,000	20,000	7,000
Exercised during the year	—	—	—	—
Forfeited during the year	—	—	—	—
Exercisable at the end of the year	157,000	27,000	41,000	7,000
Exercise price (Yen)	697	697	774	774
Weighted average stock price at the date of exercise	—	—	—	—

	13th	14th	15th	16th
Fiscal year ended March 31, 2008				
Non-vested (share)				
Outstanding at the beginning of the year	4,457,000	2,680,000	1,195,000	215,000
Granted during the year	—	—	—	—
Forfeited during the year	552,000	66,000	126,000	21,000
Vested during the year	69,000	5,000	14,000	2,000
Outstanding at the end of the year	3,836,000	2,609,000	1,055,000	192,000
Vested (share)				
Outstanding at the beginning of the year	227,000	—	66,000	—
Vested during the year	69,000	5,000	14,000	2,000
Exercised during the year	—	—	—	—
Forfeited during the year	—	—	—	—
Exercisable at the end of the year	296,000	5,000	80,000	2,000
Exercise price (Yen)	825	825	825	825
Weighted average stock price at the date of exercise	—	—	—	—
Fair value of the grant date	163 or 173	163 or 173	173 or 192	173 or 192
Fiscal year ended March 31, 2009				
Non-vested (share)				
Outstanding at the beginning of the year	3,836,000	2,609,000	1,055,000	192,000
Granted during the year	—	—	—	—
Forfeited during the year	275,000	151,000	93,000	76,000
Vested during the year	2,116,000	2,022,000	5,000	—
Outstanding at the end of the year	1,445,000	436,000	957,000	116,000
Vested (share)				
Outstanding at the beginning of the year	296,000	5,000	80,000	2,000
Vested during the year	2,116,000	2,022,000	5,000	—
Exercised during the year	—	—	—	—
Forfeited during the year	151,000	23,000	—	—
Exercisable at the end of the year	2,261,000	2,004,000	85,000	2,000
Exercise price (Yen)	825	825	825	825
Weighted average stock price at the date of exercise	—	—	—	—

	17th	18th	19th
Fiscal year ended March 31, 2008			
Non-vested (share)			
Outstanding at the beginning of the year	—	—	—
Granted during the year	3,306,000	1,480,000	140,000
Forfeited during the year	174,000	23,000	—
Vested during the year	47,000	—	—
Outstanding at the end of the year	3,085,000	1,457,000	140,000
Vested (share)			
Outstanding at the beginning of the year	—	—	—
Vested during the year	47,000	—	—
Exercised during the year	—	—	—
Forfeited during the year	—	—	—
Exercisable at the end of the year	47,000	—	—
Exercise price (Yen)	555	555	527
Weighted average stock price at the date of exercise	—	—	—
Fair value of the grant date	131 or 143	131 or 143	121 or 132
Fiscal year ended March 31, 2009			
Non-vested (share)			
Outstanding at the beginning of the year	3,085,000	1,457,000	140,000
Granted during the year	—	—	—
Forfeited during the year	456,000	232,000	—
Vested during the year	373,000	712,000	—
Outstanding at the end of the year	2,256,000	513,000	140,000
Vested (share)			
Outstanding at the beginning of the year	47,000	—	—
Vested during the year	373,000	712,000	—
Exercised during the year	—	—	—
Forfeited during the year	1,000	—	—
Exercisable at the end of the year	419,000	712,000	—
Exercise price (Yen)	555	555	527
Weighted average stock price at the date of exercise	—	—	—

	20th	21st	22nd	23rd
Fiscal year ended March 31, 2009				
Non-vested (share)				
Outstanding at the beginning of the year	—	—	—	—
Granted during the year	2,830,000	2,081,000	203,000	97,000
Forfeited during the year	522,000	446,000	—	—
Vested during the year	10,000	—	—	—
Outstanding at the end of the year	2,298,000	1,635,000	203,000	97,000
Vested (share)				
Outstanding at the beginning of the year	—	—	—	—
Vested during the year	10,000	—	—	—
Exercised during the year	—	—	—	—
Forfeited during the year	—	—	—	—
Exercisable at the end of the year	10,000	—	—	—
Exercise price (Yen)	416	416	407	221
Weighted average stock price at the date of exercise	—	—	—	—
Fair value of the grant date	158 or 169	158 or 169	127 or 137	53 or 57

26. STOCK ACQUISITION RIGHTS (CONTINUED) CONSOLIDATED

(c) Measurement of the fair value of stock options

The following shows the assumptions used to measure the fair value of stock options granted during fiscal years ended March 31, 2009 and 2008.

a) Method used: Black-Scholes option pricing model

b) Major inputs and variables to the model

	20th		21st		22nd		23rd	
Exercise period	From June 1, 2010 to May 13, 2018	From June 1, 2012 to May 13, 2018	From June 1, 2010 to May 13, 2018	From June 1, 2012 to May 13, 2018	From July 1, 2010 to June 24, 2018	From July 1, 2012 to June 24, 2018	From December 1, 2010 to November 11, 2018	From December 1, 2012 to November 11, 2018
Expected volatility (Note 1)	40.80%	40.80%	40.80%	40.80%	40.80%	40.80%	54.40%	54.40%
Expected life (Note 2)	6 Years	7 Years	6 Years	7 Years	6 Years	7 Years	6 Years	7 Years
Expected dividends (Note 3)	¥2.94/Share	¥2.94/Share	¥2.94/Share	¥2.94/Share	¥2.94/Share	¥2.94/Share	¥2.94/Share	¥2.94/Share
Risk-free interest rate (Note 4)	1.42%	1.48%	1.42%	1.48%	1.19%	1.25%	0.88%	0.91%

Notes: (1) Measurement based on the historical stock price of the past 2 years (from May 2006 to May 2008 for the 20th and 21st, from June 2006 to June 2008 for the 22nd, from November 2006 to November 2008 for the 23rd)
(2) Estimated based on the assumptions that the option is exercised at the mid point of the exercise period.
(3) Based on the actual dividend for the fiscal year ended March 2008.
(4) Used the yield of Japanese government bond with the maturity equivalent to expected life of the option.

(d) Method of determining the vested number of stock options

Incorporated only the actual forfeited options, as the reasonable estimate of future forfeitures is difficult.

27. NET TRADING INCOME (LOSS) CONSOLIDATED

Net trading income (loss) for the fiscal years ended March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Income (loss) from trading securities	**¥ (5,826)**	¥ (608)	**$ (59,314)**
Income (loss) from securities held to hedge trading transactions	**(10,756)**	348	**(109,500)**
Income (loss) from trading-related financial derivatives	**11,916**	9,371	**121,312**
Other, net	**2**	(20)	**25**
Total	**¥ (4,663)**	¥ 9,090	**$ (47,477)**

28. OTHER BUSINESS INCOME (LOSS), NET CONSOLIDATED

"Other, net" in other business income (loss), net, for the fiscal years ended March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Income (loss) from derivatives entered into for banking purposes, net	**¥ (2,837)**	¥ 534	**$ (28,883)**
Equity in net income (loss) of affiliates	**(2,717)**	(8,350)	**(27,669)**
Gain on lease cancellation and other lease income, net	**1,128**	2,797	**11,489**
Other, net	**276**	(798)	**2,813**
Total	**¥ (4,150)**	¥ (5,816)	**$ (42,250)**

29. NET CREDIT COSTS (RECOVERIES) CONSOLIDATED

Net credit costs (recoveries) for the fiscal years ended March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Losses on write-off or sales of loans	¥ 3,192	¥ 3,183	$ 32,497
Net provision (reversal) of reserve for loan losses:			
Net provision (reversal) of general reserve for loan losses	56,134	22,851	571,463
Net provision (reversal) of specific reserve for loan losses	73,609	50,476	749,360
Net provision (reversal) of reserve for loan losses to restructuring countries	(1)	6	(10)
Subtotal	129,743	73,334	1,320,813
Net provision (reversal) of specific reserve for other credit losses	(4,770)	(6,367)	(48,562)
Other credit costs relating to leasing business	874	3,441	8,898
Total	¥ 129,039	¥ 73,591	$ 1,313,646

30. OTHER GAINS (LOSSES), NET CONSOLIDATED

Other gains (losses), net for the fiscal years ended March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Net gain (loss) on disposal of premises and equipment	¥ 8,787	¥ 66,161	$ 89,458
Provision for losses on disposal of premises and equipment	(3,900)	(5,025)	(39,707)
Pension-related costs	(2,146)	(1,811)	(21,850)
Gain on write-off of unclaimed debentures	1,295	611	13,193
Recoveries of written-off claims	5,791	1,057	58,961
Gain on sale of subsidiary's stock	8,226	20,368	83,750
Provision of reserve for losses on interest repayments	(15,029)	(3,732)	(152,999)
Accelerated goodwill amortization	(30,905)	—	(314,619)
Gain from the cancellation of issued bond and other instruments	75,106	—	764,603
Business restructuring cost	(12,544)	—	(127,705)
Provision for litigation losses	(3,662)	—	(37,289)
Other, net	(4,542)	(2,878)	(46,239)
Total	¥ 26,478	¥ 74,750	$ 269,557

Business restructuring cost contains an extraordinary severance benefit due to the business restructuring of Shinsei Financial amounting to ¥9,271 million (U.S.$94,389 thousand) for the fiscal year ended March 31, 2009

31. LEASE TRANSACTIONS CONSOLIDATED

The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

(a) Disclosures for finance lease transactions under the revised standard as of March 31, 2009 and the former standard as of March 31, 2008 are as follows:

As of March 31, 2009

AS LESSEE

For finance lease transactions, where the ownership of the property is not deemed to transfer to the lessee,

(1) Leased assets are mainly tools, equipment and fixtures included in "Premises and equipment," and software included in "Intangible assets."

(2) Depreciation method is described in "(X) Lease Transactions" in "2. Summary of Significant Accounting Policies."

AS LESSOR

(1) Breakdown of leased investment assets

As of March 31,	Millions of yen 2009	Thousands of U.S. dollars 2009
Leasing receivables	¥ 247,887	$ 2,523,537
Estimated residual value	10,539	107,289
Interest equivalent	(38,647)	(393,437)
Leased investment assets	¥ 219,778	$ 2,237,389

(2) Leasing receivables to be paid in future for "Lease receivables and leased investment assets"

	Lease receivables		Leased investment assets	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
As of March 31,	2009	2009	2009	2009
Due within one year	¥ 2,910	$ 29,629	¥ 90,361	$ 919,898
Due after one year within two years	2,751	28,006	67,493	687,096
Due after two years within three years	3,265	33,248	43,491	442,756
Due after three years within four years	2,070	21,080	25,653	261,153
Due after four years within five years	1,993	20,290	10,420	106,084
Due after five years	975	9,926	10,466	106,550
Total	¥ 13,966	$ 142,179	¥ 247,887	$ 2,523,537

As of March 31, 2008

Finance lease transactions, where the ownership of the property is not deemed to transfer to the lessee consisted of the following:

AS LESSEE

The assumed amounts of acquisition cost, accumulated depreciation and net balance of leased assets as of March 31, 2008 were as follows:

Leased assets As of March 31,	Millions of yen 2008
Acquisition cost:	
Equipment	¥ 3,638
Other	373
Total	¥ 4,011
Accumulated depreciation:	
Equipment	¥ 2,451
Other	187
Total	¥ 2,638
Net balance:	
Equipment	¥ 1,186
Other	185
Total	¥ 1,372

Lease obligations as of March 31, 2008 consisted of the following:

As of March 31,	Millions of yen 2008
Obligations:	
Due within one year	¥ 859
Due after one year	582
Total	¥ 1,441

For the fiscal year ended March 31, 2008, total lease payments were ¥1,301 million, assumed depreciation expense was ¥1,203 million, and assumed interest expense was ¥47 million.

Assumed depreciation expense is calculated using the straight-line method over the estimated useful life of the respective leased assets with zero residual value. The difference between total lease payments and the assumed acquisition cost of leased assets is charged to assumed interest expense and is allocated to each fiscal year using the interest method.

AS LESSOR

Acquisition cost, accumulated depreciation and net balance of leased assets as of March 31, 2008 were as follows:

Leased assets As of March 31,	Millions of yen 2008
Acquisition cost:	
Equipment	¥ 446,978
Other	82,901
Total	¥ 529,880
Accumulated depreciation:	
Equipment	¥ 201,547
Other	37,233
Total	¥ 238,781
Net balance:	
Equipment	¥ 245,431
Other	45,667
Total	¥ 291,099

Future lease payment receivables as of March 31, 2008 consisted of the following:

As of March 31,	Millions of yen 2008
Future lease payment receivables:	
Due within one year	¥ 103,579
Due after one year	196,682
Total	¥ 300,261

For the fiscal year ended March 31, 2008, total lease revenue was ¥131,336 million, depreciation expense was ¥103,103 million, and assumed interest income was ¥14,791 million.

Depreciation expense is calculated using the straight-line method over the leasing period. The difference between total lease revenues and acquisition cost of leased assets is credited to assumed interest income and is allocated to each fiscal year using the interest method.

(b) Non-cancelable operating lease obligations as lessee and future lease payment receivables as lessor as of March 31, 2009 and 2008 consisted of the following:

31. LEASE TRANSACTIONS (CONTINUED) CONSOLIDATED

AS LESSEE

As of March 31,	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars 2009
Obligations:			
Due within one year	¥ 5,193	¥ 4,025	$ 52,872
Due after one year	4,056	5,530	41,301
Total	¥ 9,250	¥ 9,556	$ 94,173

AS LESSOR

As of March 31,	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars 2009
Future lease payment receivables:			
Due within one year	¥ 2,933	¥ 8,926	$ 29,862
Due after one year	10,136	9,888	103,191
Total	¥ 13,069	¥ 18,814	$ 133,053

32. SEGMENT INFORMATION CONSOLIDATED

(A) BUSINESS SEGMENT INFORMATION

The Group is engaged in banking and other related activities such as trust, securities and other businesses. Business segment information, however, has not been presented as the percentage of the other activities is not material to the banking business.

(B) GEOGRAPHIC SEGMENT INFORMATION

Since the proportion of business that the Group conducts in Japan exceeds 90% of operating income and total assets, geographic segment information is not presented.

(C) FOREIGN OPERATING INCOME

Foreign operating income is comprised of income from transactions at overseas branches and consolidated overseas subsidiaries. The composition of the volume of such transactions for the Group did not reach 10% of its operating income, therefore foreign operating income information is not presented.

33. INCOME TAXES CONSOLIDATED

The Group is subject to a number of taxes based on income, such as corporation tax, inhabitant tax and enterprise tax, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for each of the fiscal years ended March 31, 2009 and 2008.

A reconciliation of the actual effective tax rate with the normal effective statutory tax rate for the fiscal years ended March 31, 2009 and 2008 was as follows:

	2009	2008
Normal effective statutory tax rate	(40.7)%	40.7%
Increase (decrease) in taxes resulting from:		
Permanently tax-exempt income	(1.8)	(3.5)
Amortization of goodwill	14.6	4.1
Minority interests in net income of subsidiaries	0.2	5.1
Other non-deductible expenses	0.5	0.7
Change in valuation allowance	37.7	(36.2)
Other	(1.7)	4.7
Actual effective tax rate	8.8%	15.6%

33. INCOME TAXES (CONTINUED) CONSOLIDATED

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities, as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Deferred tax assets:			
Reserve for credit losses	**¥ 212,130**	¥ 108,249	**$ 2,159,526**
Tax loss carryforwards	**201,073**	132,237	**2,046,970**
Reserve for losses on interest repayments	**78,877**	16,004	**802,989**
Securities	**41,217**	9,060	**419,604**
Net unrealized loss on available-for-sale securities	**15,778**	14,271	**160,627**
Reserve for retirement benefits	**9,643**	2,997	**98,172**
Deferred loss on derivatives under hedge accounting	**8,433**	6,170	**85,855**
Valuation of monetary assets held in trust	**5,949**	3,152	**60,570**
Losses on impairment of premises and equipment	**4,913**	5,186	**50,016**
Accrued employees' bonuses	**4,242**	5,929	**43,187**
Other	**43,196**	29,578	**439,744**
Subtotal	**625,455**	332,837	**6,367,260**
Valuation allowance	**(574,627)**	(288,324)	**(5,849,820)**
Total deferred tax assets	**50,828**	44,513	**517,440**
Offset with deferred tax liabilities	**(28,573)**	(16,274)	**(290,880)**
Net deferred tax assets	**¥ 22,254**	¥ 28,238	**$ 226,560**
Deferred tax liabilities:			
Temporary differences due to application of overall fair value adjustments (mainly related to identified intangible assets)	**¥ 17,888**	¥ 9,871	**$ 182,106**
Deferred gain on derivatives under hedge accounting	**11,907**	9,428	**121,221**
Other	**442**	1,257	**4,504**
Total deferred tax liabilities	**30,238**	20,558	**307,831**
Offset with deferred tax assets	**(28,573)**	(16,274)	**(290,880)**
Net deferred tax liabilities	**¥ 1,665**	¥ 4,283	**$ 16,951**

The Bank has ¥127,004 million (U.S.$1,292,932 thousand) of tax loss carryforwards related to corporation tax as of March 31, 2009. The schedule of tax loss carryforwards and their expiration dates are as follows:

Fiscal year ended March 31	Amount: Millions of yen	Amount: Thousands of U.S. dollars	Date of expiry
2003	¥ 39,847	$ 405,658	March 31, 2010
2009	87,156	887,274	March 31, 2016
Total	127,004	1,292,932	

In addition, other significant tax loss carryforwards of major subsidiaries are as follows:

Subsidiary	Fiscal period ended	Millions of yen	Date of expiry
APLUS Co., Ltd.	March 31, 2005	¥ 148,950	March 31, 2012
	September 30, 2005	2,988	March 31, 2013
	March 31, 2006	4,663	March 31, 2013
	March 31, 2007	30,135	March 31, 2014
	March 31, 2008	12,009	March 31, 2015
	Total	¥ 198,747	
Shinsei Financial Co., Ltd.	December 31, 2007	¥ 28,327	March 31, 2014
	December 31, 2008	38,731	March 31, 2015
	March 31, 2009	25,914	March 31, 2016
	Total	¥ 92,972	
Showa Leasing Co., Ltd.	March 31, 2005	¥ 23,671	March 31, 2012
	March 31, 2007	10,018	March 31, 2014
	Total	¥ 33,690	
SHINKI Co., Ltd.	March 31, 2008	¥ 19,094	March 31, 2015
	March 31, 2009	9,284	March 31, 2016
	Total	¥ 28,379	

The Bank cannot include the tax loss carryforwards of APLUS, Shinsei Financial, Showa Leasing and Shinki in its own tax loss carryforwards because they are not wholly-owned subsidiaries and, therefore, cannot be included in the Bank's consolidated corporation tax return.

34. OFF-BALANCE SHEET LENDING-RELATED FINANCIAL INSTRUMENTS

CONSOLIDATED

The Bank and certain of its consolidated subsidiaries issue commitments to extend credit and establish credit lines for overdrafts to meet the financing needs of their customers. The unfunded amounts of these commitments were ¥5,596,451 million (U.S.$56,972,933 thousand) and ¥4,436,578 million as of March 31, 2009 and 2008, out of which the amounts with original agreement terms of less than one year or which were cancelable were ¥5,343,168 million (U.S.$54,394,470 thousand) and ¥4,064,768 million as of March 31, 2009 and 2008, respectively. Since a large majority of these commitments expire without being drawn upon, the unfunded amounts do not necessarily represent future cash requirements. Many of such agreements include conditions granting the Bank and consolidated subsidiaries the right to reject the drawdown or to reduce the amount on the basis of changes in the financial circumstances of the borrower or other reasonable grounds.

In addition, the Bank obtains collateral when necessary to reduce credit risk related to these commitments.

35. RELATED PARTY TRANSACTIONS

CONSOLIDATED

From the fiscal year ended March 31, 2009, Accounting Standard for Related Party Disclosures and its Implementation Guidance, which had been revised on October 17, 2006, were applied. However, there were not any material items added to the current scope of disclosure as a result of adopting the revised standard.

Related party transactions for the fiscal years ended March 31, 2009 and 2008 were as follows:

			Amounts of the transactions			Balance at end of fiscal year		
			Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
Related party	Category	Description of the transactions	2009	2008	2009	2009	2008	2009
J.C. Flowers II L.P.(1)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Receipt of management fee(2)	¥ 216	¥ 215	$ 2,200	¥ 26	¥ 43	$ 272
		Investment(3)	11,088	4,172	112,884	—	—	—
		Dividend	432	1,686	4,404	—	—	—
J.C. Flowers III L.P.(4)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Investment(5)	468	—	4,773	—	—	—
Hillcot Holdings Limited(6)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Redemption of investment(6)	715	—	7,285	—	—	—
Hillcot Re Limited(7)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Guarantee(8)	—	—	—	—	397	—
NIBC Bank Ltd(9)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Loan participation(10)	724	456	7,371	1,093	570	11,124
NIBC Bank N.V.(11)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Commitment line(12)	13,009	15,742	132,434	—	—	—
Saturn I Sub (Cayman) Exempt Ltd.(13)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Third-Party Allotment(14)	—	2,148	—	—	—	—
Saturn Japan II Sub C.V.(15)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Third-Party Allotment(14)	—	2,334	—	—	—	—
Saturn Japan III Sub C.V.(15)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Third-Party Allotment(14)	—	11,599	—	—	—	—
Saturn IV Sub LP(15)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Third-Party Allotment(14)	—	33,917	—	—	—	—

Notes: (1) The fund is operated by J.C. Flowers & Co. LLC, of which a director of the Bank, J. Christopher Flowers, serves as chairman.
(2) The management fee is determined based on proportion of investment amounts by limited liability partner.
(3) The committed investment amounts are U.S.$200 million based on the limited partnership agreement.
(4) The fund is operated by J.C. Flowers & Co. LLC, of which a director of the Bank, J. Christopher Flowers, serves as chairman.
(5) The committed investment amounts are US$99.95 million based on the limited partnership agreement.
(6) Investment in capital of Hillcot Holdings Limited, which a director of the Bank, J. Christopher Flowers indirectly owns the majority of the voting rights and an affiliate of the Bank, was redeemed.
(7) The company is a wholly-owned subsidiary of Hillcot Holdings Limited which is the affiliate of the Bank accounted for by the equity method.
(8) Even after the acquisition by Hillcot Holdings Limited, the seller continues to guarantee Hillcot Re Limited against contingent liability arising from reinsurance agreements which Hillcot Re Limited assumed, and the Bank guarantees the seller against the contingent payment to be made by Hillcot Re Limited. This is part of an agreement reached at the acquisition and a guarantee fee is not specified.
(9) NIBC Holding N.V. owns 100% of voting rights, and J.C. Flowers & Co. LLC, of which a director of the Bank, J. Christopher Flowers, serves as chairman, substantially controls NIBC holding N.V.
(10) Considering the market circumstances, the transaction was concluded with the general terms and conditions that are identical to ones with independent third parties. Commitment line established is U.S.$11 million and the transaction amount indicated herein is the amount of loan outstanding.
(11) NIBC Holding N.V. indirectly owns 100% of voting rights, and J.C. Flowers & Co. LLC, of which a director of the Bank, J. Christopher Flowers, serves as chairman, substantially controls NIBC holding N.V.
(12) Considering the market circumstances, the transaction was concluded with the general terms and conditions that are identical to ones with independent third parties. The transaction amounts indicated herein are established commitment line amounts.
(13) The investment vehicle represented by J. Christopher Flowers, a director of the Bank.
(14) Terms of third-party allotment
(1) Number of common shares to be issued: 117,647,059 shares
(2) Issue price: ¥425 per share
(3) Aggregate issue price: ¥50,000,000,075
(4) Amount to be appropriated into capital: ¥25,000,000,038
(5) Offering period: February 1, 2008
(6) Payment date: February 4, 2008
(7) Delivery date of new share certificates: February 5, 2008
(8) Allottees and allotted shares:
Saturn I Sub (Cayman) Exempt Limited: 5,056,452 shares
Saturn Japan II Sub C.V.: 5,492,190 shares
Saturn Japan III Sub C.V.: 27,292,678 shares
Saturn IV Sub LP: 79,805,739 shares
(15) The investment vehicle, of which a board member of the general partner is J. Christopher Flowers, a director of the Bank.

PURPOSES

The Bank uses derivative financial instruments primarily to hedge risk for customers, to maximize the profit of its own trading account and to manage the potential risks in its own portfolios of assets and liabilities as a part of asset liability management.

RISK EXPOSURE

Derivative transactions may be subject to complex risk factors, including market risk, credit risk, liquidity risk, operational risk and legal risk. The Bank controls these risks under its risk management system. To manage market risk, the Bank uses Value-at-Risk ("VaR") modeling to quantify the maximum total exposure. In its internal model, the Bank measures the VaR based on one year's historical data and the assumptions of a ten-day holding period and a 99% confidence interval.

Also, to manage credit risk, the Bank utilizes the current exposure and potential exposure for derivatives, particularly for over-the-counter transactions such as swap contracts.

In addition, the fair value estimates for derivatives as of March 31, 2009 and 2008 were adjusted for credit risk by a reduction of ¥1,703 million (U.S.$17,342 thousand) and ¥1,590 million, respectively, and also adjusted for liquidity risk by a reduction of ¥7,111 million (U.S.$72,399 thousand) and ¥3,856 million, respectively, although the amounts of those risks are not reflected in the fair value shown in the tables below.

RISK MANAGEMENT SYSTEM

The Market Risk Management Division, which is independent of the front office, has the responsibility to manage the risk of the Group. This division controls the measurement of market risk on a daily basis, monitors the market risk status on both the banking and trading divisions and reports periodically to the management. Credit risk is also controlled by the unified credit line and major derivative products are dealt with within the established limits. Credit exposure is monitored accordingly and the Bank may require such things as collateral to reduce credit risk on a case-by-case basis.

It should be noted that the nominal contract value or notional principal amount is used in determining the value of receipts or payments of interest and as an indicator representative of the volume of transactions, but those values do not necessarily reflect such things as market risk or credit risk.

(A) INTEREST RATE-RELATED TRANSACTIONS

Interest rate-related transactions as of March 31, 2009 and 2008 were as follows:

	Millions of yen							
	2009				2008			
	Contract/Notional principal				Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Future contracts (listed):								
Sold	¥ 36,759	¥ 9,595	¥ (175)	¥ (175)	¥ 21,230	¥ —	¥ (2)	¥ (2)
Bought	140,269	5,876	209	209	20,159	—	54	54
Interest rate swaps (over-the-counter):								
Receive fixed and pay floating	5,853,395	4,831,444	147,897	147,897	5,856,476	5,221,639	100,670	100,670
Receive floating and pay fixed	4,264,034	3,214,516	(87,796)	(87,796)	4,316,438	3,498,017	(62,627)	(62,627)
Receive floating and pay floating	583,772	450,087	2,297	2,297	554,314	497,389	1,523	1,523
Interest rate swaptions (over-the-counter):								
Sold	2,223,348	1,181,848	(23,837)	971	2,300,955	2,086,391	(23,860)	644
Bought	2,571,248	2,401,494	(28,202)	(42,463)	2,680,731	2,479,847	(3,401)	(16,261)
Interest rate options (over-the-counter):								
Sold	103,114	86,023	(261)	989	118,604	101,500	(292)	1,762
Bought	121,125	92,445	48	(1,048)	144,731	104,826	129	(1,305)
Total			¥ 10,179	¥ 20,882			¥ 12,191	¥ 24,458

	Thousands of U.S. dollars			
	2009			
	Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Future contracts (listed):				
Sold	$ 374,215	$ 97,680	$ (1,781)	$ (1,781)
Bought	1,427,974	59,825	2,132	2,132
Interest rate swaps (over-the-counter):				
Receive fixed and pay floating	59,588,676	49,185,021	1,505,621	1,505,621
Receive floating and pay fixed	43,408,676	32,724,384	(893,782)	(893,782)
Receive floating and pay floating	5,942,910	4,581,979	23,385	23,385
Interest rate swaptions (over-the-counter):				
Sold	22,634,108	12,031,440	(242,670)	9,888
Bought	26,175,798	24,447,673	(287,106)	(432,281)
Interest rate options (over-the-counter):				
Sold	1,049,720	875,733	(2,663)	10,078
Bought	1,233,077	941,113	492	(10,675)
Total			$ 103,628	$ 212,585

(1) 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 was adopted were excluded from the table.

(2) Fair Values:
The fair values of listed transactions represent the closing price on the Tokyo Financial Exchange and other exchanges at the consolidated balance sheet date. The fair values of over-the-counter transactions are calculated mainly by using the discounted present values or option pricing models.

(B) CURRENCY-RELATED TRANSACTIONS

Currency-related transactions as of March 31, 2009 and 2008 were as follows:

	Millions of yen							
	2009				2008			
	Contract/Notional principal				Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Currency swaps (over-the-counter)	¥ 1,313,495	¥ 1,016,161	¥ (70,665)	¥ (70,665)	¥1,396,215	¥1,080,349	¥ 48	¥ 48
Forward foreign exchange contracts (over-the-counter):								
Sold	1,822,420	625,260	19,561	19,561	1,943,511	487,086	69,279	69,279
Bought	1,301,959	615,715	(25,905)	(25,905)	1,144,628	571,340	(58,823)	(58,823)
Currency options (over-the-counter):								
Sold	7,521,139	3,707,441	(223,046)	(19,620)	7,512,269	2,843,495	(224,691)	(68,213)
Bought	7,456,566	3,838,642	258,572	66,802	7,834,728	3,464,147	241,793	93,213
Total			¥ (41,484)	¥ (29,827)			¥ 27,606	¥ 35,505

	Thousands of U.S. dollars			
	2009			
	Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Currency swaps (over-the-counter)	$ 13,371,629	$ 10,344,715	$ (719,386)	$ (719,386)
Forward foreign exchange contracts (over-the-counter):				
Sold	18,552,587	6,365,267	199,135	199,135
Bought	13,254,191	6,268,097	(263,727)	(263,727)
Currency options (over-the-counter):				
Sold	76,566,620	37,742,460	(2,270,658)	(199,737)
Bought	75,909,262	39,078,106	2,632,314	680,065
Total			$ (422,322)	$ (303,650)

(1) 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 was adopted in accordance with Industry Audit Committee Report No. 25 of the JICPA were excluded from the table.

(2) Fair Values:

The fair values are calculated mainly by using the discounted present values or option pricing models.

(C) EQUITY-RELATED TRANSACTIONS

Equity-related transactions as of March 31, 2009 and 2008 were as follows:

	Millions of yen							
	2009				2008			
	Contract/Notional principal				Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Equity index futures (listed):								
Sold	¥ 37	¥ —	¥ (3)	¥ (3)	¥ 20,238	¥ —	¥ (893)	¥ (893)
Bought	16,192	—	753	753	—	—	—	—
Equity index options (listed):								
Sold	46,475	8,850	(2,226)	187	—	—	—	—
Bought	44,895	9,795	5,145	582	52	—	34	(17)
Equity options (over-the-counter):								
Sold	47,802	7,291	(9,998)	(1,661)	281,014	69,306	(18,574)	(3,307)
Bought	69,493	14,988	21,958	10,342	245,675	68,872	19,660	1,571
Equity index swaps (over-the-counter):								
Receive floating and pay index	1,000	1,000	85	85	1,000	1,000	95	95
Other (over-the-counter):								
Sold	24,998	24,900	(6,289)	(6,289)	24,999	24,999	(4,587)	(4,587)
Bought	166,436	159,429	26,822	26,800	162,484	160,321	19,718	19,696
Total			¥ 36,248	¥ 30,797			¥ 15,453	¥12,557

	Thousands of U.S. dollars			
	2009			
	Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Equity index futures (listed):				
Sold	$ 382	$ —	$ (31)	$ (31)
Bought	164,844	—	7,674	7,674
Equity index options (listed):				
Sold	473,124	90,094	(22,667)	1,913
Bought	457,039	99,714	52,386	5,925
Equity options (over-the-counter):				
Sold	486,638	74,233	(101,791)	(16,918)
Bought	707,458	152,590	223,543	105,289
Equity index swaps (over-the-counter):				
Receive floating and pay index	10,180	10,180	872	872
Other (over-the-counter):				
Sold	254,486	253,486	(64,032)	(64,032)
Bought	1,694,353	1,623,020	273,061	272,832
Total			$ 369,015	$313,524

(1) 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 was adopted were excluded from the table.

(2) Fair Values:

The fair values of listed transactions represent the closing price on the Tokyo Stock Exchange and other exchanges at the consolidated balance sheet date. The fair values of over-the-counter transactions are calculated mainly by using the discounted present values or option pricing models.

(D) BOND-RELATED TRANSACTIONS

Bond-related transactions as of March 31, 2009 and 2008 were as follows:

	Millions of yen							
	2009				2008			
	Contract/Notional principal				Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Bond futures (listed):								
Sold	**¥ 418**	**¥ —**	**¥ 3**	**¥ 3**	¥ 3,997	¥ —	¥ 3	¥ 3
Bought	**1,381**	**—**	**(0)**	**(0)**	4,583	—	29	29
Total			**¥ 3**	**¥ 3**			¥ 32	¥ 32

	Thousands of U.S. dollars			
	2009			
	Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Bond futures (listed):				
Sold	**$ 4,259**	**$ —**	**$ 40**	**$ 40**
Bought	**14,068**	**—**	**(5)**	**(5)**
Total			**$ 35**	**$ 35**

(1) 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 was adopted were excluded from the table.

(2) Fair Values:
The fair values of listed transactions represent the closing price on the Tokyo Stock Exchange and other exchanges at the consolidated balance sheet date.

36. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED) CONSOLIDATED

(E) CREDIT DERIVATIVES TRANSACTIONS

Credit derivatives transactions as of March 31, 2009 and 2008 were as follows:

	Millions of yen							
	2009				2008			
	Contract/Notional principal				Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Credit default option (over-the-counter):								
Sold	¥ 1,422,708	¥ 1,037,520	¥ (123,107)	¥ (123,107)	¥ 1,554,106	¥ 1,479,096	¥ (33,142)	¥ (49,042)
Bought	1,352,852	1,028,922	139,688	139,688	1,516,835	1,365,653	57,261	57,261
Total			¥ 16,580	¥ 16,580			¥ 24,119	¥ 8,219

	Thousands of U.S. dollars			
	2009			
	Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Credit default option (over-the-counter):				
Sold	$ 14,483,442	$ 10,562,156	$ (1,253,260)	$ (1,253,260)
Bought	13,772,295	10,474,622	1,422,051	1,422,051
Total			$ 168,791	$ 168,791

(1) 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 was adopted were excluded from the table.

(2) Fair Values:
The fair values are calculated by using the discounted present values or other models.

(3) "Sold" stands for accepting credit risk and "Bought" stands for transferring credit risk.

37. NET INCOME PER COMMON SHARE CONSOLIDATED

Diluted net income per share for the fiscal year ended March 31, 2009 is not disclosed because of the Group's net loss position.

Basic net income per common share ("EPS") for the fiscal year ended March 31, 2009 is as follows:

	Net income (loss) (Millions of yen)	Weighted average shares (Thousands)	EPS (Yen)	EPS (U.S. dollars)
For the fiscal year ended March 31, 2009:				
Basic EPS				
Net income available to common shareholders	¥ (143,084)	1,963,916	¥ (72.85)	$ (0.74)

A reconciliation of the differences between basic and diluted EPS for the fiscal year ended March 31, 2008 is as follows:

	Net income (Millions of yen)	Weighted average shares (Thousands)	EPS (Yen)
For the fiscal year ended March 31, 2008:			
Basic EPS			
Net income available to common shareholders	¥ 59,624	1,529,530	¥ 38.98
Effect of dilutive securities			
Preferred stock	484	322,815	
Diluted EPS			
Net income for computation	¥ 60,108	1,852,346	¥ 32.44

INDEPENDENT AUDITORS' REPORT

Deloitte.

Deloitte Touche Tohmatsu
MS Shibaura Building
4-13-23, Shibaura
Minato-ku, Tokyo 108-8530
Japan
Tel: +81(3)3457 7321
Fax: +81(3)3457 1694
www.deloitte.com/jp

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Shinsei Bank, Limited:

We have audited the accompanying consolidated balance sheets of Shinsei Bank, Limited (the "Bank") and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of operations, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank and consolidated subsidiaries as of March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 17, 2009

Member of
Deloitte Touche Tohmatsu

Independent Auditors' Report
Financial Highlights / Message from the Management
Review of Operations
Management Structure
Data Section

NON-CONSOLIDATED BALANCE SHEETS (UNAUDITED)

Shinsei Bank, Limited
As of March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note)
	2009	2008	**2009**
ASSETS			
Cash and due from banks	**¥ 411,999**	¥ 272,940	**$ 4,194,235**
Receivables under resale agreements	**—**	2,014	**—**
Collateral related to securities borrowing transactions	**131**	13,850	**1,340**
Other monetary claims purchased	**666,126**	161,344	**6,781,297**
Trading assets	**326,038**	275,136	**3,319,137**
Monetary assets held in trust	**573,032**	606,018	**5,833,579**
Securities	**2,626,047**	2,300,303	**26,733,658**
Valuation allowance for investments	**(3,370)**	(3,370)	**(34,314)**
Loans and bills discounted	**5,168,004**	5,356,363	**52,611,267**
Foreign exchanges	**37,138**	17,852	**378,080**
Other assets	**977,924**	577,856	**9,955,454**
Premises and equipment	**18,856**	20,895	**191,962**
Intangible assets	**13,477**	14,560	**137,204**
Deferred issuance expenses for debentures	**161**	125	**1,644**
Deferred tax assets	**4,329**	14,697	**44,077**
Customers' liabilities for acceptances and guarantees	**12,556**	11,746	**127,829**
Reserve for credit losses	**(118,960)**	(93,662)	**(1,211,042)**
Total assets	**¥ 10,713,494**	¥ 9,548,673	**$ 109,065,407**
LIABILITIES AND EQUITY			
Liabilities:			
Deposits, including negotiable certificates of deposit	**¥ 6,897,491**	¥ 5,865,130	**$ 70,217,764**
Debentures	**676,767**	663,134	**6,889,621**
Call money	**281,513**	632,117	**2,865,863**
Payables under repurchase agreements	**53,805**	—	**547,746**
Collateral related to securities lending transactions	**569,566**	148,421	**5,798,293**
Trading liabilities	**316,068**	203,716	**3,217,637**
Borrowed money	**425,371**	304,078	**4,330,359**
Foreign exchanges	**226**	269	**2,304**
Corporate bonds	**402,453**	519,902	**4,097,052**
Other liabilities	**495,016**	450,643	**5,039,365**
Accrued employees' bonuses	**7,191**	10,341	**73,206**
Reserve for employees' retirement benefits	**55**	1,554	**570**
Reserve for losses on disposal of premises and equipment	**6,911**	4,913	**70,363**
Reserve for losses on litigation	**3,662**	—	**37,289**
Acceptances and guarantees	**12,556**	11,746	**127,829**
Total liabilities	**10,148,658**	8,815,970	**103,315,261**
Equity:			
Capital stock:			
Common stock	**476,296**	476,296	**4,848,793**
Capital surplus	**43,558**	43,558	**443,432**
Stock acquisition rights	**1,808**	1,257	**18,406**
Retained earnings:			
Legal reserve	**11,035**	9,880	**112,346**
Unappropriated retained earnings	**143,418**	307,395	**1,460,028**
Unrealized gain (loss) on available-for-sale securities	**(38,049)**	(35,024)	**(387,355)**
Deferred gain (loss) on derivatives under hedge accounting	**(672)**	1,896	**(6,843)**
Treasury stock, at cost	**(72,558)**	(72,557)	**(738,661)**
Total equity	**564,836**	732,703	**5,750,146**
Total liabilities and equity	**¥ 10,713,494**	¥ 9,548,673	**$ 109,065,407**

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥98.23=U.S.$1.00, the rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 31, 2009.

NON-CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

Shinsei Bank, Limited
For the fiscal years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note)
	2009	2008	**2009**
Interest income:			
Interest on loans and bills discounted	**¥ 110,770**	¥ 111,601	**$ 1,127,661**
Interest and dividends on securities	**59,458**	76,969	**605,302**
Interest on deposits with banks	**1,488**	4,695	**15,151**
Other interest income	**11,019**	6,536	**112,183**
Total interest income	**182,737**	199,803	**1,860,297**
Interest expenses:			
Interest on deposits, including negotiable certificates of deposit	**52,419**	48,019	**533,645**
Interest and discounts on debentures	**5,026**	3,398	**51,166**
Interest on other borrowings	**10,166**	18,718	**103,497**
Interest on corporate bonds	**20,266**	24,564	**206,319**
Other interest expenses	**8,488**	6,293	**86,418**
Total interest expenses	**96,368**	100,993	**981,045**
Net interest income	**86,368**	98,809	**879,252**
Fees and commissions income	**18,963**	27,459	**193,051**
Fees and commissions expenses	**13,415**	15,960	**136,568**
Net fees and commissions	**5,548**	11,498	**56,483**
Net trading income (loss)	**(5,690)**	6,990	**(57,934)**
Other business income (loss), net:			
Income on monetary assets held in trust, net	**5,770**	37,339	**58,746**
Net gain (loss) on foreign exchanges	**13,336**	(727)	**135,771**
Net gain (loss) on securities	**(103,884)**	(13,822)	**(1,057,568)**
Net gain (loss) on other monetary claims purchased	**(65)**	223	**(662)**
Other, net	**(4,574)**	956	**(46,568)**
Net other business income (loss)	**(89,416)**	23,969	**(910,281)**
Total revenue (loss)	**(3,190)**	141,268	**(32,480)**
General and administrative expenses:			
Personnel expenses	**33,137**	34,023	**337,350**
Premises expenses	**10,583**	11,708	**107,746**
Technology and data processing expenses	**10,715**	10,669	**109,083**
Advertising expenses	**1,649**	3,120	**16,793**
Consumption and property taxes	**3,452**	4,274	**35,148**
Deposit insurance premium	**3,888**	3,431	**39,589**
Other general and administrative expenses	**18,313**	18,452	**186,434**
Total general and administrative expenses	**81,741**	85,681	**832,143**
Net business profit (loss)	**(84,931)**	55,586	**(864,623)**
Net credit costs (recoveries)	**77,968**	20,552	**793,737**
Other gains (losses), net	**11,501**	23,282	**117,084**
Income (loss) before income taxes	**(151,399)**	58,317	**(1,541,276)**
Income taxes (benefit):			
Current	**(4,184)**	(7,666)	**(42,597)**
Deferred	**9,833**	12,780	**100,102**
Net income (loss)	**¥ (157,048)**	¥ 53,203	**$ (1,598,781)**

	Yen		U.S. dollars (Note)
Basic net income (loss) per common share	**¥ (79.96)**	¥ 34.46	**$ (0.81)**
Diluted net income per common share	**—**	28.72	**—**

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥98.23=U.S.$1.00, the rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 31, 2009.

NON-CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

Shinsei Bank, Limited
For the fiscal years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note)
	2009	2008	2009
Common stock:			
Balance at beginning of year	¥ 476,296	¥ 291,853	$ 4,848,793
Issuance of new shares of common stock	—	25,000	—
Conversion from preferred stock	—	159,443	—
Balance at end of year	476,296	476,296	4,848,793
Preferred stock:			
Balance at beginning of year	—	159,443	—
Conversion into common stock	—	(159,443)	—
Balance at end of year	—	—	—
Capital surplus:			
Balance at beginning of year	43,558	18,558	443,432
Issuance of new shares of common stock	—	25,000	—
Balance at end of year	43,558	43,558	443,432
Stock acquisition rights:			
Balance at beginning of year	1,257	517	12,805
Net change during the year	550	740	5,601
Balance at end of year	1,808	1,257	18,406
Retained earnings:			
Legal reserve:			
Balance at beginning of year	9,880	9,266	100,590
Transfer from unappropriated retained earnings	1,154	614	11,756
Balance at end of year	11,035	9,880	112,346
Unappropriated retained earnings:			
Balance at beginning of year	307,395	257,878	3,129,345
Appropriation:			
Transfer to legal reserve	—	(614)	—
Dividends paid	(6,928)	(3,072)	(70,536)
Net income (loss)	(157,048)	53,203	(1,598,781)
Balance at end of year	143,418	307,395	1,460,028
Unrealized gain (loss) on available-for-sale securities:			
Balance at beginning of year	(35,024)	4,181	(356,559)
Net change during the year	(3,025)	(39,206)	(30,796)
Balance at end of year	(38,049)	(35,024)	(387,355)
Deferred gain (loss) on derivatives under hedge accounting:			
Balance at beginning of year	1,896	(10,275)	19,303
Net change during the year	(2,568)	12,172	(26,146)
Balance at end of year	(672)	1,896	(6,843)
Treasury stock, at cost:			
Balance at beginning of year	(72,557)	(72,555)	(738,652)
Purchase of treasury stock	(0)	(1)	(9)
Balance at end of year	(72,558)	(72,557)	(738,661)
Total equity	¥ 564,836	¥ 732,703	$ 5,750,146

Note: dollar amounts, presented solely for the readers' convenience, are translated at ¥98.23=U.S.$1.00, the rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 31, 2009.

BASEL II PILLAR III (MARKET DISCIPLINE) DISCLOSURE

This section describes the information consistent with the Japanese FSA Notification Number 15, based on Article 19.2.1.5.d of the Bank Law Enforcement Rule (Refer to Ministry of Finance Ordinance Number 10), herein referred to as Basel II Pillar III, issued on March 23, 2007. The Accord in this section refers to the Japanese FSA Notification Number 19, herein referred to as Basel II Pillar I, issued on March 27, 2006.

QUALITATIVE DISCLOSURE

1. SHINSEI BANK'S APPROACH TO RISK CAPITAL MANAGEMENT

As part of its comprehensive risk management, Shinsei Bank (the "Bank"), at the start of its fiscal year, determines a Risk Capital budget in consideration of its regulatory capital. This Risk Capital budget is allocated to each business line and monitored. Each month the Management Committee receives a report on the amount of Risk Capital used and the relevant regulatory capital. In this way, senior management can monitor and assess the availability of capital to support current and future activities. At least once a year, the Bank performs stress tests on its estimates of Risk Capital and regulatory capital.

The Bank's current portfolio analysis indicates that there is sufficient capital for regulatory requirements. The Bank will aim to improve capital ratios through the procurement of subordinated debt at a reasonable cost level.

- Regulatory capital is calculated for both consolidated and non-consolidated subsidiaries. The Bank's investments in non-consolidated subsidiaries are deducted from Shinsei Bank's regulatory capital.
- In accordance with the Accord's Article 38, the Bank Group's four foreign special purpose companies, which issued preferred securities, are included in the calculation of the non-consolidated capital ratio.

2. CHARACTERIZATION OF BANK SUBSIDIARIES

As of March 31, 2009, there were 126 consolidated subsidiaries and 99 unconsolidated subsidiaries. 75 of these unconsolidated subsidiaries are subsidiaries of Showa Leasing Co., Ltd. The majority of the Showa Leasing subsidiaries are partnerships set up to accommodate leveraged leases.

Among the consolidated subsidiaries, the primary operating companies were:

- Shinsei Trust & Banking Co., Ltd. (trust banking)
- Shinsei Securities Co., Ltd. (securities)
- APLUS Co., Ltd. (installment credit)
- Showa Leasing Co., Ltd. (leasing)
- SHINKI Co., Ltd. (consumer finance)
- SHINSEI FINANCIAL Co., Ltd. (consumer finance)

3. TYPES OF CAPITAL INSTRUMENTS

The Bank has issued common shares, preferred securities, perpetual subordinated bonds and loans, and dated subordinated bonds and loans. Please see "Management Discussion and Analysis of Financial Condition and Results of Operations - Capital Ratios" on page 88 for details on the amount outstanding for each type of capital instrument.

4. CREDIT RISK MANAGEMENT POLICIES AND PROCEDURES

DEFINITION OF CREDIT RISK

Credit risk is defined as the risk of an obligor or counterparty failing to meet its obligations as specified in a transaction agreement. In the case of a loan, credit risk arises from the obligor becoming unable to pay its contractual spread and ultimately finding itself unable to repay the loan principal. Credit risk is found in a variety of transactions across the Bank's portfolio including not only loans, bonds and financial guarantees, but also the risk of a counterparty in a derivative transaction becoming unable to meet its obligations. Credit risk constitutes the largest risk to which the Bank is exposed. The Bank has invested in systems to facilitate credit risk management across its portfolio. As the Bank integrates new subsidiaries and new asset classes into its portfolio, these systems are expanded to accommodate new exposures added to the Bank's portfolio.

CREDIT RISK MANAGEMENT SYSTEM

The Bank's credit risk policies and systems focus on strategic portfolio management, including:

- Assisting management in building a portfolio with a satisfactory return per unit of risk,
- Managing concentration risk that may arise from excessive exposure to particular products or sectors,
- Estimating expected loss as a guide for determining reserve levels against expected portfolio losses,
- Determining how much capital to hold in the event of unexpected, extreme loss, and
- Facilitating stress testing to evaluate the portfolio's strength.

In order to achieve these stated goals, the Bank has established guidelines for managing credit risk as outlined in Shinsei Bank's Core Credit Policies and Procedures.

The credit risk management process focuses on both specific transactions and on groups of specific exposures as portfolios. We will consider each component of this process below:

CREDIT RISK MANAGEMENT OF SPECIFIC TRANSACTIONS

(1) Organization and Systems

What is important in credit risk management for individual transactions is to establish effective check and balance framework in the processes of transaction screening/assessment, approvals, ongoing monitoring, action in the event of deterioration, and repayment or termination of transactions. As a general rule, Shinsei Bank assigns approval authorities to the credit analyses sections in the Risk Management Group independent from Business Groups.

Credit transactions can only be approved by unanimous decision by Business Groups and Risk Management Groups to maintain objectivity and transparency. This means that credit transactions can not be approved by a single person, and that the Risk Management Group has veto right for any credit transactions.

Once a corporate loan transaction opportunity has been identified, the approval process begins. Based on the size, Obligor/Facility Ratings, and total exposure amount for obligor groups, the Bank's rules stipulate whether approval will be given by the Credit Committee (CC) or other approval authorities.

Shinsei Bank spans new businesses/products such as credit trading to meet customers' needs and to take business opportunities. The Transaction Approval Committee (TAC) is held to closely examine the transactions from legal, compliance, financial and accounting viewpoints. Final approvals are made by unanimous decision by Business Groups and Risk Management Groups, indicative that the Risk Management Group has veto rights.

The Risk Policy Committee (RPC) is established as a forum to review business strategy regarding risk appetite, and to decide policy to manage products/sub-portfolios based on business strategy and the risk-taking plans of each business.

(2) Obligor Rating System

For corporate exposures, the Bank uses an internal obligor rating system with the following characteristics:

- A model is used to ensure a high level of discriminatory power
- Qualitative factors are incorporated
- Methodology is consistent with ratings issued by external rating agencies
- Consolidated financial statements are incorporated
- Ratings are consistent across industries

The Bank's credit model is designed, based on a set of data, to calculate obligor ratings that are consistent with external agency ratings. The quantitatively-derived ratings are then adjusted to account for various qualitative factors. Obligor ratings shall be discussed at the "Credit Rating Review Committee" and determined with transaction approval in order to ensure objectivity and transparency. These ratings are also consistent with the obligor categorizations determined by self assessments.

The Bank's internal obligor ratings are fundamental to the credit approval process, the credit risk monitoring process, and credit portfolio management. In addition to obligor ratings, the Bank determines facility ratings, taking specific characteristics of the transaction into account, based on the potential loss of each transaction.

Since January 2007, an obligor rating system and facility rating system similar to those adopted in the Bank have been introduced in the analysis of major customers of lease receivables at Showa Leasing.

(3) Pool Classification

Given the large number of retail exposures, the Bank pools these exposures based on characteristics that create reasonably homogeneous sub-portfolios of borrowers. In this way, the Bank conducts timely and regular analysis of both sub-portfolios of exposures as well as the entire Bank Group's portfolio. The principal retail exposures to which pool classification is applied are housing loans originated by the Bank itself, the installment credit receivables of APLUS, and small-lot leasing transactions of Showa Leasing.

PORTFOLIO-BASED CREDIT RISK MANAGEMENT

The accumulation of a portfolio of exposures creates the possibility of concentration risk. The Portfolio and Risk Management Division (PRMD) analyzes such risks and monitors the diversification of the portfolio. Diversification is analyzed across industries, ratings, customer types, and corporate groups. Each month PRMD prepares a report for management on the Bank Group's portfolio as well as on obligor ratings transition factors. On a quarterly basis, PRMD submits to the RPC a comprehensive report concerning the Bank Group's portfolio including analysis of the factors driving diversification.

PRINCIPAL "CREDIT RISK MANAGEMENT STANDARDS"

For Basel II, the Foundation Internal Ratings-Based Approach (F-IRB) has been adopted by the Bank for calculation of credit risk-weighted assets. In accordance with this approach, the Bank established "Credit Risk Management Standards," which document the framework. This documentation also covers the details of the Bank's internal rating system, which covers rating design and operation, internal control, use of internal rating and risk quantification.

These Standards contain "Shinsei Bank's Core Credit Policies," describing basic principles of the Bank's internal rating system. In addition, these Standards provide the details of management policy and procedures in the form of specific rules for each group of exposures in the portfolio.

INTERNAL CONTROL ROLES AND RESPONSIBILITIES

The Bank Group's internal control system for credit risk management has been set up in accordance with current regulations.

(1) Credit Risk Management
The risk management sections of the Bank and its subsidiaries undertake the roles and responsibilities for the Bank's management of credit risk. Functions are divided into Credit Risk Management Sections, responsible for the management of each asset category, and the Credit Risk Control Section (a section specified in the Risk Management Group of the Bank), responsible for management across asset categories.

(2) The Board of Directors and the Management Committee
As the Bank is a "Company with Committees" (*iinkai setchi-gaisha*), the authority to execute business operations is delegated to the Management Committee. The Management Committee makes operational business decisions. Specifically, the Management Committee grants approval for the establishment, revision and repeal of fundamental rules governing the design and operations of the Bank's internal rating system as well as the estimation and validation of parameters used in this system.

(3) Overall Executive Oversight
The President (Representative Executive Officer), Chief Financial Officer (CFO) and Head of the Risk Management Group undertake this role and responsibility.

(4) Daily Operational Executive Oversight
Head of the Risk Management Group undertakes this role and responsibility.

(5) Audit Section
The Internal Audit Section evaluates the Bank's internal rating system and ensures the system is in compliance with existing regulations.

APPLICATION OF THE INTERNAL RATING SYSTEM

The Bank uses its own internal rating systems for portfolios to which the F-IRB Approach are applied. These items are listed in the "Exhibit" for each portfolio.

The internal rating system is applied to corporate and retail exposures as categorized below. The rules for applying the internal rating system are part of the Bank's overall "Credit Risk Management Standards."

(1) Corporate Exposure
• Corporate exposure
• Financial institution exposure
• Sovereign exposure
• Non-recourse real estate loans (specialized lending using slotting criteria)
• Credit trading claims
• Claims not subject to pool management
• Claims against individuals for the purpose of funding a business
• Claims against a business with exposure after "aggregation" *(nayose)* on a consolidated basis of ¥100 million or more

(2) Retail Exposure
Retail exposures are defined as:
• Exposures subject to pool management
• Claims against an individual (except for a claim for the purpose of funding business operations), or claims against a corporation (including an individual with the purpose of funding a business) with an outstanding amount of less than ¥100 million after the "aggregation" *(nayose)* on a consolidated basis.

Features of these products and credit analysis standards may vary between the Bank and its subsidiaries. As such, specific pool classification systems for each product are applied at each entity, in accordance with established guidelines.

ESTIMATION AND VALIDATION OF PARAMETERS

The approach for estimation and validation of parameters such as Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) is set forth in "Credit Risk Management Standards." Ratings, pool classifications and estimated parameters are also used for internal control. Depending on the specific characteristics of the Bank Group's portfolios, the parameters used for internal control may differ from the parameters used in the course of calculating the regulatory capital ratio of the Bank Group. The existence of differences and the rationale for such differences is stated in the guidelines for parameter estimation and validation.

STRESS TESTS

Specific implementation guidelines are established for stress tests used in the assessment of capital adequacy, and credit risk stress tests to assess the effect of certain specific conditions on the Bank's regulatory capital requirements. Stress test results are reported to senior management at least once a year.

RESERVE POLICY

A reserve for credit losses of the Bank and its subsidiaries is provided as detailed below, pursuant to the predetermined internal rules for providing such reserves according to the obligor categorizations based on the self assessment of their assets.

A general reserve for claims against normal obligors, need-caution obligors and substandard obligors is provided based on the specific actual past loss experience.

A specific reserve for claims to possibly bankrupt, virtually bankrupt and legally bankrupt obligors is provided based on the full amount of the unsecured, un-guaranteed portion of the respective claims after a solvency assessment.

QUALITATIVE DISCLOSURE (CONTINUED)

For claims against obligors that are possibly bankrupt (that is, those that are not presently bankrupt but are likely to go bankrupt in the future), a specific reserve is provided for the amount considered to be necessary based on an overall solvency assessment performed for the amount of claims, net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

For claims against obligors that are legally bankrupt (due to bankruptcy and special liquidation) or virtually bankrupt, a specific reserve is provided based on the amount of claims, net of amounts expected to be collected through the disposal of collateral or execution of guarantees.

The reserve for loans to restructuring countries is provided based on the amount of expected losses due to the political and economic situation in each country.

Additionally, with regard to claims against possibly bankrupt obligors and substandard obligors, a reserve is provided based on the discounted cash flow method when the obligor's future cash flows for debt service are reasonably estimable and the balance of claims to such obligors is large.

TRANSITION PLAN FOR MOVING A PORTION OF THE BANK'S PORTFOLIO, WHICH HAS NOT YET APPLIED F-IRB, FROM THE STANDARDIZED APPROACH TO THE F-IRB APPROACH

The F-IRB Approach will be applied at a future date to the two portfolios and three entities listed below. Currently, these portfolios and the portfolio of these three entities are considered to be comprised of "roll-out" exposures. The Bank follows the Standardized Approach for evaluating these exposures.

(1) Residential mortgages at the Bank: because this business started in 2003, the Bank has not collected enough historical default data (especially for estimation of LGD) for F-IRB calculation. Once the Bank has collected sufficient historical default data (in three years), IRB (retail) will be applied to this portfolio.

(2) Zen-Nichi-Shinpan: a subsidiary consolidated to Shinsei in fiscal year 2005. To secure historical data for a longer period and to further develop its internal rating system, the Bank Group plans to apply IRB (retail) for this subsidiary one year from now.

(3) Shinki: a subsidiary consolidated to Shinsei in fiscal year 2007. To secure historical data for a longer period and to further develop its internal rating system, the Bank Group plans to apply IRB (retail) for this subsidiary two years from now.

(4) Unsecured personal loans at the Bank: the business was started in fiscal year 2008. A detailed roll-out plan for IRB (retail) adoption will be finalized based on data accumulation for parameter estimates and an examination of business development.

(5) Shinsei Financial: a subsidiary consolidated to Shinsei in fiscal year 2008. To secure historical data for a longer period and to further develop its internal rating system, the Bank Group plans to apply IRB (retail) for this subsidiary three years from now.

In the case of portfolios to which the Standardized Approach is applied, the Bank will use ratings from the following qualified rating agencies to determine exposure risk weights:

S&P, Moody's, Fitch, R&I and JCR

CREDIT RISK MITIGATION POLICIES AND PROCEDURES

(1) Policies and framework for mitigating credit risk
The Bank mitigates credit exposure with collateral and guarantees to reduce the credit risk of obligors. The Bank has a clear framework regarding methods for mitigating credit risk. Basic procedures and descriptions of controls, as well as types of standard collateral, guarantees necessary in granting credit, evaluation methods for different types of credit and collateral, possible "haircuts" to collateral and regular revaluation of collateral, are stipulated in the Bank's credit procedures.

(2) Controls concerning overall methods to mitigate credit risk
The Bank uses net exposure for capital calculations after netting deposit and loan claims. All collateral and guarantees are registered in a dedicated system. The information is linked to obligor and credit account data. Collateral and guarantees are revalued at least once a year. Perfection of security interest, currency, date and correlation between collateral and counterparty are checked. The Bank uses credit derivatives for credit risk mitigation in required regulatory capital calculations as active credit portfolio management.

(3) Eligible financial asset collateral
Financial asset collateral types are defined by the Bank to include deposits, fixed income securities, equities and commercial paper.

(4) Eligible collateralized claims
Collateral types in this category include commercial bills, rights to claim return of security deposits, rights to claim return of construction funds, loan receivables, leasing and sales installment receivables and beneficial interests in trust.

(5) Eligible real estate collateral
Collateral types in this category include land and buildings, plants and foundations including industrial foundations.

(6) Other asset-backed collateral
Eligible other asset-backed collateral is defined by the Bank as aircraft and ships.

(7) Guarantees
Guarantors are classified into the following categories: governments, central banks, municipalities, public institutions, credit

guarantee associations, banks, general business entities and individuals.

5. POLICIES AND PROCEDURES FOR COUNTERPARTIES OF DERIVATIVE PRODUCT AND TRANSACTIONS WITH LONG-HORIZON SETTLEMENT PERIODS

COUNTERPARTY RISK

Credit risk arising from market trading, such as derivatives, is controlled based on fair market value and estimation of future price volatility.

ALLOCATION OF CREDIT LIMITS

In order to accurately reflect the Bank's overall exposure, counterparty limits are added to any other credit exposure for each obligor. As risk embedded in market transactions changes with market movement, the Bank strictly manages its exposures using estimation of future market volatilities.

CREDIT ENHANCEMENT BASED ON COLLATERAL AND RESERVES

Credit enhancement measures are taken to mitigate the Bank's concerns regarding certain obligors' credit quality as well as concentration risk in the Bank's portfolio.

The Bank follows the guidelines outlined in the ISDA Credit Support Annex (CSA), which has been accepted by many financial institutions. Reserves are calculated based on expected losses according to the counterparty's credit quality, and are taken into consideration in the mark-to-market process.

POSSIBILITY OF THE BANK POSTING ADDITIONAL COLLATERAL DUE TO A DECLINE IN THE BANK'S CREDIT QUALITY

If the Bank's credit quality were to decline and be reflected as such in the assignment of lower external ratings, the Bank may be required to provide additional collateral to counterparties in transactions subject to the ISDA Credit Support Annex (CSA).

6. EQUITY RISK MANAGEMENT

The Bank's equity investments are mainly composed of strategic merger/acquisition or business alliance related transactions, which are approved by the Management Committee, and investment business related transactions, which are approved by the Transaction Approval Committee (TAC).

The risk management methodologies for these investments are determined based on their investment types and purposes. Each risk is recognized and monitored appropriately by evaluating underlying assets/enterprise value, and/or calculating VaR. For securities that do not have fair market value, self assessment is conducted every quarter.

Securities of subsidiaries and affiliated companies are stated at cost calculated by the moving-average method. Securities available-for-sale whose fair value is readily determinable are stated at fair value at the end of the fiscal year (sales cost is determined by the moving-average method) and other non-marketable securities are stated at cost or amortized cost computed by the moving-average method.

7. SECURITIZATION EXPOSURE RISK MANAGEMENT POLICIES AND PROCEDURES

BANK RULES

The Bank manages securitization transactions as follows:

(1) Originator

For fundraising, mitigation of exposure concentration, transfer of credit risk and balance sheet management purposes, the Bank securitizes loans, APLUS securitizes card credit/installment sale receivables and Shinsei Financial securitizes consumer loan receivables.

As an originator, the Bank manages the credit risk of its securitized transactions using the assumption that original assets are maintained on its books. Since the purpose of these transactions includes acquiring funds, mitigating exposure concentration, transferring credit risk and managing the Bank's balance sheet, securitization transactions are a tool to control liquidity risk.

(2) Investor

In order to invest in assets whose credit risks are different from those of existing corporate exposure and to enhance the profit-earning opportunity, the Bank invests in securitization transactions which are backed by various financial products.

The Bank also re-securitizes some securitized products of which the Bank has purchased and may hold the subordinated/residual portion.

As a general rule, the Risk Management Group which is fully independent from the Business Group, manages the risks arising from securitization exposure, and risk management/monitoring methodologies and risk taking/reduction policies are specified according to the types of products. Although the Bank does not actively intend to increase securitization exposure at this moment, aforementioned procedure defined in "4. Credit Risk Management and Procedures, Credit Risk Management of Specific Transactions" will be followed for new investments after specifying and recognizing the risk profile, product specifics, nature of underlying assets and structure including credit enhancement, etc.

When the Bank invests in and monitors securitization exposures, the Bank focuses on external ratings and their changes as one of the effective indicators. The Bank not only refers to the external ratings but also monitors the actual performance of underlying assets through trustee reports and independently analyzes the forecasted performance of underlying assets to assign an internal rating to each transaction.

The risks related to securitization exposures are properly identified and managed. Risk Capital is calculated based on the internal rating assigned to each transaction. In addition, if the investments fall under the category of securities that do not have fair value or market value, the Bank recognizes and manages the risk through self-assessment. The investment judgment is determined based on those analyses and expected return. After the investment is executed, the performance of underlying assets is monitored on an ongoing basis and the Bank monitors the impact of covenants and "triggers" on the risk of each securitization exposure.

In terms of the reporting, transactions to be watched because of changes in environment/markets or for specific reasons are listed and reported to the senior management, together with the Bank's overall portfolio including securitization exposure. The report comprehensively covers the amount of credit risk, outstanding amount of investments, change in portfolio, characteristics of risk profile, and new/exit transactions, etc. Situations on the portfolio are reported to the Risk Policy Committee by the Risk Management Group every quarter.

(3) Servicer

The Bank acts as a servicer when loans, which were originated by the Bank, are used as underlying assets in securitization.

Similarly, when financial assets originated by APLUS are used as underlying assets for a securitization, APLUS serves as a servicer. Furthermore, as for securitization transactions backed by consumer loans that were originated by Shinsei Financial, Shinsei Financial serves as a servicer.

(4) Swap provider

In some transactions wherein the Bank is the arranger, the Bank provides swaps in order to mitigate interest rate risk within a specified range or to manage any cashflow difference between interest from underlying assets and coupons from the securities backed by the same assets.

CALCULATION METHODS FOR DETERMINING THE AMOUNT OF CREDIT RISK IN THE CONTEXT OF SECURITIZATION EXPOSURE

Risk weights are calculated based on internal rules entitled "Standards for Administering Risk Weight Calculation for Securitization Exposure." In general, the amount of credit risk assets related to securitization exposures is calculated using the Ratings-Based Approach (RBA).

In certain cases, where ratings have not been assigned by qualified rating agencies, the Risk Management Group and Finance Group may approve exceptions to using the RBA. For such transactions, the Bank has sufficient data to estimate PDs and LGDs of the original assets, and therefore can calculate the transaction-specific PDs, LGDs and credit risk amount based on the Supervisory Formula Approach.

Where no ratings are assigned by qualified rating agencies and no data are available for estimating the PDs and LGDs of original assets, the Bank's investment amount is deducted from the Bank's capital.

ACCOUNTING POLICY ADOPTED FOR SECURITIZATION TRANSACTIONS

(1) When assets to be securitized are owned by the Bank, securitization assets are removed from the balance sheet and assignment of gains and losses are calculated based on the financial component (*zaimu-kousei-youso*) approach.

The assets sold and retained interests are recognized as separate components of a transfer of financial assets. Those components in the transferred assets are measured by allocating the previous carrying amount between the assets sold and retained interests based on the relative fair values at the time of transfer. Based on the calculated values of assets that are sold, gains or losses on the transfer are recognized.

However, when assets are securitized for fundraising purposes, the book value to be credited on the balance sheet is adjusted in order to prevent generating any initial profits, after removing the assets from the balance sheet using the financial component approach.

(2) When the Bank purchases securitized products, Accounting Standards for Financial Products apply to each financial asset.

(3) Fee income earned by the Bank in arranging securitization for other parties (no investment) is treated as non-interest income.

QUALIFIED RATING AGENCIES WHOSE RATINGS ARE USED BY THE BANK IN DETERMINING SECURITIZED EXPOSURE TYPE-SPECIFIC RISK WEIGHTS:

S&P, Moody's, Fitch, R&I, and JCR.

8. MARKET RISK MANAGEMENT POLICIES AND PROCEDURES

DEFINITION OF MARKET RISK

Market risk, which is the risk associated with changes in the value of financial instruments from fluctuations in bond prices, foreign exchange rates, interest rates, stock prices, credit spread and other market-determined price mechanisms, is inherent in all assets and liabilities, as well as off-balance sheet transactions.

MARKET RISK MANAGEMENT POLICY

We manage market risk by segregating the overall balance sheet into a trading book and a banking book. The ALM Committee, chaired by the Bank's CEO, is the senior review and decision-making body for the management of all market risks related to asset/liability management. The actual risk limits for asset/liability management as well as trading, such as the Value-at-Risk (VaR) method, are approved by the ALM Committee. VaR is the potential loss in value of the Bank's trading book positions due to market movements over a defined time horizon with a specified confidence level.

The Market Risk Management Committee serves as an arm of the ALM Committee and is chaired by the head of the Risk Management Group, with senior representatives from related divisions. The committee meets weekly to review detailed market risk and liquidity reports from the Market Risk Management Division, which is responsible for the objective and timely recognition, monitoring and reporting of market risk in both the Bank's trading and banking operations. In addition to reporting risk information to management, administrative divisions and front office units, the Market Risk Management Division carries out regular risk analyses and recommendations.

MARKET RISK MANAGEMENT SYSTEM

The Group Treasury Division manages asset and liability risk arising from normal banking operations and the Capital Markets Division manages the active risk from the Bank's trading operations. The Group Treasury Division and each unit within the Capital Markets Division are assigned overall risk limits.

The Market Risk Management Division is responsible for the objective and timely recognition, monitoring and reporting of market risk in both the Bank's trading and banking operations. In addition to reporting risk information to management, administrative divisions and front office units, this division carries out regular risk analyses and recommendations. The transaction execution, operations and risk management sections operate independently, establishing a system of effective checks and balances.

QUALITATIVE MARKET RISK MANAGEMENT

The Bank has built a system capable of facilitating the recognition and management of market risk by quantifying this risk frequently, tracking it objectively, and making adjustments according to market trends.

Market risk management relies on a five-step process.

1. Construct a transaction information database.
2. Clarify data according to the nature of the risk.
3. Quantify the risk based on the characteristics and nature of the risk.
4. Summarize and report the overall risk calculation.
5. Determine appropriate adjustments based on the reported risk calculations.

To obtain a precise picture of the current risk position, transaction data must be accurate and complete. Measurement definitions must be valid, and valuation criteria such as rates and prices must be reliable. The Bank's market risk measurement system meets all of these requirements.

MARKET RISK MEASUREMENT METHODOLOGY

The Bank uses a Value-at-Risk (VaR) approach in its trading operations. For general market risk, the internal-model VaR calculation started from March 31, 2007 for Shinsei Bank and Shinsei Securities. This internal model makes use of a Historical Simulation Method for all books. Specific risk is reported using the Standardized Method. The VaR calculation uses a 99% confidence interval, ten day horizon period and 250 observation days. Risk Capital is measured on a presumed one-year holding period basis.

Please refer to the VaR data table.

Market Risk Methodologies

		Trading	FX-related Risks except Trading
Shinsei Bank	General Market Risk	Internal Model Method • Historical Simulation Method*	Standardized Method
	Specific Risk	Standardized method	
Shinsei Securities	General Market Risk	Internal Model Method •Historical Simulation Method	Standardized Method
	Specific Risk	Standardized Method	
Other Subsidiaries		—	Standardized Method

* FX-related risks has been changed from Variance-Covariance Method to Historical Simulation Method

(VaR data table) VaR amounts as calculated at the end of March 2009 together with the high, mean and low VaR in fiscal year 2008 (99% confidence interval, 10 day horizon period).

	Millions of yen	
	Consolidated	Non-consolidated
VaR at the end of year	4,081	3,359
VaR through this year		
High	7,654	6,454
Mean	3,899	3,263
Low	2,136	1,883

EXPECTED HOLDING PERIOD AND ADEQUATE PRICING METHOD TAKING POSSIBILITIES INTO CONSIDERATION THAT ACTUAL HOLDING PERIOD MAY EXCEED EXPECTED HOLDING PERIOD

The expected length of time necessary to close a position in the trading books is ten days. The VaR framework is using this ten day horizon period to accommodate this fact.

INTERNAL MODEL VALIDATION

The validity of the Bank's market-risk VaR model is verified through back-testing, which examines how frequently actual daily profit or loss exceeds daily VaR for a one-day holding period. Back-testing of the sample data for fiscal year 2008 confirmed the continued reliability of the Bank's VaR model.

The back-testing results are reported daily to the trading divisions and quarterly to senior management. The back-testing results for fiscal year 2008 show that the number of days in which Loss Amount exceeded VaR on a consolidated basis was two.

Under the Internal Model method, the Bank has initiated stress testing using 40 scenarios. Stress tests are produced on a weekly basis and reported to the Market Risk Management Committee.

ASSUMPTIONS AND VALUATION METHOD FOR INTERNAL CHECK OF CAPITAL EFFICIENCY

When we evaluate capital sufficiency for market risk using risk capital, we convert the above mentioned calculation method using a one year horizon.

LIQUIDITY RISK MANAGEMENT

The Bank's ALM Committee is the senior review and decision-making body for the management of liquidity risk. The ALM Committee manages liquidity risk by establishing the short-term liquidity gap structure limits and minimum liquidity reserve levels.

The Bank's "Cash Liquidity Risk Management Policy," reviewed and approved periodically by the ALM Committee, stipulates the guidelines and norms for appropriate liquidity risk management.

To quantify liquidity risk, we have developed three liquidity forecast models:

- Business as Usual model: This model forecasts the liquidity situation on an ongoing basis. The output of this model is an estimate of the funds we need to raise under normal circumstances.
- Stress/Event model: This is a liquidity forecast under extraordinary circumstances. The output of this methodology is the outflow of funds under extraordinary circumstances.
- Contractual Maturity model: This is a liquidity forecast on the assumption that assets and liabilities will be liquidated at contracted maturity. The model indicates how much we need to raise based on the Bank's actual contractual obligations.

The output of these models is carefully analyzed and presented monthly to the ALM Committee together with a recommendation on the liquidity gap structure and minimum reserve level, as well as the underlying rationale, which is determined as follows:

- The first requirement of the test is that we should be able to hold adequate liquidity even in a crisis or emergency situation; based on the assumptions relating to inflow and outflow in a stress situation, the net cumulative outflow over a specified period should not exceed available reserves.
- If available reserves are insufficient to meet the test, actions to remedy the situation, such as increasing reserves or changing the Bank's liability profile, must be taken.
- If available reserves are sufficient to meet the test, then available reserves may be reduced, but only if the first stress test (emergency survival test) is still met and the liquidity gap at various times is within approved gap limits.

BANKING BOOK INTEREST RATE RISK MANAGEMENT

(1) Interest Rate Risk Management

The Bank's risk management of banking book assets and liabilities is managed based on our "Asset Liability Management Policy for Banking Account." Risk is monitored on a daily basis. The ALM Committee meets on a monthly basis in order to provide management with appropriate and timely reports on the status of the Bank's interest rate risk exposure. This committee also reviews and makes decisions on ALM policies and related topics. The purpose of comprehensively managing assets and liabilities is to optimize the overall interest income for the medium- to long-term by appropriately balancing interest rate risks on assets and liabilities and liquidity risks arising in the ordinary course of operations. This optimization is achieved by maintaining the appropriate balance between the following two approaches.

- Static point of view: Stabilize fluctuations and the range of changes in interest income based on the Bank's estimation by adjusting interest rate risks resulting from gaps in the amount of assets and liabilities, terms and the current interest rate conditions.
- Active point of view: Increase interest income by restructuring the present combination of assets and liabilities into a structure to generate more return per unit of risk.

For banking book interest rate risk management, in addition to limits or guidelines including net 100bpv and equity duration, net interest income simulation is used. Interest income is simulated in order to monitor risk status on both a net present value and accounting basis. The Bank monitors the shape of the yield curve and regularly analyzes scenarios such as sudden steepening or flattening of the yield curve. The impact of these scenario changes on assets and liabilities is also evaluated.

(2) Stress scenarios and outlier criteria

In the context of the outlier criteria for the second pillar of Basel II, the Bank has adopted a 2% parallel-shift scenario. This measures fluctuation in the economic value of assets and liabilities on the banking book as a result of a 2% interest rate shock. This scenario is consistent with the Bank's interest rate risk sensitivity analysis, which is used for internal control purposes. This approach enhances the clarity of the scenario analysis.

(3) Calculation method for interest rate risk

•Housing loan prepayments

Instead of using contractual maturity, the cash flows for housing loans are based on a particular prepayment ratio, which is determined using actual prepayment data for similar loans and pricing in the housing loan securitization market. This data is incorporated into the interest rate risk calculation for the banking book. Prepayment rates are reviewed as appropriate.

•Definition of core deposits

The Bank has adopted an internal model for determining the maturity of core deposits. This system defines customer-specific and currency-specific maturities of ordinary deposits. In particular, the anticipated residual maturity model, wherein a probability distribution is applied, has been used for determining the maturity of yen-denominated retail ordinary deposits which account for the majority of the Bank's deposits.

According to this model, the average term is about 2.0 years (the longest term is 5 years).

Regarding other corporate deposits and liquid foreign currency deposits, an average term of 10.5 months has been reflected in the interest rate risk calculation in the banking book.

The parameters and models for core deposits are reviewed as necessary.

(4) Banking book interest rate risk calculation method by consolidated subsidiaries for internal management purpose

In general, consolidated subsidiaries conduct risk management under the supervision of the Board of Directors or ALM committee except for SPVs and other such entities whose risk management is integrated into the Bank's business.

Interest rate risk of consolidated subsidiaries, which have interest rate-sensitive assets and liabilities, are based on each subsidiary's interest rate risk management method and included in consolidated interest rate risk. At this time, a 2% interest-rate shock is adopted and used for outlier criteria calculation.

Amounts of gains (losses) from a 2% upward interest-rate shock on the banking book at the end of March 2009:

	Billions of yen	
	Consolidated	Non-consolidated
JPY	¥ (5.3)	¥ 31.2
USD	1.2	1.2
Other	(0.8)	(0.8)
Total	¥ (4.9)	¥ 31.6

9. OPERATIONAL RISK MANAGEMENT POLICIES AND PROCEDURES

MANAGEMENT POLICIES AND PROCEDURES

(1) Definition of Operational Risk

The Bank classifies operational risk into several risk categories, such as operational and administrative risk, compliance risk, labor-related risk, systems risk, extensive disaster risk and material object risk, which are applied across the Bank and its consolidated subsidiaries.

(2) Operational Risk Management System

The Bank manages operational risk at multiple levels as follows:

- Management by business lines according to the nature of each business
- Cross-organizational management by designated management divisions for respective risk categories mentioned above (hereinafter "designated management divisions") and by the firm-wide management division of operational risk (hereinafter "firm-wide management division")
- Verification by the Internal Audit Division on the appropriateness and effectiveness of the overall risk management system
- Based on reports and proposals, the Management Committee makes decisions on important items, including general rules and organizational changes related to operational risk management

The designated management divisions and the firm-wide management division are independent from business lines, which are accountable for earnings, and promoting management of overall operational risk and each risk category. The divisions develop uniform management standards and procedures, capture and evaluate errors and irregularities, conduct causal analysis and support establishment of recurrence prevention measures. Moreover, the divisions meet on a monthly basis to discuss challenges and measures for operational risk management, as well as to share information.

Operational risk is recognized and evaluated through review of internal errors and irregularities that have occurred, as well as through consideration of potential errors and irregularity scenarios that may occur less frequently but may have a significant impact. Uniform standards for collection and evaluation of errors and irregularities are established to capture and/or evaluate significant actual errors and/or irregularities on a regular basis. Procedures are determined to ensure that potential errors and irregular scenarios for each business operation are specified and their frequency and severity are evaluated in a complete and appropriate manner on an at least an annual basis.

Such identified and evaluated risks are reported to senior management by the designated management divisions and the firm-wide management division and are used in Risk Capital measurement for internal management purposes.

(3) "Operational Risk Management Standards"

"Operational Risk Management Standards" are a set of policies and procedures used to define the organizational framework, specific methods and processes for operational risk management. They are composed of the following:

- "Operational Risk Management Policy"
- Specific management rules
- Management rules at consolidated subsidiaries

"Operational Risk Management Policy" is the highest set of rules on operational risk management, and is established, revised and repealed only with the approval of the Management Committee. To ensure comprehensive and consistent operational risk management within the Bank Group, the Policy establishes risk definitions, governance and basic policies on operational risk management, and the basic framework for risk capture, evaluation, monitoring, reporting, control and mitigation.

Specific management rules include management standards and procedures for each respective operational risk category, and for new businesses and products. The rules are established, revised and repealed by the approval of the Management Committee and/or the group head in charge.

Management rules at each consolidated subsidiary are composed of comprehensive rules on overall operational risk management and specific rules for respective operational risk categories. Consolidated subsidiaries establish, revise and repeal rules by the approval of their Board of Directors, according to their risk characteristics and specific internal controls. Their establishment, revision and repeal are subject to prior discussions with and after-the-fact reports to the Bank to ensure consistency with the Bank's risk management rules.

METHODOLOGY TO CALCULATE OPERATIONAL RISK UNDER BASEL II

The Standardized Approach is adopted by the Bank.

Amount of required capital for Operational Risk in fiscal year 2008:

	Millions of yen	
	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)
The Standardized Approach	¥ 36,919	¥ 17,503

PRINCIPAL "CREDIT RISK MANAGEMENT STANDARDS"

	Corporate Exposures		Retail Exposures	
	Shinsei Bank (Corporate, Sovereign, Bank, Specialized Lending, Equity)	**Showa Leasing** (Corporate, Other Retail)	**APLUS** (Residential Mortgage, Qualifying Revolving Retail, Other Retail)	**Shinsei Bank** (Purchased Residential Mortgage, Purchased Other Retail; Residential Mortgage (roll-out asset to IRB))
Overall	Shinsei Bank Core Credit Policies			
	Internal Controls on Internal Rating System of Corporate Exposures		Comprehensive Standards for Internal Rating System for Retail Exposures	
Internal Rating System Design/ Operations	Obligor Rating Standards Facility Rating Standards Internal Rating System Preparation and Operation Standards for Specialized Lending	Standards for Internal Rating System Internal Rating System Operation Standards for Specialized Lending Credit Rating Standards Facility Rating Standards	Credit Policy/Credit Risk Management Official Regulations Credit Risk Estimation Rules Guidelines of Pool Classification	Pool Categorization Methods and Parameter Estimation/Verification on Criteria regarding Purchased Housing Loans Shinsei Housing Loan Pool Category Handling Standards
	Self-Assessment Standards/Manual	Self-Assessment Manual/Procedures	Self-Assessment Standards	Self-Assessment Standards/Manual
Risk Quantification/ Validation	Estimation/Validation Standards (for Corporate Exposures)		Estimation/Validation Standards (for Retail Exposures)	Parameter Estimation and Validation Standards for Housing Loan Exposure
		Parameter Estimation Standards	Guidelines of Parameter Estimation	Pool Categorization Methods and Parameter Estimation/Verification on Criteria regarding Purchased Housing Loans
Others	Standards for Implementing Stress Tests in Basel II Regulatory Capital Measurement			
	Comprehensive Standards for Measuring and Managing Dilution Risks			
	Standards for Measuring and Managing Dilution Risks of Purchased Loans			

QUALITATIVE DISCLOSURE (CONTINUED)

EXHIBIT

Type of Exposures			Shinsei Bank (Non-Consolidated) (a) Corporate Exposures, (b) Sovereign Exposures, (c) Exposures to Banks, and (d) Equity Exposures (Exposures to which Internal Rating and PD/LGD approach is applied)	Shinsei Bank (Non-Consolidated) (e) Specialized Lending
Type of Internal Rating Approaches to be Used			• Obligor rating based on the rating estimation model • Facility rating based on the obligor ratings/expected losses	Rating in accordance with the capital rating structure model based on LTV.
Summary of Internal Rating System	Structure of Internal Rating System	Summary of Rating System	An internal obligor rating system has been adopted since February 2001. This system: • Uses a highly precise model to obtain the ranking of creditworthiness and reflects appropriate qualitative factors • Conforms with external rating agencies • Applies on a consolidated basis • Conforms the rating system across industries For categorizing each individual transaction, an obligor rating and a facility rating system, based on expected losses taking into account the status of the preservation of claims, has been implemented since May 2001. Also, a facility rating, in addition to the total amount of credit to an obligor group, has been introduced to enable more appropriate credit judgment.	"Specialized Lending"refers to a claim whose source of recovery is solely dependent on the cash flow generated from a transaction such as a real estate non-recourse loan. As the risk profile is different from that of general corporate exposure and also the frequency of occurrence of actual default is quite low, the framework of Basel II permits the classification into a designated category by using the Guideline for Judging Risks based on FSA Notification ("Slotting Criteria") and calculation of risk assets. This "Slotting Criteria" is applied for calculating required regulatory capital, and internal ratings are estimated through the following process. • Quantitative rating is estimated based on LTV. • Qualitative adjustments are made on quantitative rating.
		Obligor Rating (Corporate) Facility Rating (Corporate)	**Obligor Rating** i) Model score: A quantitative model score is derived based on the financial data of a customer by applying a neural network model prepared by using external ratings as a benchmark. Financial data from "Nikkei Needs Financial Information" and "Shinsei Financial Analysis System Data" were used for calculation of model scores. ii) Verification of reliability of obligor financial data. iii) Overall adjustment: Unrealized profit or loss future financial projection, etc. Obligor ratings for Sovereign/Bank exposures are assigned based on specific rules as "Obligors Subject to Special Treatment." **Facility Rating** Derived on the basis of expected loss rate by taking into account the following factors. i) Probability of Default (PD) corresponding to an obligor rating/term of credit. ii) Loss Given Default (LGD) corresponding to the status of credit enhancement of a facility. Facility rating system is not implemented for equity exposures.	**Obligor Rating and Facility Rating** The obligor rating is derived based on the rating approach in line with the foregoing framework. However, as the facility rating is directly calculated, no particular distinction is made between the obligor rating and the facility rating.
	Usage of Various Estimated Values (Use Test)		Facility rating is derived and assigned based on Expected Loss (EL) calculated from the PD corresponding to the credit rating. EL using the foregoing PD is also applied to pricing. PDs are used for calculating and allocating Risk Capital. No specific pricing rule with PD/LGD Approach for Equity exposures.	In the rating system, a rating derived in accordance with the above is also used for credit assessment of a transaction.
	Management of Internal Rating System and Validation Procedures	Management of Internal Rating System	Portfolio and Risk Management Division (PRMD) of the Bank is in charge of designing the rating system and ratings are assigned by the Credit Rating Review Committee and credit facility meeting. PRMD is in charge of estimation and validation of parameters. Internal Audit Division (IAD) of the Bank audits all these processes.	Credit Risk Division (CDRD) of the Bank is in charge of the design/management of the rating system. CDRD and PRMD are jointly in charge of validation. IAD audits all these processes.
		Validation Procedures	**Quantitative Validation** Model ratings and final credit ratings are validated in a manner as multifaceted as possible using Shinsei Bank data, Showa Leasing data and external databases. 1) Back Testing: using historical data, credit ratings goodness of fit, and Accuracy Ratio (AR) by segments, such as industry and sales scale, are validated. 2) Benchmarking: Comparison between internal and external ratings and mapping analysis are performed for the obligors with external ratings. **Qualitative Validation** Examinations of the newly defaulting obligors and rating transition analyses are conducted, and operations of individual assessments are examined.	The Bank validates the process by comparing simulated quantitative rating (based on quantitative data only) with a rating assigned by external agencies for CMBS transactions whose terms and conditions are available.
Summary of Rating Assignment Procedures for Each Portfolio	Rating Assignment Procedures		The assigned rating is approved by the Credit Rating Committee and credit facitliy meeting. Ratings are revised at least once a year.	CDRD is in charge of the assignment of internal ratings and mapping to the slotting criteria.
	Estimation of Parameters		PDs of corporate exposures are estimated by defining a default as any of the following: i) obligor categorization under self assessment falls to sub-standard (9B) or lower, ii) sale of claims at 30% economic loss, iii) amount of overdraft exceeds the maximum amount of the overdraft facility for 3 months. 1) Characterization of the Bank's internal data: Observation period is from end of March 2001, and population is obligors with loan exposures in (a) - (c). 2) Estimated PD data of the population that is treated as the corporate exposures at Showa Leasing (observation period: from end of March 2003). 3) For obligors at 3 rank or higher where track record of default is scarce, the PDs are estimated based on corporate bond spreads. 4) For Sovereign exposures, estimated PD for 0A is 0.00% for required regulatory capital calculation purposes.	The mapping of internal ratings to the slotting criteria is as follows: i) Strong: 1AF - 4BF ii) Good: 4CF iii) Satisfactory: 5AF iv) Weak: 5BF - 6CF and 9A v) Default: 9B - 9E

QUALITATIVE DISCLOSURE (CONTINUED)

EXHIBIT

Type of Exposures			Shinsei Bank (Non-Consolidated)		Showa Leasing
			(f) Residential Mortgage Exposures (Housing Loans) [Roll-out Assets from Standardized Approach to IRB Approach]	(g) Purchased Residential Mortgage Exposures (A portion is classified as Purchased Other Retail Exposures)	(h) Exposures to Corporate, etc.
Type of Internal Rating Approaches to be Used			Pool classification based on a matrix of obligor and transaction attribute and delinquency (Expected roll-out period: End of FY2011)	Pool classification by portfolio and by delinquency status	Obligor rating based on a rating estimation model Facility rating based on an obligor rating/ expected loss
Summary of Internal Rating System	Structure of Internal Rating System	Summary of Rating System	The criteria for pool classification is LTV (Loan to Value ratio) and DTI (Debt to Income ratio).	These exposures are housing loans originated by lenders other than the Bank, and purchased as portfolios by the Bank. Pools are classified on a portfolio basis and delinquency basis. Business purpose loans collateralized by real estate to retail customers are classified as purchased other retail exposures or purchased corporate exposures.	An obligor rating system has been introduced that is identical to the system used at the Bank. Facility ratings based on EL for each transaction are established.
		Obligor Rating (Corporate) Facility Rating (Corporate) Pool Classification (Retail)	**Pool Classification** Criteria for pool classification are: i) LTV, ii) DTI, and iii) delinquency.	**Pool Classification** Normal, Delinquent and Default pools are established for each portfolio.	**Obligor Rating** Same as (a) (b) and (c). **Facility Rating** The facility rating is established based on the EL of each transaction by reflecting the characteristics of risk profile of a transaction as well as the risk profile of an obligor.
	Usage of Various Estimated Values (Use Test)		PDs and LGDs are used for calculating and allocating Risk Capital.	PDs and LGDs are used for calculating and allocating Risk Capital.	• The facility rating is assigned based on EL using PD corresponding to the credit rating. • EL using PD is also applied to pricing. • PDs are used for calculating and allocating Risk Capital.
	Management of Internal Rating System and Validation Procedures	Management of Internal Rating System	Individual Pillar Risk Management Division (IPRM) is in charge of rating system design. Retail Services Division (RSD) is in charge of the pool assignment, with confirmation by the Loan Product Division (LPD). IPRM oversees pool assignment process. PRMD estimates/validates parameters. IAD audits all these processes.	CDRD is in charge of rating system design and pool assignment. CDRD estimates/validates parameters with support by PRMD. IAD audits all these processes.	PRMD of the Bank and Credit Risk Management Section (CRMS) of the Company are jointly responsible for the design of the rating system, and CRMS of the Company is in charge of rating assignment. PRMD of the Bank is in charge of the final approval process of parameter estimation and validation. Audit Division (AD) of the Company and IAD of the Bank jointly audit all these processes.
		Validation Procedures	**PD/LGD** Comparison of external data with internal historical data.	**PD** Binominal test, comparison with track record of defaults in other housing loan portfolios. **LGD** Validation if estimated LGDs remain within a certain confidence level, and comparison with the track record of loss rate in other housing portfolios.	Same as (a) (b) and (c).
Summary of Rating Assignment Procedures for Each Portfolio	Rating Assignment Procedures		As part of loan approval process, RSD: assigns exposures to specific pools LPD: confirms pool assignment IPRM: oversees and controls pool assignment process	CDRD is in charge of pool assignment.	CRMS of the Company is in charge of rating assignment.
	Estimation of Parameters		**Definition of Default** Any of the following: i) three month delinquency, ii) relaxation of terms and conditions, iii) legal bankruptcy, iv) loan sales at 30% economic loss. **PD** Pools of Normal obligors: PDs on six month delinquency basis are estimated using financial data from the Japan Housing Finance Agency, and are adjusted to estimate PDs on three month delinquency. Pools of Need Caution obligors: PDs are estimated using the Bank Group data. **LGD** LGD estimation model is developed for each collateral property type. **Exposure at Default (EAD)** EAD for on-balance sheet items is the outstanding amount of mortgages, and utilized amount of overdraft facilities. EAD for off-balance sheet items is 100% of undrawn amount of overdraft facilities.	**Definition of Default** Any of the following: i) three month delinquency, ii) relaxation of terms and conditions, iii) legal bankruptcy, iv) receipt of notice for entrustment by legal counsel, v) payment in subrogation by guarantors, vi) acceleration, vii) loan sales at 30% economic loss. **PD** PDs are estimated based on historical data of each purchased housing loan portfolio. Period before loan purchase is also included in data observation period. **LGD** LGDs are estimated based on historical data of each purchased housing loan portfolio. **EAD** EAD for on-balance sheet items is the outstanding balance of beneficiary interest in trust. EAD for off-balance sheet items is zero, since no undrawn amount exists.	Default is defined as any of the following: i) three month delinquency, ii) relaxation of terms and conditions, iii) legal bankruptcy, iv) sales of receivables at 30% economic loss, v) Special Supervision or lower in self assessment of assets. PD estimation process is same as (a) (b) and (c).

QUALITATIVE DISCLOSURE (CONTINUED)

EXHIBIT

Type of Exposures			Showa Leasing (i) Other Retail Exposures	APLUS (j) Residential Mortgage/Qualifying Revolving Retail/Other Retail Exposures
Type of Internal Rating Approaches to be Used			Pool classification based on a matrix of obligor and transaction attributes and delinquency	Pool classification based on a matrix of obligor and transaction attributes and delinquency
Summary of Internal Rating System	Structure of Internal Rating System	Summary of Rating System	Small-lot lease receivables to corporate obligors in the Company are managed on a pool basis, and are treated as "retail" exposures. A credit rating is assigned to each obligor based on such factors as whether equity of obligor is listed or not, size of annual income, length of business history, credit score assigned by a credit agency. In addition, classification by type of asset leased is also implemented.	Main portfolio is sales finance, classified as other retail exposures. Credit is also extended through credit/loan cards, classified as qualifying revolving retail exposures. The Company retains but no longer originates housing loans. A rating is assigned to each exposure. Ratings are risk grades based on obligor attributes, borrowing behavior information provided by credit information agencies and transaction history with the company. For sales finance, pool classification is also determined by type of asset being financed. For card exposures, card type and card limit amount is employed as criteria of pool classification. Housing loan pools are classified by DTI.
		Pool Classification (Retail)	Criteria for pool classification are i) credit rating, ii) type of asset leased, and iii) obligor classification including delinquency.	Criteria for pool classification are as follows: Sales finance: i) rating, ii) type of asset financed, and iii) delinquency. Card exposure: i) rating, ii) card type, iii) card limit amount, and iv) delinquency. Housing loan: i) DTI, and ii) delinquency.
	Usage of Various Estimated Values (Use Test)		PDs are reflected in pricing. For pricing purposes, LGDs are calculated assuming that defaulted exposures do not recover to non-default status. PDs and LGDs are used for calculating and allocating Risk Capital.	PDs, LGDs and Credit Conversion Factors (CCFs) are used for calculating and allocating Risk Capital.
	Management of Internal Rating System and Validation Procedures	Management of Internal Rating System	CRMS of the Company and PRMD of the Bank are jointly in charge of the rating system design. Business Divisions/Branches of the Company assign exposures to pools, and CRMSs confirm and oversee pool assignment. CRMS and PRMD of the Bank jointly estimate and validate parameters, based on data provided by the Company. AD of the Company and IAD of the Bank jointly audit all these processes.	CRMS of the Company and PRMD of the Bank are jointly in charge of the rating system design. Business Divisions/Branches of the Company assign exposures to pools, and CRMS confirms and oversees pool assignment. CRMS and PRMD of the Bank jointly estimate and validate parameters, based on data provided by the Company. Internal Audit Department of the Company and IAD of the Bank jointly audit all these processes.
		Validation Procedures	PD Binominal test and verification of PDs and ratings goodness of fit. LGD Validation if estimated LGDs are remaining within a certain confidence level. Pool Classification Validation by Accuracy Ratio (AR).	PD Binominal test and verification of PDs and ratings goodness of fit. LGD Validation if estimated LGDs are remaining within a certain confidence level. Pool Classification Validation by Accuracy Ratio (AR).
Summary of Rating Assignment Procedures for Each Portfolio	Rating Assignment Procedures		As part of the approval process, Business Divisions/Branches of the Company assign exposures to pools, and CRMSs of the Company confirm pool assignment and oversee and control overall pool assignment processes.	Business Divisions/Branches of the Company assign exposures based on guidance provided by CRMS of the Company, and CRMS confirms pool assignment and controls overall pool assignment processes. For housing loan portfolio, no pool assignment process exists, since such loans are no longer originated.
	Estimation of Parameters		Definition of Default Any of the following: i) three month delinquency, ii) relaxation of terms and conditions, iii) legal bankruptcy, iv) sales of receivables at 30% economic loss, v) Special Supervision or lower in self assessment of assets. PD PDs are estimated on the Company's historical data. LGD LGDs are estimated on the Company's historical data. EAD EAD for on-balance sheet items is defined as outstanding balance in compliance with U.S. Financial Accounting Standards Board (FASB). EAD for off-balance sheet items is zero, since no undrawn amount exists. Data Observation Period From April 2002 to March 2008.	Definition of Default Any of the following: i) three month delinquency, ii) relaxation of terms and conditions, iii) legal bankruptcy, iv) reconciliation/mediation, v) sales of claims at 30% economic loss. PD PDs are estimated on the Company's historical data. LGD LGDs are estimated on the Company's historical data. EAD EAD for on-balance sheet items is the outstanding amount of principal + uncollected commissions + uncollected interest + uncollected guarantee fee. EAD for off-balance sheet items is calculated by committed line amount of card exposures multiplied by Credit Conversion Factors (CCFs). CCFs are estimated for each card type, using historical data of the Company. Data Observation Period From April 2001 to March 2008 for sales finance and card receivables.

SHINSEI BANK CORPORATE OBLIGOR RATING SYSTEM

Obligor Rating Categories	Corresponding Rating Assigned by R & I	Summary
0A		1. Japanese Government, BOJ 2. Government-affiliated agencies, expected high certainty from strong backup by the Government.
1A	AAA	Highest capability to meet its financial commitments on the obligations and many other positive factors.
2A	AA+	Very high capability to meet its financial commitment on the obligation and other positive factors.
2B	AA	
2C	AA-	
3A	A+	High capability to meet its financial commitments on the obligations and some good factors.
3B	A	
3C	A-	
4A	BBB+	There is adequate certainty of the fulfillment of obligations, but there are also some factors requiring attention in the event of serious adverse economic conditions in the future.
4B	BBB	
4C	BBB-	
5A	BB+	No problem regarding the certainty of the fulfillment of obligations for the time being, but some factors need to be closely watched in the event of adverse economic conditions in the future.
5B	BB	
5C	BB-	
6A	B+	No problem regarding the certainty of the fulfillment of obligations in the present situation, but special supervision is needed to monitor the trends in business performance and the protection of credit exposure.
6B	B	
6C	B-	
9A		Classified as “Need Caution” at the self-assessment
9B		Classified as “Sub-Standard” at the self-assessment
9C		Classified as “Possibly Bankrupt” at the self-assessment
9D		Classified as “Virtually Bankrupt” at the self-assessment
9E		Classified as “Bankrupt” at the self-assessment

QUANTITATIVE DISCLOSURE

1. NAMES OF UNCONSOLIDATED SUBSIDIARIES WITH LOWER LEVEL OF CAPITAL THAN REQUIRED LEVEL OF ADEQUACY CAPITAL AND AMOUNT OF SHORTAGE

Most of the 99 unconsolidated subsidiaries are special purpose companies (SPCs) or Limited Partnerships (LPs) for leverage leasing. As the economic risk associated with leveraged leasing has been hedged in these subsidiaries, the amount of invested equity is equal to applicable loss limits.

2. CAPITAL STRUCTURE

Please see "Management's Discussion and Analysis of Financial Condition and Results of Operations"-"Capital Ratios" on page 88 for capital calculation details. The Bank was not required to deduct any excess deferred tax assets which banks are prohibited from including in their Tier I capital. The Bank has no Tier III capital.

3. CAPITAL ADEQUACY

AMOUNT OF REQUIRED CAPITAL FOR CREDIT RISK

(1) Portfolios under the Standardized Approach (SA)

Millions of yen

	2009		2008	
As of March 31	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)
Shinsei Home Loans	**¥ 30,419**	**¥ 30,419**	¥ 28,172	¥ 28,172
Subsidiaries of APLUS	**6,873**	**—**	6,617	—
Subsidiaries of Showa Leasing	**1,836**	**—**	6,665	—
Shinki	**7,255**	**—**	9,292	—
Shinsei Financial Group	**48,165**	**—**		
Other subsidiaries	**7,978**	**—**	10,239	—

(2) Portfolios under the Internal Ratings-Based Approach (IRB)

Millions of yen

	2009		2008	
As of March 31	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)
Corporate (Excluding Specialized Lending)[1]	**¥ 223,852**	**¥ 222,871**	¥ 202,587	¥ 182,306
Specialized Lending	**173,679**	**172,130**	127,479	125,274
Sovereign	**8,247**	**8,225**	11,007	10,972
Bank	**81,211**	**80,738**	61,791	57,462
Residential mortgages	**1,934**	**—**	1,798	—
Qualified revolving retails	**60,883**	**—**	61,712	—
Other retails	**141,768**	**—**	146,652	—
Equity	**25,562**	**155,308**	32,012	115,904
Regarded (Fund)	**40,290**	**32,959**	76,290	70,294
Securitization[2]	**100,700**	**103,750**	117,241	104,324
(Unrated securitization exposure)	**(57,109)**	**(56,816)**	(77,011)	(77,115)
Purchase receivables	**139,485**	**139,485**	120,992	120,992
Other assets	**7,687**	**3,319**	8,605	4,568
Total	**¥ 1,005,304**	**¥ 918,789**	¥ 968,171	¥ 792,102

Notes: (1) "Corporate" includes "Small and Medium-sized Entities"
(2) "Securitization" includes a part of amounts based on the Standardized Approach in FY2008

QUANTITATIVE DISCLOSURE (CONTINUED)

AMOUNT OF REQUIRED CAPITAL FOR EQUITY EXPOSURE UNDER IRB

Millions of yen

As of March 31	2009 Required capital amount (Consolidated)	2009 Required capital amount (Non-consolidated)	2008 Required capital amount (Consolidated)	2008 Required capital amount (Non-consolidated)
Market-Based Approach				
Simplified Method	**¥ 16,974**	**¥ 20,543**	¥ 22,993	¥ 40,997
PD/LGD Method	**7,835**	**133,059**	7,411	66,815
Grandfathering Rule	**752**	**1,706**	1,607	8,090
Total	**¥ 25,562**	**¥ 155,308**	¥ 32,012	¥ 115,904

AMOUNT OF REQUIRED CAPITAL FOR REGARDED-METHOD EXPOSURE UNDER IRB

Millions of yen

As of March 31	2009 Required capital amount (Consolidated)	2009 Required capital amount (Non-consolidated)	2008 Required capital amount (Consolidated)	2008 Required capital amount (Non-consolidated)
Look Through	**¥ 4,311**	**¥ 4,311**	¥ 3,323	¥ 3,323
Revised Naivete Majority	**28,303**	**19,343**	45,374	36,992
Simplified [400%]	**4,091**	**5,953**	7,074	7,074
Simplified [1,250%]	**3,582**	**3,350**	20,517	22,904
Regarded-Method exposure	**¥ 40,290**	**¥ 32,959**	¥ 76,290	¥ 70,294

AMOUNT OF REQUIRED CAPITAL FOR MARKET RISK

Millions of yen

As of March 31	2009 Required capital amount (Consolidated)	2009 Required capital amount (Non-consolidated)	2008 Required capital amount (Consolidated)	2008 Required capital amount (Non-consolidated)
The Standardized Approach				
(Specific Risk)	**¥ 15,627**	**¥ 15,276**	¥ 12,469	¥ 13,818
Interest rate risk	**7,372**	**7,080**	11,192	10,411
Equity position risk	**11**	**—**	15	—
FX risk	**8,243**	**8,196**	1,261	3,406
The Standardized Approach				
(General Market Risk)	**—**	**—**	—	—
The Internal Models Approach				
(IMA) (General Market Risk)	**11,590**	**9,373**	7,641	6,344

AMOUNT OF REQUIRED CAPITAL FOR OPERATIONAL RISK

Millions of yen

As of March 31	2009 Required capital amount (Consolidated)	2009 Required capital amount (Non-consolidated)	2008 Required capital amount (Consolidated)	2008 Required capital amount (Non-consolidated)
The Standardized Approach	**¥ 36,919**	**¥ 17,503**	¥ 37,078	¥ 20,324

TOTAL CAPITAL ADEQUACY RATIO AND TIER I CAPITAL RATIO

As of March 31	2009 Consolidated	2009 Non-consolidated	2008 Consolidated	2008 Non-consolidated
Total capital adequacy ratio	**8.35%**	**10.95%**	11.74%	15.25%
Tier I capital ratio	**6.02%**	**8.40%**	7.37%	10.71%

TOTAL REQUIRED CAPITAL (DOMESTIC CRITERIA)

Millions of yen

As of March 31	2009 Consolidated	2009 Non-consolidated	2008 Consolidated	2008 Non-consolidated
Total required capital	**¥ 682,667**	**¥ 455,731**	¥ 683,698	¥ 432,226
Total risk assets x 4%	**¥ 384,841**	**¥ 355,021**	¥ 368,502	¥ 315,739

4. CREDIT RISK EXPOSURE (EXCLUDING SECURITIZATION AND REGARDED EXPOSURE)

AMOUNT OF CREDIT RISK EXPOSURE

Geographic, Industries or Maturity (Consolidated)

Millions of yen

	2009				2008			
	Total	Amount of Credit Risk Exposure			Total	Amount of Credit Risk Exposure		
As of March 31		Loans,etc.[1]	Securities[2]	Derivatives[3]		Loans,etc.[1]	Securities[2]	Derivatives[3]
Manufacturing	¥ 401,806	¥ 398,633	¥ 0	¥ 3,172	¥ 375,517	¥ 371,554	¥ 0	¥ 3,963
Agriculture	3,232	3,232	—	—	4,085	4,085	—	—
Mining	4,622	4,622	—	—	6,787	6,787	—	—
Construction	41,861	41,824	36	—	61,801	56,818	4,955	28
Electric power, gas, water supply	61,921	61,832	35	53	100,672	92,612	7,999	60
Information and communication	72,137	72,137	—	—	80,423	80,412	—	10
Transportation	289,375	266,869	3,089	19,417	312,856	282,138	8,638	22,078
Wholesale and retail	209,922	209,430	—	491	236,318	235,904	—	413
Finance and insurance	1,515,365	1,341,945	71,334	102,085	1,547,269	1,251,736	184,343	111,190
Real estate	1,398,196	1,084,364	310,052	3,778	1,601,954	1,349,842	248,576	3,534
Services	630,928	521,593	98,272	11,063	724,162	620,395	90,621	13,145
Government	1,341,996	132,026	1,206,039	3,930	754,894	104,561	648,167	2,166
Individuals	3,168,307	3,167,542	—	765	2,473,429	2,471,705	—	1,724
Others	3,270	1,161	2,109	—	14,206	14,204	—	2
Domestic Total	9,142,945	7,307,217	1,690,969	144,757	8,294,380	6,942,760	1,193,301	158,318
Foreign	1,548,419	385,630	221,757	941,031	1,754,925	477,994	306,127	970,803
Consolidated Total	¥ 10,691,364	¥ 7,692,848	¥ 1,912,727	¥ 1,085,789	¥ 10,049,306	¥ 7,420,754	¥ 1,499,428	¥ 1,129,122
To 1 year	2,639,357	1,785,514	588,918	264,925	2,571,815	1,832,592	464,436	274,785
1 to 3 years	3,371,399	1,999,135	932,504	439,758	3,323,753	2,381,884	512,659	429,210
3 to 5 years	1,875,595	1,408,678	211,803	255,113	1,897,434	1,324,355	320,658	252,421
Over 5 years	1,796,086	1,496,027	174,067	125,991	2,032,359	1,659,599	200,054	172,705
Undated	1,008,925	1,003,491	5,433	—	223,944	222,323	1,620	—
Consolidated Total	¥ 10,691,364	¥ 7,692,848	¥ 1,912,727	¥ 1,085,789	¥ 10,049,306	¥ 7,420,754	¥ 1,499,428	¥ 1,129,122

Geographic, Industries or Maturity (Non-consolidated)

Millions of yen

	2009				2008			
	Total	Amount of Credit Risk Exposure			Total	Amount of Credit Risk Exposure		
As of March 31		Loans,etc.[1]	Securities[2]	Derivatives[3]		Loans,etc.[1]	Securities[2]	Derivatives[3]
Manufacturing	¥ 307,025	¥ 303,852	¥ 0	¥ 3,172	¥ 260,245	¥ 256,282	¥ 0	¥ 3,963
Agriculture	2,700	2,700	—	—	2,900	2,900	—	—
Mining	3,988	3,988	—	—	5,850	5,850	—	—
Construction	22,232	22,232	—	—	36,080	31,133	4,918	28
Electric power, gas, water supply	61,067	60,978	35	53	99,723	91,664	7,999	60
Information and communication	47,831	47,831	—	—	53,349	53,338	—	10
Transportation	268,315	245,810	3,088	19,417	291,213	260,519	8,615	22,078
Wholesale and retail	132,269	131,777	—	491	137,857	137,443	—	413
Finance and insurance	1,881,274	1,692,401	71,337	117,534	1,706,273	1,405,477	184,343	116,452
Real estate	1,357,723	1,043,892	310,052	3,778	1,546,313	1,294,201	248,576	3,534
Services	546,001	426,743	108,195	11,063	533,937	430,148	90,473	13,315
Government	1,332,686	122,751	1,206,004	3,930	747,275	96,976	648,132	2,166
Individuals	874,684	873,918	—	765	844,739	843,014	—	1,724
Others	—	—	—	—	2	—	—	2
Domestic Total	6,837,800	4,978,880	1,698,714	160,206	6,265,761	4,908,950	1,193,058	163,752
Foreign	1,558,204	376,745	239,840	941,618	1,773,194	482,028	318,545	972,620
Bank Total	¥ 8,396,005	¥ 5,355,625	¥ 1,938,554	¥1,101,825	¥ 8,038,955	¥ 5,390,979	¥ 1,511,603	¥1,136,372
To 1 year	2,730,719	1,875,022	589,549	266,147	2,541,840	1,800,419	464,401	277,020
1 to 3 years	2,691,166	1,317,354	932,469	441,342	2,631,532	1,689,794	512,659	429,078
3 to 5 years	1,439,408	964,218	212,700	262,490	1,367,169	779,228	333,076	254,865
Over 5 years	1,440,815	1,108,258	200,710	131,845	1,487,562	1,112,307	199,846	175,408
Undated	93,896	90,772	3,123	—	10,851	9,230	1,620	—
Bank Total	¥ 8,396,005	¥ 5,355,625	¥ 1,938,554	¥1,101,825	¥ 8,038,955	¥ 5,390,979	¥ 1,511,603	¥ 1,136,372

Notes: (1) Including total exposure, operating assets and securitized original assets originated from these exposures, excluding purchased receivables
(2) Excluding Equity exposures
(3) Credit equivalent amount basis

AMOUNT OF DEFAULT EXPOSURE BEFORE PARTIAL WRITE-OFF

Geographic, Industries

Millions of yen

As of March 31	2009 Default Exposure Consolidated	2009 Default Exposure Non-consolidated	2008 Default Exposure Consolidated	2008 Default Exposure Non-consolidated
Manufacturing	¥ 4,370	¥ 1,625	¥ 4,127	¥ 3,356
Agriculture	5	—	488	—
Mining	16	—	37	—
Construction	2,173	1,661	6,261	5,819
Electric power, gas, water supply	1	—	1	—
Information and communication	742	585	502	—
Transportation	6,275	6,012	8,007	7,608
Wholesale and retail	998	193	5,389	3,797
Finance and insurance	69,595	69,587	33,402	31,067
Real estate	80,505	80,275	7,942	2,910
Services	6,418	2,041	7,750	190
Government	—	—	—	—
Individuals	167,126	6,794	135,539	1,385
Others	523	—	702	0
Domestic Total	338,752	168,776	210,154	56,137
Foreign	61,191	64,531	51,823	51,823
Total	¥ 399,944	¥ 233,308	¥ 261,978	¥ 107,960

AMOUNT OF LOAN LOSS RESERVES (GENERAL, SPECIFIC AND COUNTRY RISK) BEFORE PARTIAL WRITE-OFF

Consolidated

Millions of yen

As of March 31	2009 Start Amount	2009 Change Amount	2009 End Amount	2008 Start Amount	2008 Change Amount	2008 End Amount
General	¥ 96,650	¥ 8,968	¥ 105,619	¥ 101,268	¥ (4,618)	¥ 96,650
Specific	145,679	115,428	261,108	85,756	59,923	145,679
Country	15	(1)	14	9	6	15
Total	¥ 242,345	¥ 124,396	¥ 366,741	¥ 187,033	¥ 55,311	¥ 242,345

Non-consolidated

Millions of yen

As of March 31	2009 Start Amount	2009 Change Amount	2009 End Amount	2008 Start Amount	2008 Change Amount	2008 End Amount
General	¥ 57,903	¥ 7,641	¥ 65,544	¥ 65,434	¥ (7,531)	¥ 57,903
Specific	70,305	54,390	124,696	47,912	22,393	70,305
Country	15	(1)	14	9	6	15
Total	¥ 128,224	¥ 62,031	¥ 190,255	¥ 113,356	¥ 14,867	¥ 128,224

Geographic (Consolidated)

Millions of yen

As of March 31	2009 Total	2009 Reserve Amount General	2009 Reserve Amount Specific	2009 Reserve Amount Country	2008 Total	2008 Reserve Amount General	2008 Reserve Amount Specific	2008 Reserve Amount Country
Domestic	¥ 317,446	¥ 97,042	¥ 220,404	¥ —	¥ 204,215	¥ 77,567	¥ 126,648	¥ —
Foreign	49,295	13,515	35,764	14	38,129	19,083	19,031	15
Total	¥ 366,741	¥ 110,557	¥ 256,169	¥ 14	¥ 242,345	¥ 96,650	¥ 145,679	¥ 15

Geographic (Non-consolidated)

Millions of yen

As of March 31	2009 Total	2009 Reserve Amount General	2009 Reserve Amount Specific	2009 Reserve Amount Country	2008 Total	2008 Reserve Amount General	2008 Reserve Amount Specific	2008 Reserve Amount Country
Domestic	¥ 140,171	¥ 52,104	¥ 88,067	¥ —	¥ 89,420	¥ 38,146	¥ 51,274	¥ —
Foreign	50,083	13,440	36,628	14	38,803	19,756	19,031	15
Total	¥ 190,255	¥ 65,544	¥ 124,696	¥ 14	¥ 128,224	¥ 57,903	¥ 70,305	¥ 15

QUANTITATIVE DISCLOSURE (CONTINUED)

Industries

Millions of yen

As of March 31	2009 Reserve Amount Consolidated	2009 Reserve Amount Non-consolidated	2008 Reserve Amount Consolidated	2008 Reserve Amount Non-consolidated
Manufacturing	¥ 7,731	¥ 3,045	¥ 4,357	¥ 3,811
Agriculture	80	20	18	18
Mining	101	21	21	19
Construction	2,777	1,382	2,527	2,276
Electric power, gas, water supply	190	180	249	247
Information and communication	1,518	619	490	305
Transportation	6,927	6,042	8,059	7,947
Wholesale and retail	4,639	1,122	2,473	1,812
Finance and insurance	33,840	41,857	7,126	10,887
Real estate	46,602	39,570	16,904	15,991
Services	29,515	19,270	20,172	16,472
Government	100	—	—	—
Individuals	161,302	5,681	108,169	3,497
Others	21,400	21,357	26,136	26,132
Foreign	49,295	50,083	38,129	38,803
Non-classified	719	—	7,507	—
Total	¥ 366,741	¥ 190,255	¥ 242,345	¥ 128,224

AMOUNT OF WRITE-OFFS

Industries

Millions of yen

	FY2008 Amount of write-off Consolidated	FY2008 Amount of write-off Non-consolidated	FY2007 Amount of write-off Consolidated	FY2007 Amount of write-off Non-consolidated
Manufacturing	¥ 99	¥ —	¥ 21	¥ —
Agriculture	—	—	—	—
Mining	—	—	—	—
Construction	11	0	35	—
Electric power, gas, water supply	—	—	—	—
Information and communication	35	—	22	—
Transportation	36	—	14	—
Wholesale and retail	67	—	113	55
Finance and insurance	725	725	—	—
Real estate	54	27	0	0
Services	211	—	94	—
Government	—	—	—	—
Individuals	67,718	39	24,979	0
Others	—	—	0	—
Foreign	3,370	3,370	—	—
Non-classified	—	—	—	—
Total	¥ 72,331	¥ 4,163	¥ 25,281	¥ 56

AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)

Millions of yen

	2009				2008			
	Consolidated		Non-consolidated		Consolidated		Non-consolidated	
As of March 31	Rated	Unrated	Rated	Unrated	Rated	Unrated	Rated	Unrated
0%	¥ 35	¥ 11,365	¥ —	¥ —	¥ 79	¥ 3,490	¥ —	¥ —
10%	—	929	—	—	—	—	—	—
20%	105,670	12	—	—	74,621	78	—	—
35%	—	716,060	—	646,833	—	609,871	—	609,871
50%	6,888	21,681	—	271	235	5,626	—	140
75%	—	1,090,056	—	202,769	—	394,070	—	183,528
100%	525	156,500	—	1,605	2,470	213,477	—	989
150%	4	13,932	—	26	—	13,022	—	—
350%	—	—	—	—	—	—	—	—
Capital Deduction	—	—	—	—	—	—	—	—
Total	¥ 113,123	¥ 2,010,539	¥ —	¥ 851,506	¥ 77,406	¥ 1,239,637	¥ —	¥ 794,529

SPECIALIZED LENDING EXPOSURE UNDER SLOTTING CRITERIA AND EQUITY EXPOSURE UNDER MARKET-BASED SIMPLIFIED METHOD

(1) Specialized lending excluding high-volatility commercial real estate

As of March 31	Millions of yen			
	2009		2008	
	Amount of Exposure		Amount of Exposure	
Risk weight ratio	Consolidated	Non-consolidated	Consolidated	Non-consolidated
50%	¥ 157,733	¥ 157,733	¥ 157,370	¥ 157,370
70%	209,989	209,111	345,552	345,552
90%	63,328	63,328	54,549	54,549
115%	127,083	125,268	134,691	134,691
250%	171,827	167,493	38,521	30,971
0% (Default)	5,645	5,645	—	—
Total	¥ 735,607	¥ 728,581	¥ 730,685	¥ 723,135

(2) Specialized lending for high-volatility commercial real estate

As of March 31	Millions of yen			
	2009		2008	
	Amount of Exposure		Amount of Exposure	
Risk weight ratio	Consolidated	Non-consolidated	Consolidated	Non-consolidated
70%	¥ 10,358	¥ 10,358	¥ 13,506	¥ 13,506
95%	85,696	85,696	100,682	100,682
120%	—	—	11,824	11,824
140%	39,438	39,438	227,566	227,566
250%	181,665	181,665	68,437	68,437
0% (Default)	25,326	25,326	4,331	4,331
Total	¥ 342,486	¥ 342,486	¥ 426,349	¥ 426,349

(3) Equity exposure under Market-Based Simplified Method

	Millions of yen			
	2009		2008	
As of March 31	Amount Consolidated	Amount Non-consolidated	Amount Consolidated	Amount Non-consolidated
300%	¥ 5,259	¥ 5,147	¥ 7,941	¥ 7,787
400%	46,097	56,703	61,832	115,025
Total	¥ 51,356	¥ 61,851	¥ 69,773	¥ 122,812

PORTFOLIOS UNDER IRB EXCLUDING THE AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)

(1) Estimated average PD, LGD, Risk Weight Ratio and Exposure at Default (EAD) (on-balance and off-balance) for Corporate, Sovereign and Bank exposure

Corporate (Consolidated)

	Millions of yen (except percentages)									
As of March 31	2009					2008				
Credit rating	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)
0	0.04%	45.00%	29.96%	¥ 18,874	¥ 4,567	0.03%	45.00%	24.44%	¥ 21,792	¥ 3,036
1	0.04%	45.00%	26.47%	35,297	—	0.03%	45.00%	15.95%	60,468	40,869
2	0.07%	44.89%	21.40%	195,295	42,034	0.07%	46.34%	20.51%	485,968	75,202
3	0.14%	44.94%	34.10%	682,304	74,117	0.12%	45.10%	30.71%	785,411	158,146
4	0.40%	44.89%	50.08%	763,461	77,556	0.29%	46.64%	49.58%	648,735	123,345
5	1.00%	50.64%	93.18%	336,160	27,709	0.88%	45.51%	84.64%	325,188	50,882
6	3.32%	44.79%	132.25%	251,772	13,106	2.58%	45.66%	127.15%	274,087	8,682
9A	13.27%	44.81%	212.99%	192,710	17,184	13.90%	45.17%	224.83%	162,291	13,134
Default	100.00%	47.89%	—	91,559	—	100.00%	45.00%	—	51,587	4,808

QUANTITATIVE DISCLOSURE (CONTINUED)

Sovereign (Consolidated)

Millions of yen (except percentages)

As of March 31	2009					2008				
Credit rating	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)
0	0.00%	45.00%	—	¥ 2,051,781	¥ —	0.00%	45.00%	0.01%	¥ 1,575,658	¥ 15,226
1	0.04%	45.00%	21.02%	40,254	39	0.03%	45.00%	14.50%	67,894	—
2	0.07%	45.00%	31.42%	165,035	6,945	0.07%	45.00%	32.27%	111,873	3,675
3	0.10%	44.93%	30.01%	76,241	5,757	0.09%	45.00%	30.19%	110,176	5,310
4	0.40%	45.00%	75.54%	3,232	2,276	0.20%	45.00%	47.16%	4,514	136
5	0.74%	45.00%	71.00%	275	1,621	1.31%	45.00%	83.71%	148	—
6	3.64%	45.00%	166.24%	0	—	2.90%	45.00%	147.18%	1,196	374
9A	13.27%	45.00%	241.23%	983	—	13.90%	45.00%	205.13%	14,685	125
Default	100.00%	45.00%	—	47	—	100.00%	45.00%	—	56	—

Bank (Consolidated)

Millions of yen (except percentages)

As of March 31	2009					2008				
Credit rating	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)
0	0.04%	45.00%	22.27%	¥ 36,045	¥ 251	0.03%	45.00%	14.27%	¥ 5,908	¥ —
1	0.04%	45.00%	15.37%	4,790	37	0.03%	45.00%	11.70%	3,904	645
2	0.07%	45.09%	23.62%	111,179	372,533	0.06%	45.24%	22.52%	232,122	680,169
3	0.13%	45.00%	33.24%	129,406	267,011	0.10%	45.07%	25.26%	213,035	147,319
4	0.35%	45.56%	60.10%	79,535	129,957	0.24%	45.00%	43.26%	20,283	7,041
5	0.77%	45.00%	83.26%	11,810	137,523	0.96%	45.00%	91.32%	3,933	5,332
6	3.36%	45.00%	155.24%	8,332	660	2.17%	45.00%	142.42%	105	1,676
9A	13.27%	45.00%	208.08%	5,121	144,947	13.90%	45.00%	213.40%	20,231	119,781
Default	100.00%	45.00%	—	852	—	—	—	—	—	—

Corporate (Non-consolidated)

Millions of yen (except percentages)

As of March 31	2009					2008				
Credit rating	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)
0	0.04%	45.00%	29.53%	¥ 18,874	¥ 5,296	0.03%	45.00%	24.33%	¥ 21,789	¥ 3,418
1	0.04%	45.00%	27.37%	44,587	—	0.03%	45.00%	15.96%	60,278	40,869
2	0.07%	44.88%	21.64%	181,283	42,034	0.07%	46.37%	20.42%	471,511	75,202
3	0.15%	44.93%	34.02%	640,318	74,117	0.12%	45.10%	30.69%	755,178	158,146
4	0.39%	44.91%	48.45%	916,884	78,681	0.29%	46.52%	47.21%	706,505	126,171
5	1.08%	50.55%	93.94%	342,125	27,709	0.87%	45.65%	84.58%	244,135	50,882
6	3.39%	44.74%	136.13%	200,554	13,106	2.70%	45.89%	132.75%	200,832	8,682
9A	13.27%	44.81%	208.97%	194,607	17,184	13.90%	45.19%	221.48%	144,702	13,134
Default	100.00%	47.89%	—	90,559	879	100.00%	45.00%	—	48,468	4,808

Sovereign (Non-consolidated)

Millions of yen (except percentages)

As of March 31	2009					2008				
Credit rating	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)
0	0.00%	45.00%	—	¥ 2,045,285	¥ —	0.00%	45.00%	0.00%	¥ 1,567,847	¥ 15,226
1	0.04%	45.00%	21.06%	40,039	39	0.03%	45.00%	14.50%	67,894	—
2	0.07%	45.00%	31.49%	163,890	6,945	0.07%	45.00%	32.32%	111,471	3,675
3	0.10%	44.93%	30.01%	76,241	5,757	0.09%	45.00%	30.19%	109,830	5,310
4	0.40%	45.00%	75.54%	3,232	2,276	0.20%	45.00%	47.22%	4,450	136
5	0.74%	45.00%	71.00%	275	1,621	1.31%	45.00%	83.71%	148	—
6	3.64%	45.00%	166.24%	0	—	2.90%	45.00%	147.18%	1,196	374
9A	13.27%	45.00%	241.23%	983	—	13.90%	45.00%	205.13%	14,684	125
Default	100.00%	45.00%	—	47	—	100.00%	45.00%	—	56	—

QUANTITATIVE DISCLOSURE (CONTINUED)

Bank (Non-consolidated)

Millions of yen (except percentages)

As of March 31	2009					2008				
Credit rating	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)
0	0.04%	45.00%	24.05%	¥ 31,451	¥ 251	0.03%	45.00%	25.88%	¥ 2,158	¥ —
1	0.04%	45.00%	15.37%	4,790	37	0.03%	45.00%	11.70%	3,904	645
2	0.07%	45.09%	23.74%	102,405	372,533	0.06%	45.24%	22.60%	221,179	680,169
3	0.13%	45.00%	37.21%	33,396	266,336	0.10%	45.13%	30.87%	38,302	146,778
4	0.32%	45.41%	54.76%	131,775	152,239	0.21%	45.00%	38.40%	44,370	15,752
5	0.77%	45.00%	83.27%	11,680	137,523	0.84%	45.00%	102.83%	—	5,332
6	3.53%	45.00%	162.98%	7,278	660	2.18%	45.00%	145.29%	—	1,676
9A	13.27%	45.00%	208.37%	639	144,947	13.90%	45.00%	214.18%	12,416	119,443
Default	100.00%	45.00%	—	852	—	—	—	—	—	—

Note: LGD after credit risk mitigation

(2) Estimated average PD, risk weight ratio and amount of exposure for equity exposure under PD/LGD method

(Consolidated)

Millions of yen (except percentages)

As of March 31	2009				2008			
Credit rating	PD	LGD	Risk Weight	Amount	PD	LGD	Risk Weight	Amount
0	0.04%	90.00%	300.00%	¥ 9	0.03%	90.00%	300.00%	¥ 9
1	—	—	—	—	—	—	—	—
2	0.06%	90.00%	200.02%	4,771	0.06%	90.00%	219.95%	6,433
3	0.16%	90.00%	239.17%	3,205	0.15%	90.00%	200.00%	2,605
4	0.40%	90.00%	270.55%	7,727	0.38%	90.00%	284.31%	11,704
5	1.09%	90.00%	334.56%	2,613	0.81%	90.00%	317.06%	2,338
6	3.64%	90.00%	332.49%	310	2.90%	90.00%	316.59%	1,140
9A	13.27%	90.00%	418.49%	7,434	13.90%	90.00%	496.09%	1,737
Default	100.00%	90.00%	—	589	100.00%	90.00%	—	1,139

(Non-consolidated)

Millions of yen (except percentages)

As of March 31	2009				2008			
Credit rating	PD	LGD	Risk Weight	Amount	PD	LGD	Risk Weight	Amount
0	0.04%	90.00%	300.00%	¥ 9	0.03%	90.00%	300.00%	¥ 9
1	—	—	—	—	—	—	—	—
2	0.06%	90.00%	200.02%	4,771	0.06%	90.00%	219.95%	6,433
3	0.16%	90.00%	239.07%	3,199	0.15%	90.00%	200.00%	2,598
4	0.35%	90.00%	296.62%	446,846	0.23%	90.00%	299.18%	224,878
5	1.09%	90.00%	334.60%	2,610	0.82%	90.00%	319.84%	2,461
6	2.10%	90.00%	440.79%	14,539	2.90%	90.00%	316.59%	1,140
9A	13.27%	90.00%	482.78%	22,327	13.90%	90.00%	489.86%	11,252
Default	100.00%	90.00%	—	1,026	100.00%	90.00%	—	1,138

(3) Estimated average PD, LGD, risk weight ratio, Exposure at Default (EAD) (on- and off-balance), amount of undrawn commitments and estimated average Credit Conversion Factors (CCF) of undrawn commitments for residential mortgage exposure, qualified revolving retail exposure and other retail exposure

Residential mortgage exposure

Millions of yen (except percentages)

As of March 31	2009							2008						
						Undrawn Commitments							Undrawn Commitments	
Pool	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	Amount	CCF	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	Amount	CCF
Normal	1.97%	55.00%	106.36%	¥ 15	¥ 13,384	¥ —	—	1.74%	54.60%	97.67%	¥ 0	¥ 14,935	¥ —	—
Need caution	81.11%	55.00%	121.57%	6	368	—	—	90.60%	54.60%	61.97%	—	357	—	—
Default	100.00%	51.00%	—	428	307	—	—	100.00%	54.60%	—	306	103	—	—

QUANTITATIVE DISCLOSURE (CONTINUED)

Qualified revolving retail exposure

Millions of yen (except percentages)

As of March 31	2009							2008						
						Undrawn Commitments							Undrawn Commitments	
Pool	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	Amount	CCF	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	Amount	CCF
Normal	**5.64%**	**85.14%**	**104.24%**	**¥ 121,032**	**¥ 25,879**	**¥ 2,738,224**	**0.94%**	4.17%	83.22%	82.25%	¥ 201,498	¥ 70,382	¥ 2,583,323	2.72%
Need caution	**80.28%**	**86.35%**	**139.14%**	**6,399**	**—**	**—**	**—**	91.62%	81.95%	63.68%	6,007	—	—	—
Default	**100.00%**	**84.58%**	**—**	**42,101**	**—**	**—**	**—**	100.00%	82.30%	—	34,632	—	—	—

Other retail exposure

Millions of yen (except percentages)

As of March 31	2009							2008						
						Undrawn Commitments							Undrawn Commitments	
Pool	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	Amount	CCF	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	Amount	CCF
Normal	**2.39%**	**60.57%**	**73.02%**	**¥ 295,625**	**¥ 773,649**	**¥ —**	**—**	2.54%	61.40%	75.02%	¥ 313,010	¥ 826,361	¥ —	—
Need caution	**77.74%**	**60.14%**	**95.80%**	**6,301**	**4,152**	**—**	**—**	85.37%	61.69%	67.76%	4,857	3,842	—	—
Default	**100.00%**	**57.20%**	**—**	**92,867**	**1,480**	**—**	**—**	100.00%	57.39%	—	87,101	1,078	—	—

Note: LGD is shown after credit risk mitigation

COMPARATIVE RESULTS OF ACTUAL LOSSES AND EXPECTED LOSSES FOR THE LAST TWO YEARS UNDER F-IRB APPROACH

Millions of yen

	FY2008	FY2007
Results of actual losses (a)	**¥ 33,434**	¥ 13,160
Expected losses (b)	**10,462**	8,962
Differences ((b) - (a))	**(22,971)**	(4,197)

The above matrix shows the results of default (downgrade below substandard) losses (increase of reserve, write-offs and loss on sale) for the fiscal years 2007 and 2008 for the Bank’s non-default corporate exposure at the start of the fiscal year, with expected losses calculated using estimated PD at the end of March 2009.

In fiscal year 2008, actual losses greatly exceeded the expected losses due to the credit cost increase caused by the bankruptcy of Lehman Brothers.

5. CREDIT RISK MITIGATION (CRM)

COVERED AMOUNT OF CRM BY COLLATERAL

FIRB

Millions of yen

	2009		2008	
As of March 31	Eligible financial collateral	Other eligible FIRB collateral	Eligible financial collateral	Other eligible FIRB collateral
Corporate	**¥ 8,549**	**¥ 181,033**	¥ 14,775	¥ 156,628
Sovereign	**—**	**160**	—	214
Bank	**—**	**—**	—	570
Total	**¥ 8,549**	**¥ 181,194**	¥ 14,775	¥ 157,413

COVERED AMOUNT OF CRM BY GUARANTEE OR CREDIT DERIVATIVES

Millions of yen

	2009		2008	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
SA Exposures	**¥ —**	**¥ —**	¥ —	¥ —
IRB Exposures	**219,457**	**219,457**	263,518	263,518
Corporate	**67,449**	**67,449**	81,997	81,997
Sovereign	**77,784**	**77,784**	139,312	139,312
Bank	**74,223**	**74,223**	42,208	42,208
Residential mortgages	**—**	**—**	—	—
Qualified revolving retail	**—**	**—**	—	—
Other retail	**—**	**—**	—	—

6. COUNTERPARTY CREDIT RISK OF DERIVATIVES

(1) Measurement of EAD
Current Exposure Method
(2) Total amount of gross positive fair value
Refer to below table
(3) EAD before CRM
Refer to below table
(4) Net of: (2) + amount of gross add-on - (3)
Zero
(5) Amount covered collateral
Zero
(6) EAD after CRM
Refer to below table

	Millions of yen			
	2009		2008	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Total amount of gross positive fair value	¥ 641,387	¥ 612,501	¥ 596,294	¥ 579,429
Amount of gross add-on	678,991	667,193	733,959	713,032
EAD before CRM	1,320,379	1,279,695	1,330,253	1,292,462
FX-related	630,693	631,404	674,370	676,320
Interest-related	259,561	276,757	247,938	254,277
Equity-related	31,024	80	39,573	115
Commodity-related	—	—	—	—
Credit derivatives	398,782	371,135	368,371	361,749
Others	317	317	—	—
Amount of net	163,713	177,551	150,865	156,089
EAD after net	1,156,666	1,102,143	1,179,387	1,136,372
Amount covered collateral	—	—	—	—
EAD after CRM	1,156,666	1,102,143	1,179,387	1,136,372

(7) Notional amount of credit derivatives which have counterparty risk

	Millions of yen			
As of March 31	2009		2008	
Notional amount	Protection-buy	Protection-sell	Protection-buy	Protection-sell
Single name	¥ 792,504	¥ 939,898	¥ 890,806	¥ 986,735
Multi name	402,918	342,313	550,778	497,166

(8) Notional amount of credit derivatives which cover exposures by CRM

	Millions of yen			
	2009		2008	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Notional amount	¥ 11,227	¥ 11,227	¥ 11,359	¥ 11,359

7. SECURITIZATION

SECURITIZATION EXPOSURE ORIGINATED BY THE BANK GROUP

(1) Amount of original assets
Securitization by transfer of assets
Consolidated

	Millions of yen	
As of March 31	2009	2008
Type of original assets	Amount of original asset	Amount of original asset
Residential mortgages	¥ 358,414	¥ 514,373
Consumer loans	114,777	142,168
Commercial real estate loans	161,193	165,209
Corporate loans	73,346	75,981
Others	12,979	22,870
Total	¥ 720,711	¥ 920,603

QUANTITATIVE DISCLOSURE (CONTINUED)

Non-consolidated

Millions of yen

As of March 31	2009	2008
Type of original assets	Amount of original asset	Amount of original asset
Residential mortgages	¥ 358,414	¥ 514,373
Consumer loans	577,231	21,736
Commercial real estate loans	161,193	165,209
Corporate loans	73,346	75,981
Others	393,191	22,870
Total	¥ 1,563,377	¥ 800,170

Synthetic Securitization

Consolidated/Non-consolidated

Millions of yen

As of March 31	2009	2008
Type of original assets	Amount of original asset	Amount of original asset
Corporate loans	¥ 30,100	¥ 30,100
Total	¥ 30,100	¥ 30,100

Note: Includes originally securitized assets originated by the Bank Group, even though the Bank Group had no exposure to these particular assets.

(2) Amount of default exposure including original assets

Securitization by transfer of assets

Consolidated

Millions of yen

As of March 31	2009	2008
Type of original assets	Amount of Default	Amount of Default
Residential mortgages	¥ 8,117	¥ 7,928
Consumer loans	—	—
Commercial real estate loans	945	—
Corporate loans	30,773	32,038
Others	—	—
Total	¥ 39,836	¥ 39,966

Non-consolidated

Millions of yen

As of March 31	2009	2008
Type of original assets	Amount of Default	Amount of Default
Residential mortgages	¥ 8,117	¥ 7,928
Consumer loans	—	—
Commercial real estate loans	945	—
Corporate loans	30,773	32,038
Others	—	—
Total	¥ 39,836	¥ 39,966

Synthetic Securitization

Consolidated/Non-consolidated

Millions of yen

As of March 31	2009	2008
Type of original assets	Amount of Default	Amount of Default
Corporate loans	¥ —	¥ 500
Total	¥ —	¥ 500

(3) Amount of securitization exposure the Bank Group has by type of original assets

Securitization by transfer of assets

Consolidated

As of March 31	Millions of yen	
	2009	2008
Type of original assets	Amount of Exposure	Amount of Exposure
Residential mortgages	¥ 23,627	¥ 8
Consumer loans	98,333	120,432
Commercial real estate loans	3,386	—
Corporate loans	58,273	59,538
Others	1,831	1,831
Total	¥ 185,452	¥ 181,810

Non-consolidated

As of March 31	Millions of yen	
	2009	2008
Type of original assets	Amount of Exposure	Amount of Exposure
Residential mortgages	¥ 23,627	¥ 8
Consumer loans	391,478	—
Commercial real estate loans	3,386	—
Corporate loans	58,273	59,538
Others	123,686	1,831
Total	¥ 600,452	¥ 61,378

Synthetic Securitization

Consolidated/Non-consolidated

As of March 31	Millions of yen	
	2009	2008
Type of original assets	Amount of Exposure	Amount of Exposure
Corporate loans	¥ 15,608	¥ 29,100
Total	¥ 15,608	¥ 29,100

(4) Amount of securitization exposure and required capital the Bank Group has by risk weight ratio

Securitization by transfer of assets

Consolidated

As of March 31	Millions of yen			
	2009		2008	
Band of risk weight ratio	Amount	Required Capital amount	Amount	Required Capital amount
To 12%	¥ 31,469	¥ 193	¥ 32,047	¥ 193
Over 12% to 20%	19,687	333	—	—
Over 20% to 50%	—	—	10,341	489
Over 50% to 75%	14,465	700	34,571	2,222
Over 75% to 100%	26,800	2,007	45,010	4,388
Over 100% to 250%	68,971	7,515	45,508	7,288
Over 250% to 425%	24,056	6,764	14,331	4,258
Over 425%	—	—	—	—
Total	¥ 185,452	¥ 17,514	¥ 181,810	¥ 18,841

Non-consolidated

As of March 31	Millions of yen			
	2009		2008	
Band of risk weight ratio	Amount	Required Capital amount	Amount	Required Capital amount
To 12%	¥ 80,825	¥ 615	¥ 32,047	¥ 193
Over 12% to 20%	372,865	6,323	—	—
Over 20% to 50%	—	—	—	—
Over 50% to 75%	70,079	3,566	—	—
Over 75% to 100%	44,189	3,747	—	—
Over 100% to 250%	15,000	1,368	15,000	1,368
Over 250% to 425%	17,491	5,222	14,331	4,258
Over 425%	—	—	—	—
Total	¥ 600,452	¥ 20,843	¥ 61,378	¥ 5,820

Synthetic Securitization
Consolidated/Non-consolidated

As of March 31	2009		2008	
	Millions of yen			
Band of risk weight ratio	Amount	Required Capital amount	Amount	Required Capital amount
To 12%	¥ —	¥ —	¥ —	¥ —
Over 12% to 20%	—	—	—	—
Over 20% to 50%	15,608	289	29,100	563
Over 50% to 75%	—	—	—	—
Over 75% to 100%	—	—	—	—
Over 100% to 250%	—	—	—	—
Over 250% to 425%	—	—	—	—
Over 425%	—	—	—	—
Total	¥ 15,608	¥ 289	¥ 29,100	¥ 563

(5) Amount of increase of capital by securitization (to be deducted from Tier I capital)

As of March 31	2009		2008	
	Millions of yen			
Type of original assets	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Residential mortgages	¥ 9,946	¥ 9,946	¥ 9,983	¥ 9,983
Consumer loans, installment receivables	342	84	1,157	84
Commercial real estate loans	0	0	442	442
Others	3,770	3,770	3,770	3,770
Total	¥ 14,060	¥ 13,801	¥ 15,354	¥ 14,281

(6) Amount of securitization exposure which should be deducted from capital under the Accord Article 247

As of March 31	2009		2008	
	Millions of yen			
Type of original assets	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Residential mortgages	¥ 784	¥ 784	¥ 1,847	¥ 1,847
Consumer loans, installment receivables	1,289	1,289	1,747	1,747
Commercial real estate loans	752	752	250	250
Others	1,278	1,241	2,489	2,489
Total	¥ 4,104	¥ 4,067	¥ 6,334	¥ 6,334

(7) Securitization exposure subject to early amortization

None.

(8) Summary of current year's securitization activities including amount of exposure securitized, and recognized gain/loss by original asset type.

In fiscal year 2008, the Bank securitized ¥33.1 billion, including ¥10.2 billion senior beneficial interests backed by a pool of residential mortgage loans originated by the Bank, and recognized no loss or gain.

The Bank also securitized ¥8.5 billion, including ¥5.7 billion senior beneficial interests backed by a pool of real estate non-recourse loans, and recognized a ¥27.0 million loss.

(9) Amount of credit risk asset of securitization under SA subject to the Accord Supplementary Provision 15

None.

SECURITIZATION EXPOSURE IN WHICH THE BANK GROUP INVESTS

(1) Amount of securitization exposure the Bank Group has by type of original asset

Consolidated

As of March 31	2009	2008
	Millions of yen	
Type of original assets	Amount of Exposure	Amount of Exposure
Residential mortgages	¥ 16,466	¥ 47,346
Consumer loans	6,444	23,753
Commercial real estate loans	91,011	226,499
Corporate loans	68,367	165,859
Others	138,049	187,074
Total	¥ 320,339	¥ 650,534

QUANTITATIVE DISCLOSURE (CONTINUED)

Non-consolidated

As of March 31	Millions of yen 2009	2008
Type of original assets	Amount of Exposure	Amount of Exposure
Residential mortgages	¥ 16,466	¥ 47,346
Consumer loans	6,444	23,753
Commercial real estate loans	91,011	226,499
Corporate loans	68,844	165,859
Others	138,049	187,074
Total	¥ 320,816	¥ 650,534

(2) Amount of securitization exposure and required capital for the Bank Group by risk weight ratio.

Consolidated

As of March 31	Millions of yen 2009		2008	
Band of risk weight ratio	Amount	Required Capital amount	Amount	Required Capital amount
To 12%	¥ 197,132	¥ 1,628	¥ 274,760	¥ 2,239
Over 12% to 20%	24,932	326	88,621	1,193
Over 20% to 50%	37,246	1,289	12,523	490
Over 50% to 75%	14,726	936	48,757	2,495
Over 75% to 100%	57	4	753	63
Over 100% to 250%	—	—	2,833	600
Over 250% to 425%	11,743	3,350	46,493	13,720
Over 425%	34,500	18,285	36	20
Total	¥ 320,339	¥ 25,821	¥ 474,780	¥ 20,824

Non-consolidated

As of March 31	Millions of yen 2009		2008	
Band of risk weight ratio	Amount	Required Capital amount	Amount	Required Capital amount
To 12%	¥ 197,132	¥ 1,628	¥ 274,760	¥ 2,239
Over 12% to 20%	24,932	326	88,621	1,193
Over 20% to 50%	37,723	1,303	12,523	490
Over 50% to 75%	14,726	936	48,757	2,495
Over 75% to 100%	57	4	753	63
Over 100% to 250%	—	—	2,833	600
Over 250% to 425%	11,743	3,350	46,493	13,720
Over 425%	34,500	18,285	36	20
Total	¥ 320,816	¥ 25,835	¥ 474,780	¥ 20,824

(3) Amount of securitization exposure which should be deducted from capital under the Accord Article 247.

As of March 31	Millions of yen 2009		2008	
Type of original assets	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Residential mortgages	¥ 4,598	¥ 4,598	¥ 15,872	¥ 15,872
Consumer loans, installment receivables	—	—	1,377	1,377
Commercial real estate loans	3,625	3,625	190	190
Corporate loans	16,578	16,578	18,890	18,890
Others	14,142	14,145	18,990	18,990
Total	¥ 38,944	¥ 38,946	¥ 55,321	¥ 55,321

(4) Amount of credit risk asset of securitization under SA subject to the Accord Supplementary Provision 15.

None.

8. MARKET RISK (UNDER INTERNAL MODEL APPROACH)

VaR AT THE END OF MARCH 2008 AND 2009 AND THE HIGH, MEAN AND LOW VaR

Millions of yen

	2009		2008	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
VaR at term end	¥ 3,629	¥ 2,934	¥ 4,206	¥ 3,980
VaR through this term				
High	7,654	6,454	5,131	4,392
Mean	3,878	3,252	2,688	2,352
Low	1,518	1,286	1,517	1,213

Concerning the back testing for trading account in FY2008, the actual daily loss exceeded the VaR twice.
In both cases, significant discrepancy with the VaR was generated, but this was due to the bankruptcy of Lehman Brothers.

9. EQUITY EXPOSURE IN BANKING BOOK

BOOK VALUE AND FAIR VALUE

Millions of yen

	2009		2008	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Market-Based Approach				
Listed Equity Exposure	¥ 5,259	¥ 5,147	¥ 7,941	¥ 7,787
Unlisted Equity Exposure	46,097	56,703	50,191	102,065
PD/LGD Method				
Listed Equity Exposure	10,639	35,872	11,306	20,825
Unlisted Equity Exposure	16,020	459,457	15,802	229,085

GAIN OR LOSS ON SALE OR DEPRECIATION OF EQUITY EXPOSURE

Millions of yen

	FY2008		FY2007	
	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Gain (loss) on sale	¥ 2,048	¥ 3,854	¥ 4,241	¥ 1,696
Loss of depreciation	12,762	11,549	3,112	2,231

UNREALIZED GAIN OR LOSS WHICH IS RECOGNIZED ON BALANCE SHEET AND NOT RECOGNIZED ON PROFIT AND LOSS STATEMENT

Millions of yen

	2009		2008	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Unrealized gain (loss)	¥ (2,575)	¥ (1,936)	¥ (3,157)	¥ (3,112)

UNREALIZED GAIN OR LOSS WHICH IS NOT RECOGNIZED BOTH ON BALANCE SHEET AND ON PROFIT AND LOSS STATEMENT

Millions of yen

	2009		2008	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Equity to subsidiaries and affiliates	¥ —	¥ (6,645)	¥ —	¥ (25)

AMOUNT OF EQUITY EXPOSRE UNDER GRANDFATHERING RULE SUBJECT TO THE ACCORD SUPPLEMENTARY PROVISION 13

Millions of yen

	2009		2008	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Grandfathering Rule (100% risk weight apply)	¥ 8,868	¥ 20,120	¥ 18,951	¥ 95,411

10. AMOUNT OF REGARDED EXPOSURE UNDER THE ACCORD ARTICLE 167

	Millions of yen			
	2009		2008	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Regarded Exposure (Fund)	**¥ 110,082**	**¥ 88,935**	¥ 168,012	¥ 145,576

11. INTEREST RATE RISK IN THE BANKING BOOK (IRRBB) — THE INCREASE/DECREASE IN ECONOMIC VALUE FOR UPWARD/DOWNWARD RATE SHOCKS ACCORDING TO MANAGEMENT'S METHOD FOR IRRBB.

The gain (loss) from an upward interest rate shock of 2% in the banking book is shown below:

	Billions of yen			
	2009		2008	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
JPY	**¥ (5.3)**	**¥ +31.2**	¥ (35.5)	¥ (16.9)
USD	**+1.2**	**+1.2**	+1.2	+1.2
Others	**(0.8)**	**(0.8)**	+0.6	+0.6
Total	**¥ (4.9)**	**¥ +31.6**	¥ (33.5)	¥ (14.9)

CORPORATE INFORMATION

SHINSEI BANK GROUP

AS OF MARCH 31, 2009

As of March 31, 2009, the Shinsei Bank Group consisted of Shinsei Bank, Limited, 225 subsidiaries (comprising 126 consolidated companies including APLUS Co., Ltd., Shinsei Financial Co., Ltd. and Showa Leasing Co., Ltd. and 99 unconsolidated subsidiaries) and 30 affiliated companies (affiliates accounted for using the equity method, such as Jih Sun Financial Holding Co., Ltd.). The Shinsei Bank Group is an integrated financial services group which engages principally in the banking business and conducts securities, trust and other businesses.

Shinsei Bank, Limited

- **Banking** ------ Head office and domestic branch offices
  Major subsidiaries:
  - APLUS Co., Ltd.
  - Showa Leasing Co., Ltd.
  - SHINKI Co., Ltd.
  - Shinsei Financial Co., Ltd.
- **Securities** ------ Major subsidiary:
  - Shinsei Securities Co., Ltd.
- **Trust business** ------ Major subsidiary:
  - Shinsei Trust & Banking Co., Ltd.
- **Other business** ------ Major subsidiaries:
  - Shinsei Investment Management Co., Ltd.
  - Shinsei Servicing Company

MAJOR SUBSIDIARIES AND AFFILIATES

AS OF MARCH 31, 2009

Name	Location	Main business	Capital (Millions of yen unless otherwise specified)	Established (Acquired)	Equity stake held by Shinsei Bank and consolidated subsidiaries (%)	Equity stake held by Shinsei Bank	Equity stake held by consolidated subsidiaries of Shinsei Bank
Major Domestic Subsidiaries							
Shinsei Property Finance Co., Ltd.	Tokyo, Japan	Real estate collateral finance	¥ 2,750	1959.5	100.0%	100.0%	—%
Shinsei Information Technology Co., Ltd.	Tokyo, Japan	Information technology	100	1983.8	100.0	100.0	—
Shinseigin Finance Co., Ltd.	Tokyo, Japan	Finance	10	1993.1	100.0	100.0	—
Shinsei Trust & Banking Co., Ltd.	Tokyo, Japan	Trust banking	5,000	1996.11	100.0	100.0	—
Shinsei Securities Co., Ltd.	Tokyo, Japan	Securities	8,750	1997.8	100.0	100.0	—
Chowa Tatemono Co., Ltd.	Tokyo, Japan	Real estate leasing	10	1997.8	100.0	100.0	—
Shinsei Servicing Company	Tokyo, Japan	Servicing business	500	2001.10	100.0	—	100.0
Shinsei Investment Management Co., Ltd.	Tokyo, Japan	Investment trust and discretionary investment advisory	495	2001.12	100.0	100.0	—
APLUS Co., Ltd.	Osaka, Japan	Installment credit	47,250	(2004.9)	76.7	76.7	—
Zen-Nichi Shinpan Co., Ltd.	Okayama, Japan	Installment credit	1,000	(2006.3)	97.3	—	97.3
Showa Leasing Co., Ltd.	Tokyo, Japan	Leasing	24,300	(2005.3)	96.4	96.4	—
SHINKI Co., Ltd.	Tokyo, Japan	Finance	16,709	(2007.12)	96.8	85.6	11.1
Shinsei Financial Co., Ltd.	Tokyo, Japan	Finance	66,518	(2008.9)	100.0	99.8	0.2
Major Overseas Subsidiaries							
Shinsei Bank Finance N.V.	Curaçao, Netherlands Antilles	Finance	\$2.1 million	1976.3	100.0%	100.0%	—%
Shinsei International Limited	London, UK	Securities	£3 million	2004.9	100.0	100.0	—
Shinsei Finance (Cayman), Limited	Grand Cayman, Cayman Islands	Finance	\$695 million	2006.2	100.0	100.0	—
Shinsei Finance II (Cayman), Limited	Grand Cayman, Cayman Islands	Finance	\$594 million	2006.3	100.0	100.0	—
Shinsei Finance III (Cayman), Limited	Grand Cayman, Cayman Islands	Finance	39,113	2009.3	100.0	100.0	—
Shinsei Finance IV (Cayman), Limited	Grand Cayman, Cayman Islands	Finance	9,107	2009.3	100.0	100.0	—
Major Affiliates Accounted for Using the Equity Method							
Jih Sun Financial Holding Co., Ltd.	Taipei, Taiwan	Finance	NT\$26,124 million	2002.2	32.9%	—%	32.9%
Raffia Capital Co., Ltd.	Tokyo, Japan	Private equity fund management	¥ 10	2002.7	50.0	50.0	—
Hillcot Holdings Limited	Hamilton, Bermuda	Holding company	\$24,000	2002.11	33.7	33.7	—

STOCK INFORMATION

AS OF MARCH 31, 2009

Shares Outstanding and Capital

1,000 shares, millions of yen

	Shares outstanding		Capital		Capital surplus		
Date	Change	Balance	Change	Balance	Change	Balance	Notes
July 29, 2003	(1,358,537)	2,033,065*	—	451,296	—	18,558	2-for-1 reverse share split for common shares Post reverse split common shares outstanding 1,358,537 thousand shares
July 31, 2006	(99,966)	1,933,098*	—	451,296	—	18,558	Use of call feature for Series 3 Class-B preferred shares Issuance of 200,033 thousand common shares Retirement of Series 3 Class-B preferred shares -300,000 thousand shares
November 16, 2006	(85,000)	1,848,098*	—	451,296	—	18,558	Cancellation of treasury shares (common) -85,000 thousand shares
August 1, 2007	(100,000)	1,748,098*	—	451,296	—	18,558	Mandatory acquisition of Series 3 Class-B preferred shares Issuance of 200,000 thousand common shares Retirement of Series 3 Class-B preferred shares -300,000 thousand shares
February 4, 2008	117,647	1,865,746*	25,000	476,296	25,000	43,558	Third party allocation of shares (common shares) Subscription price ¥425, par value ¥212.5
March 31, 2008	194,600	2,060,346	—	476,296	—	43,558	Use of call feature for Series 2 Class-A preferred shares Issuance of 269,128 thousand common shares Retirement of Series 2 Class-A preferred shares -74,528 thousand shares

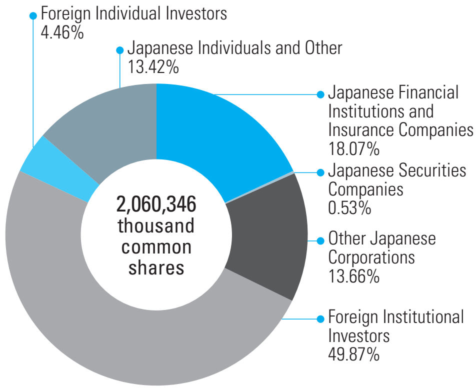
* Figure includes number of preferred shares outstanding

Largest Shareholders(1)(2)

Rank	Shareholders	Thousands of Common Shares	%
1	SATURN IV SUB LP (JPMCB 380111)	322,964	15.67
2	Deposit Insurance Corporation of Japan	269,128	13.06
3	THE RESOLUTION AND COLLECTION CORPORATION	200,000	9.70
4	SATURN JAPAN III SUB C.V. (JPMCB 380113)	110,449	5.36
5	SHINSEI BANK, LIMITED	96,427	4.68
6	J. CHRISTOPHER FLOWERS	91,297	4.43
7	SATURN V C.V. (JPMCB 380114)	70,708	3.43
8	GOLDMAN. SACHS & CO. REG	68,000	3.30
9	JAPAN TRUSTEE SERVICES BANK, LTD. (TRUST ACCOUNT 4G)	58,900	2.85
10	JAPAN TRUSTEE SERVICES BANK, LTD. (TRUST ACCOUNT)	40,001	1.94
11	THE MASTER TRUST BANK OF JAPAN, LTD. (TRUST ACCOUNT)	28,390	1.37
	Total	2,060,346	100.00

(1) As of March 31, 2009, a group of investors, including affiliates of J.C. Flowers & Co. LLC., holds 638,109,073 common shares or 32.5% of Shinsei's outstanding common shares, excluding treasury shares.
(2) As of March 31, 2009, in total, the Deposit Insurance Corporation and the Resolution and Collection Corporation hold 469,128,888 common shares or 23.9% of Shinsei's outstanding common shares, excluding treasury shares.

Breakdown of Shareholders



EMPLOYEES

AS OF MARCH 31, 2007, 2008 AND 2009

	2007	2008	2009
Consolidated			
Number of Employees	5,364	5,245	**7,006**
Non-Consolidated			
Number of Employees	2,248	2,394	**2,259**
Male	1,210	1,300	**1,208**
Female	1,038	1,094	**1,051**
Average age	38 years 1 month	38 years 3 months	**38 years 6 months**
Average years of service	9 years 9 months	9 years 1 month	**9 years 7 months**
Average monthly salary	¥501 thousand	¥505 thousand	**¥495 thousand**

"Average monthly salary" includes overtime wages but excludes annual bonus.

NETWORK
AS OF JUNE 1, 2009

DOMESTIC OUTLETS:

36 outlets, including 32 Shinsei Financial Centers (30 Branches and 2 Annexes),
2 Platinum Centers (as part of 1 Branch and 1 Annex), 2 Consulting Spots (1 Annex and as part of 1 Branch)

Head Office (Tokyo)	Kichijoji Branch	Fujisawa Branch
Ginza Annex*1,*2	Shinjuku Branch	Nagoya Branch
Sapporo Branch	Roppongi Hills Branch	Kyoto Branch
Sendai Branch	Shibuya Branch	Osaka Branch
Kanazawa Branch	Omotesando Hills Annex*1	Umeda Branch*2,*3
Omiya Branch	Hiroo Branch	Senri Chuo Annex (Consulting Spot)
Kashiwa Branch	Meguro Branch	Namba Branch
LaLaport Branch	Futakotamagawa Branch	Kobe Branch
Tokyo Branch	Hachioji Branch	Hiroshima Branch
Ikebukuro Branch	Machida Branch	Takamatsu Branch
Ueno Branch	Yokohama Branch	Fukuoka Branch

*1 Includes Shinsei Financial Center
*2 Includes Platinum Center
*3 Includes Consulting Spot

DOMESTIC SUB-BRANCHES (ATM ONLY):

Tokyo Metro stations	50 locations
Other train stations	10 locations
Other	83 locations

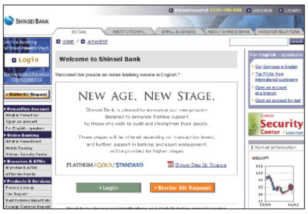
ACCESS TO SEVEN BANK, LTD. ATMS

Access to Seven Bank, Ltd. ATMs	12,859 locations

WEBSITE

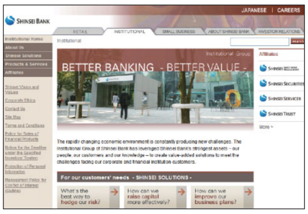
Our English and Japanese websites provide a wide range of information covering our Retail and Institutional Banking businesses, corporate data and investor relations.

RETAIL



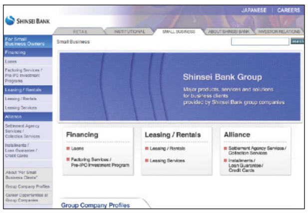
http://www.shinseibank.com/english/
The Retail Banking website provides information on our comprehensive retail account, *PowerFlex*. Customers can log on to our Internet banking service, Shinsei *PowerDirect*, submit requests for information on *PowerFlex* and apply to open an account. Product offerings, campaigns, branch and ATM information, and detailed explanations on foreign currency deposits and investment trusts are covered in the Retail website.

INSTITUTIONAL



http://www.shinseibank.com/institutional/en/
Our Institutional Banking website provides information for our institutional customers on our products, services and solutions. It also contains details of our branches and affiliates.

SMALL BUSINESS



http://www.shinseibank.com/nonbank/en/
The Small Business website provides information on unsecured and secured loans for small business owners. It also contains introductions to our consumer and commercial finance subsidiaries.

ABOUT SHINSEI BANK

http://www.shinseibank.com/investors/en/about/
This website provides information on our corporate profile, history, subsidiaries as well as CSR initiatives. It also contains news releases.

INVESTOR RELATIONS

http://www.shinseibank.com/investors/en/ir/
The Investor Relations website contains a company overview, information on corporate governance, financial information, IR news and IR calendar. It also provides equity- and debt-related information.

For further information, please contact:

Group Investor Relations & Corporate Communications Division
Shinsei Bank, Limited
1-8, Uchisaiwaicho 2-chome, Chiyoda-ku, Tokyo 100-8501, Japan
Tel: 81-3-5511-8303 Fax: 81-3-4560-1706 URL: http://www.shinseibank.com E-mail: Shinsei_IR@shinseibank.com

SHINSEI BANK, LIMITED
1-8, Uchisaiwaicho 2-chome, Chiyoda-ku, Tokyo 100-8501, Japan
TEL: 81-3-5511-5111
URL: http://www.shinseibank.com

Printed on recycled paper.